Submission on Te Ara Mokopuna 2025: consultation on the draft content of the Treasury's Long-term Insights Briefing

To the Treasury

By email: LTIB@treasury.govt.nz

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Submitter details

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Parliamentary Commissioner for the Environment

The Parliamentary Commissioner for the Environment was established under the Environment Act 1986. As an independent Officer of Parliament, the Commissioner has broad powers to investigate environmental concerns and is wholly independent of the government of the day. The current Parliamentary Commissioner for the Environment is Simon Upton.

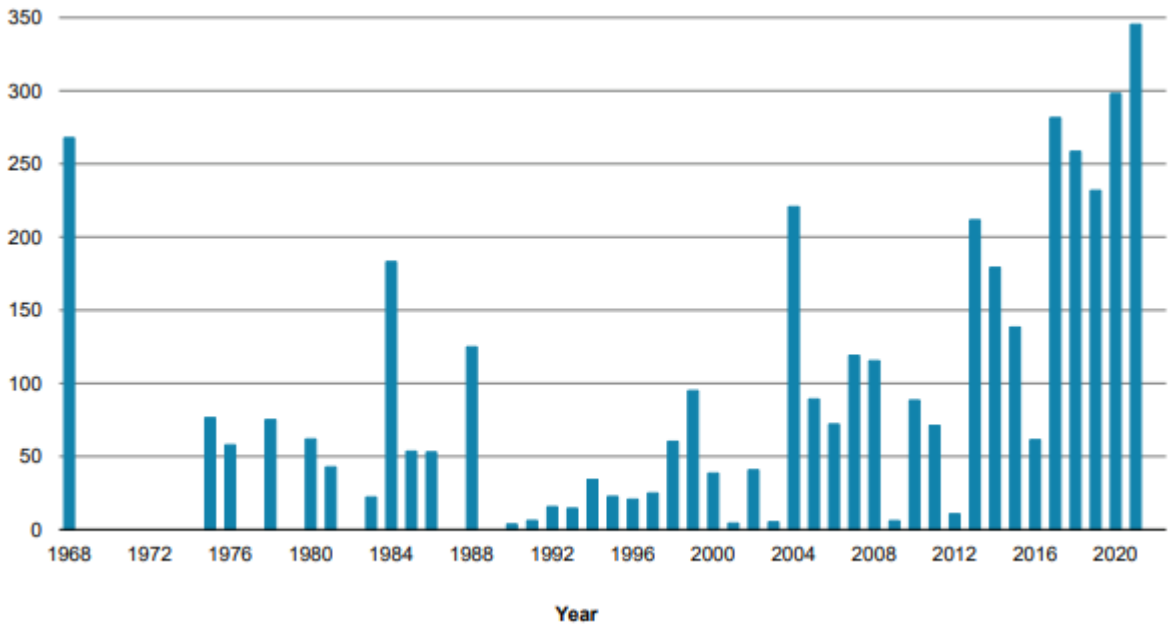
Submission

Thank you for the opportunity to provide feedback on the Treasury's draft of Te Ara Mokopuna Long-term Insights Briefing (LTIB). My comments will focus on climate change, and in particular the box on page 55 and the modelling detailed in Annex 2. I'm conscious that some comments may stray outside the scope of the LTIB. In this case, the comments could be borne in mind for future work rather than this piece.

The LTIB focuses on the role of fiscal policy in stabilising business cycles and responding to economic shocks. Whilst the scope is helpful in delineating the role of fiscal policy in responding to distinct economic shocks, it doesn't fit easily with a consideration of the likely impacts of climate change. Climate change cannot be conceived of as simply a series of one-off shocks due the systematic effects an increase in global temperature has on planetary systems. Neither is it cyclical. The effects of climate change are expected to increase both the frequency **and** severity of extreme events over time. In addition, tipping points could create the possibility of complex non-linearities.

In the box on page 55, both acute (e.g. weather shocks) and chronic (e.g. sea-level rise) effects of climate change are referenced. My problem with the LTIB's framing is that secular increases in the severity and frequency of acute events are not sufficiently recognised in the analysis. The world **is** becoming more shock prone as noted in the LTIB. However, greater emphasis needs to be placed on **predictable** increases in the severity and frequency of climate-related shocks. We are no longer able to claim the luxury of ignorance when climate disasters strike.

