



23 JUL 2018

Simon Upton
Parliamentary Commissioner for the Environment
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Dear Rt Hon Simon Upton

Thank you for your letter of 28 March 2018. You had requested information regarding actions the Treasury may be undertaking in response to issues raised in a report published by the Ministry for the Environment and Stats NZ entitled *Our atmosphere and climate 2017*.

You have asked a number of questions on climate change and below are my answers.

You may also be aware that the Treasury is taking forward the work to establish the Green Investment Fund (GIF), which is a commitment in the Labour-Green Confidence and Supply agreement. The purpose of the GIF is to invest in assets that reduce greenhouse gas emissions. In so doing, it will mobilise additional private capital to bring forward projects that will support long term objectives for emissions reduction. The Government proposes a \$100 million capital injection to the GIF, and that the GIF operates independently.

1. *What is the Treasury's strategic approach to dealing with the risks that climate change poses to New Zealand's built infrastructure? Is any work being done to estimate the cost of these risks?*

Climate change was highlighted as one of the key infrastructure challenges in the 2015 Thirty Year Infrastructure Plan (the Plan), a strategic document written by the National Infrastructure Unit (NIU) within the Treasury. The Plan noted that issues such as changing rainfall patterns, sea level rise, flooding frequency and resource depletion raise questions around how New Zealand develops and manages its infrastructure – it needs to be resilient to changes over time, and use resources efficiently. The Plan also highlighted the need for asset management practices in general to include a stronger understanding of the resilience of infrastructure networks at a national, regional and local level. This includes taking a longer-term view with increased focus on slower changes over time such as climate change. The Government has asked the NIU to review the institutional settings for infrastructure, including what a future strategic function might look like. The NIU is not currently undertaking work to estimate the cost of climate change risks to infrastructure.

The Government has set aside contingency funding in Budget 2018 to contribute to the costs in the establishment of an independent Climate Change Commission, subject to Cabinet decisions. This could include the development of a National Climate Change Risk Assessment and a National Adaptation Plan, both of which were recommended by the Climate Change Adaptation Technical Working Group in its recently-released report. I anticipate that the Treasury will be involved in this work, particularly in relation to climate change-related risks.

2. *What is the Treasury's strategic approach to dealing with the risks that climate change poses to New Zealand's natural resources? Is any work being done to estimate the cost of these risks?*

The Treasury has commissioned a report by Victoria University of Wellington and National Institute of Water and Atmospheric (NIWA) entitled *Estimating financial costs of climate change in New Zealand*¹ by Dave Frame et al., which is expected to be published on the Treasury's website in July 2018.

The Treasury has also recently released a discussion paper entitled *The Start of a Conversation on the Value of New Zealand's Natural Capital*². This seeks to provide more information about the quantity, state and value of natural capital in New Zealand, and inform decision-making by providing more quantitative information on the environmental costs and benefits of public policies. The discussion paper is part of a series of papers to promote discussion on the Living Standards Framework. It is intended to act as a starting point in measuring and evaluating the value of natural capital in New Zealand.

In addition, the Treasury is currently finalising a project charter and project plan that will detail the strategic work the Treasury is undertaking to progress its understanding of the stock and state of natural capital in New Zealand. Key stakeholders across the government sector are engaged in this process.

3. *What work has The Treasury done or is planning to do with other government agencies to address issues where greenhouse gas reductions require co-ordinated actions from multiple stakeholders?*

The Treasury is working with the Ministry for the Environment and other agencies in the development of a proposed Zero Carbon Bill. The Zero Carbon Bill is intended to put in place the necessary enduring institutional architecture to enable the transition to a clean, green and emissions-neutral New Zealand. The architecture includes a proposal for a Climate Commission, a legislated emissions reduction target and emissions budgets. These features will support more specific plans for emissions reductions and coordinating actions from multiple stakeholders.

The Treasury is also part of the Transition Hub involving other key agencies with policy levers to reduce emissions. Agencies meet regularly to coordinate approaches to economic modelling and policy work. This considers both sectoral and cross-cutting policy levers.

¹ Dave Frame, Suzanne Rosier, Trevor Carey-Smith, Luke Harrington, Sam Dean, Ilan Noy (2018). *Estimating financial costs of climate change in New Zealand: An estimate of climate change-related weather event costs*. New Zealand Climate Change Research Institute, and NIWA

² <https://treasury.govt.nz/publications/dp/start-conversation-value-new-zealands-natural-capital.html>

The Treasury's involvement in the Zero Carbon Bill and Transition Hub will facilitate alignment between the Government's economic strategy and actions to reduce greenhouse gas emissions. It will also ensure fiscal management and reporting can support the transition to a low-emissions economy. The Secretary of the Treasury is also a member of the Climate Change Board of Public Sector Chief Executives, whose responsibility it is to coordinate action across government.

4. *What work has The Treasury done or is planning to do with other government agencies to address issues where effective adaptation responses require co-ordinated actions from multiple stakeholders?*

In May 2018, the Climate Change Adaptation Technical Working Group delivered its final report on the options New Zealand has to adapt to climate change. The Treasury will engage with the Ministry for the Environment and other agencies to provide a response to the Minister for Climate Change on this report.

5. *Could you please advise whether The Treasury views climate risks as being part of [the review of the Reserve Bank Act]? And if not, please provide the reasoning for this decision.*

The Reserve Bank of New Zealand's existing mandate is broad and requires it to consider all significant systemic risks to the financial system including climate-related risks. Phase 2 of the Reserve Bank Act review will include consideration of monitoring and managing the risk that climate change poses to New Zealand's financial stability, in light of the recommendations of the Task Force on Climate-related Financial Disclosures.

You and the Ministry for the Environment will have the chance to contribute to the Review as a part of the consultation process.

6. *Do you see forecasting climate risks as being within Treasury's mandate through your Statements on New Zealand's Long-Term Fiscal Position?*
7. *If Treasury does not have a mandate through Statements on New Zealand's Long-Term Fiscal Position, where does responsibility lie for oversight of the risks climate change poses to New Zealand's financial stability?*

Forecasting climate risks is within the Treasury's mandate through its statements on New Zealand's Long-Term Fiscal Position. *He Tirohanga Mokopuna*, the 2016 Statement on New Zealand's Long-term Fiscal Position, outlined the challenge of climate change. While the Statement did not fully integrate natural resource issues, such as climate change, into its economic or fiscal modelling, it did underline the importance of the natural resource base to New Zealanders' living standards. The Statement noted that projecting the long-term economic and fiscal impact of changes to the environment as a result of climate is challenging. While the projections in this Statement assume these impacts will be in line with those faced in the past, they remain an opportunity for further analysis.

Statements on New Zealand's Long-Term Fiscal Position consider New Zealand's long-term fiscal outlook – the government's revenue and spending – and what drives it, rather than overall financial stability. While there is obviously a relationship between the two, the Treasury would be unlikely to do a detailed analysis of the potential impacts on the financial stability of other sectors (e.g. banks or households) due to climate change. As noted above, the Reserve Bank's existing mandate is broad and covers all significant systemic risks to the financial system.

The Treasury is currently planning for the next Long-term Fiscal Statement and it is considering how climate change can be reflected in this.

The Treasury would welcome the opportunity to meet with you to discuss any of the questions you have raised in more detail, as it continues its work to understand the impact of these important issues for New Zealand.

Thank you for taking the time to write.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Grant Robertson', with a stylized, cursive script.

Hon Grant Robertson
Minister of Finance