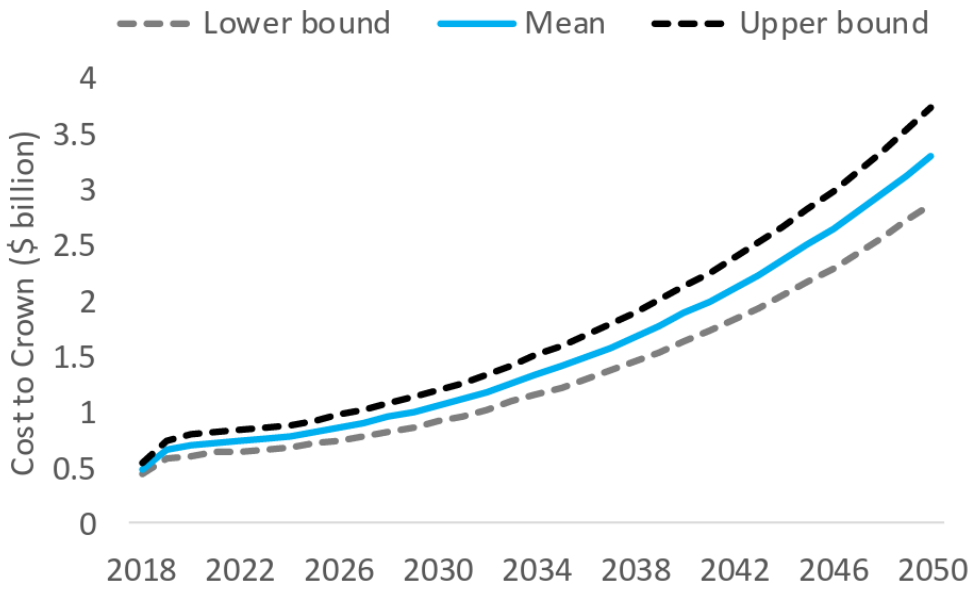
Figures 1 and 2 demonstrate the increasing costs from weather-related events and natural disasters historically and into the future.



Source: Treasury, 2023.[1]

Figure 1. Insured weather-related losses from 1968 to 2021 (in 2022 dollars). Insured costs associated with the NIWE (Auckland floods and Cyclone Gabrielle) in 2023 were approximately ten times larger than the scale captured in this graph ($4.06 billion in insured costs).

[1] Ministry for the Environment, 2023. Ngā Kōrero Āhuarangai Me to Ōhanga – Climate Economic and Fiscal Assessment 2023, p27. https://www.treasury.govt.nz/sites/default/files/2023-04/cefa23.pdf



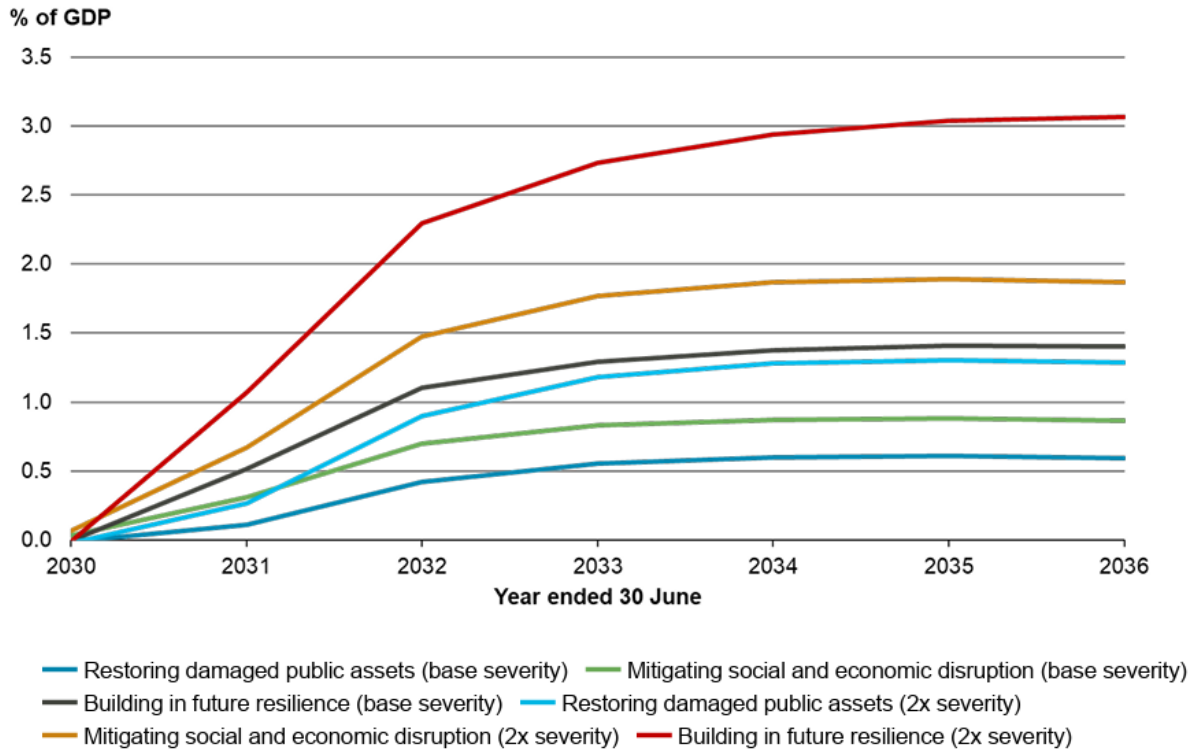
Source: DIA, 2020.[2]

Figure 2. Projected fiscal cost to the crown from natural disasters from 2018 to 2050.

In Annex 2 of the LTIB, large weather events of different severities are modelled, along with fiscal policy responses to either returning to business as usual or building in future resilience. In future iterations of this analysis, it would be helpful to see the impacts of these policy responses played out over sequential events – for example, 'building in future resilience – (base severity)', followed by 'restoring damaged public assets (2x severity)'. Readers could then better understand how the decision to build in future resilience following a less severe event could reduce the cost of recovering from a more severe event in the future. This modelling would also explicitly recognise the likely increase in event severity over time.

I recommend that future modelling vary both event severity, **and** the temporal proximity of events, to evaluate responses. This is particularly important as sequential shocks become increasingly likely under future warming conditions. While logically building in future resilience after one disaster is likely to lead to a higher debt track (as shown in the LTIB Figure A2.6), after multiple disasters of increasing severity this approach may lead to a lower debt track overall.

[2] New Zealand Institute of Economic Research, 2020. Investment in natural hazards mitigation, p33. https://www.dia.govt.nz/diawebsite.nsf/Files/Central-Local-Government-Partnerships/$file/NZIER-Natural-hazards-mitigation-report-2020.pdf.



Source: Treasury, 2025.[3]

Figure 3: Change in net debt as percentage of GDP compared to baseline scenario without weather event.

The box on page 55 of the LTIB makes a useful contribution to the conversation on preparing for climate change. In particular, it states:

> "An enduring, long-term approach to preparing for and responding to these changes can help support effective risk management across central government, councils, insurers and individuals, who all have a role to play. Elements of the proposed approach to adaptation include:
>
> - minimising long-term costs to New Zealand
> - providing greater clarity around the government's response to climate-related shocks
> - clarifying the roles of insurers, local government and other groups
> - improved information sharing so that everyone can make informed decisions
> - maintaining efficient housing and insurance markets
> - ensuring people have the ability and incentive to make decisions to reduce their risk where they can."

In my view, improving information sharing is a crucial starting point. I am currently reviewing the opportunities afforded by new technologies to improve the creation and sharing of

[3] Treasury, 2025. Te Ara Mokopuna 2025: Consultation of the Treasury's Long-term Insights Briefing, p96. https://www.treasury.govt.nz/sites/default/files/2025-04/te-ara-mokopuna-consultation-draft-content-ltib-2025.pdf.

environmental information. Adapting to climate change is just one of the many business cases for this information.

I also agree that there is a need to provide "greater clarity around the government's response to climate-related shocks". In my view, climate change is inevitably creating a liability for central government and the sooner that this liability is understood, the sooner it can be managed.

Some degree of liability for the Crown will be impossible to avoid, while other potential liabilities are currently in shades of grey. The most certain liabilities attach to those Crown assets that will be affected by disasters. There will be an ongoing need to provide transport infrastructure, hospitals and schools to communities affected by climate change. First and foremost, we need to understand any risk to existing Crown assets. Next, there is the liability arising from past commitments to local government to help them repair infrastructure affected by disasters (noting that this commitment reduces the incentives on local government authorities to reduce their risk). Both these examples require a coherent assessment of at-risk assets, broken down by ownership, asset class and location.

Whether or not the Crown's liability should extend to bailing out homeowners and/or businesses affected by disasters is questionable. I can understand why a Treasury concerned with the long-term sustainability of public finances would be cautious about setting any precedents in this regard. In my view, some degree of public bailout is inevitable for a number of reasons:

1. Past bailouts have already created precedents, thereby raising expectations on the part of the public. Without expressly acknowledging the issue *ex ante* there will always be political pressure to offer compensation to affected communities, *ex post*. This is an inequitable way to approach the issue as it relies on the squeaky wheel to gain compensation. The sooner this liability is acknowledged **and contained** the better, particularly as increasing event frequency and severity will cause costs to rise in the future.
2. Providing better information will lead to higher premiums and potentially insurance retreat in some areas. As we have seen from previous attempts by local government authorities to make risks explicit, there can be a negative impact on property values which trigger demands for compensation. The Crown needs to have a clear approach to compensation prepared before better information is available.
3. As the adaptation inquiry acknowledged, a purely market-led approach is likely to lead to some people being trapped with negative equity and unable to move out of the way of impending disaster. This will risk lives and is unlikely to be politically sustainable.
4. Connected regulatory and market failures have led to the continued development of housing in at-risk locations, increasing the risk to life and property and exacerbating the future burden from managed retreat.[4] By persisting with a regulatory framework and associated public infrastructure investment, that enabled and encouraged development in at-risk areas, it is reasonable to argue that some of the burden of responsibility for the ensuing costs should be borne by the Crown and local government.

[4] Newton, K., 2024. 1,415 new homes consented on Auckland flood plains in the year since flooding disaster. RNZ, 26 January 2024. https://www.rnz.co.nz/news/in-depth/507562/1415-new-homes-consented-on-auckland-flood-plains-in-the-year-since-flooding-disaster

Naturally, any Crown liability needs to be kept manageable. For example, a time horizon can be placed on the availability of compensation, which properties are eligible and how much compensation they should be eligible for. Ideally, identified liabilities should be pre-funded to the extent possible.

The sooner these issues are resolved and a line drawn around the Crown's liability, the sooner the Crown can get on with the process of managing this risk. This will require working with insurers to look beyond their annual agreements so that the nation can make investments in infrastructure to reduce risks and keep insurance operating in locations for longer. Examples of this infrastructure could include stop-banks or putting houses on stilts so they can cope with short-term inundation.

By focusing on minimising the Crown's liability in the near-term, we risk working against the goal of minimising the long-term costs to New Zealand. In particular, we risk making insufficient investment to reduce risks and instead condemn future governments to ongoing pressure for bailouts.

Beyond minimising future liabilities, Crown investment in helping communities increase their resilience to adverse events (including managed retreat) will safeguard productivity over the longer term. The structural shifts necessary to ensure New Zealand communities are robust in the face of more frequent and extreme weather events will inevitably cost money. Of greater importance is a consideration of the counterfactual. What would happen to productivity if this investment was not made?

Direct economic losses associated with climate change have been assessed using attributional studies and equate to $120 million for privately insured damages from floods and $720 million for economic losses from droughts over the decade between 2007–2017. Longer term costs from adverse events are more complex to model. Despite this, researchers have been able to demonstrate pronounced increases in prescriptions for mental health disorders in individuals exposed to the Christchurch earthquake and Cyclone Gabrielle.[5,6] We can also observe prolonged economic downturns in areas where infrastructure is damaged, and/or farmland is inundated with silt and debris.[7]

A more fulsome accounting of the costs associated with adverse events, including those associated with stress and mental health disorders, could reframe the narrative of adaptation as a cost into a long-term investment in maintaining or transforming our productivity.

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[5] Munich Society for the Promotion of Economic Research, 2024. Heterogenous Mental Health Impacts of a Forced Relocation: The Red Zone in Christchurch after its 2011 earthquake. https://www.ifo.de/DocDL/cesifo1_wp11085.pdf.

[6] Notably the effects were particularly long-lasting amongst the elderly population. Treasury Guest Lecture: Fiscal Policy for the Future Series, 2025. https://www.youtube.com/watch?v=wZSga7yCcSw&t=620s (research discussed at 35.06).

[7] Public Health Communication Centre Aotearoa, 2024. The long shadow of Cyclone Gabrielle: Brief review at 12 months. https://www.phcc.org.nz/briefing/long-shadow-cyclone-gabrielle-brief-review-12-months.