Parliamentary Commissioner for the Environment
Te Kaitiaki Taiao a Te Whare Pāremata

The Adaptation Challenge

Developing a strategy for adaptation to a changing climate is one of the biggest challenges governments will face over coming decades. The current Government has the opportunity to lay the foundation for a transition that can enable communities to contain the costs the adaptation challenge will impose. Those costs can't be eliminated but they can be contained. A failure to get this right could expose the Crown – and society as a whole – to very significant costs**.** These costs are not just financial (though they will be serious enough). There will also be social, cultural and environmental costs. They will go to the heart of what holds communities and society together.

The information base is lacking

Almost all adaptation decisions will add to the Crown's long term fiscal liabilities whether that is implicit or explicit. Yet it is becoming clear that government officials don't have access to fundamental information that is needed to inform their work programme. In simple terms **the Crown needs a much better understanding of the assets that are at risk**.

Any estimates of the total scale of assets at risk will first involve some assumptions about which risks to include and the time horizon that the Crown is concerned with. In my view, the lifespan of current asset owners (50-60 years) is likely to be sufficient. Different global emissions profiles could be used to develop scenarios to provide some sensitivity testing.

Then there needs to be an analysis of those assets at risk, broken down by ownership. Each of these asset classes, and their location, relates to different potential exposures for the Crown. It needs to be borne in mind that minimising cost to one section of society is likely to transfer cost to other sections. The Crown cannot take a narrow view of its exposure – if it does, liability may simply come back through another channel. A breakdown of asset classes at risk should include:

- Crown-owned or controlled assets (ie where the Crown, and ultimately taxpayers, carry the risk both directly from exposure to climate related events and indirectly from adaptation choices as communities move and demand the development of new assets).
- Local government-owned assets. Here, risk rests ultimately with ratepayers, although the risks facing different regions and their ability to pay vary hugely across the country. There is an indirect exposure for the Crown which may be called in to provide support when councils and communities cannot afford to invest in protection or rebuild, at least within reasonable timescales. It is also worth noting that, currently, central government offers to cover 60% of rebuild costs post disaster, which reduces the incentive for local government to reduce the risk.
- Assets with a finance sector interest (e.g. insurance and mortgages). In the long term, the risks these entities are prepared to bear will depend on the credibility of any adaptation strategy. Changes in their risk appetite might transfer risk, perhaps unaffordably, onto

residents, businesses and government. Indirect exposure may be faced by the Crown if insurance or lending is not available or unaffordable.
- Private sector (business and residential) assets. Risks to those assets are carried by the commercial and the residential sectors (ie property owners and tenants). Some, but far from all, may be offset by insurance. There is a potential liability to the Crown flowing from the handling of previous events raising reasonable expectations of Crown compensation (particularly the buy-back of land) in the event of a disaster. Related questions involve whether residential and commercial sectors should be treated differently, and whether compensation should be capped, targeted or available for only certain types of assets (eg the "family home").

It appears that this information is either patchy, or not available at all. Most crucially, the Crown itself doesn't have good information on the assets it directly owns that are at risk. This makes it impossible to create an optimal adaptation strategy. **It has to be asked how the Crown can lead the development of such a strategy when it doesn't even understand its own direct and indirect liabilities.** In my view, the Treasury needs to convene a cross-government group of all the agencies with substantial assets at risk from climate change. This group needs to develop a much more granular understanding of the assets at risk.

I do not believe it is possible to think about roles, responsibilities and objectives and a framework for managing adaptations risks in the absence of this information. Once this information is available it will be possible to design a framework for adaptation. As discussed below, the Treasury has a key role to play.

In the meantime, a key question to consider is how to deal with the political issues that better information is likely to create. Better information on risk will have an immediate impact on some property prices that current owners are likely to resist. While "buyer beware" may be a useful principle going forward once better information is available, it is worth thinking about how to deal with this issue in respect of properties that have changed hands at values above those that accurate information on risks would support. Valuations will in some cases fall, sometimes substantially. This is likely to strand some low-income homeowners, who are likely to "dig in" and stay in their homes until disasters force them to leave. This question links to the long-term compensation principles for adaptation. Despite this point, better information on risk is absolutely vital to prevent further building in at-risk areas which will in turn increase the long-term cost of adaptation.

Untangling Roles and Responsibilities

There are many public and private sector 'actors' involved in adaptation. Determining what their respective roles and responsibilities should be requires defining and untangling what their current roles and responsibilities in the system are. This is not a straightforward exercise but is fundamental if the Government wants to be able to answer the question: what is the role of government *versus* the market? For example, the Crown, and similarly local government, is simultaneously a regulator, a funder, an asset owner, an information provider and a service provider (e.g. health, education, social services, transport). This creates tensions and contradictions that can lead to well-meaning actions creating perverse outcomes if not managed well. Time needs to be spent upfront articulating and disentangling these competing roles and responsibilities and the incentives each creates.

Greater role for Treasury

The Government has several distinct roles that are relevant to adaptation. The Ministry for the Environment is well equipped to lead on some of these (especially those relating to spatial planning, land use regulation and providing leadership on a range of issues that affect local government). However, the question around costs and liability (which assets are at risk, who pays and how costs are distributed) are fundamentally financial in nature and should be led by the Treasury. Treasury and MfE roles need to be clearly defined and linked. Some specific foci of Treasury's attention include the following:

- As a regulator, the Government directly and indirectly influences the property market, perhaps most significantly through land use regulation (mostly under the RMA but also the Local Government Act and the Building Act). The priority for action (once there is good information) is to stop building in at-risk areas. This is where spatial planning is critical to ensure that infrastructure is not developed in areas that will become untenable. Treasury needs to work closely with MfE in this space.
- The Treasury needs oversight of any role the Crown will play as a funder of adaptation actions, including where the cost exceeds local councils' reasonable ability to pay (especially those with high costs relative to ratepayer bases) or where the market is unable or unwilling to provide adequate funding or coverage. (EQC, now the Natural Hazards Commission, is an example where central government effectively underwrites seismic and other land hazards for insured residential property). This is a core Treasury function that needs sustained attention, in particular to the Crown's own exposure to risk (as discussed below).
- The government is also a provider of significant *infrastructure and non-market services* that affect people's and businesses' choices on where to locate. These include: for *central government,* provision of roads, schools, health care, social housing and other social services; and for *local government,* provision of roads, water and wastewater services and recreation and leisure facilities (sports grounds, pools, libraries etc). The government has to manage the risk to its own assets while continuing to provide services to people who live there despite the risk. Withdrawing these services could be politically and morally challenging. The issue is not just about stranded physical assets: in some cases it will be about the risk of stranded communities. For example, if the Government decided to close a school in an at-risk community, that could effectively undermine the community. The Treasury needs to understand which non-market services are at risk and work with delivery agencies to understand how their future delivery might be affected.
- Adaptation decisions will not be felt equally across society. There are huge vertical and horizontal distributional impacts that will occur. The Treasury and key social service

ministries should identify how impacts might be distributed across different portions of society and identify options for mitigating those impacts.

Finally, the Treasury and MfE need to consider the relationship between adaptation response and response to other natural hazards. The risk of natural hazards such as earthquakes is always with us and in theory can be planned for better. The National Emergency Response Agency has oversight here but has no capacity to assess the financial and economic risks at stake. These cannot be entirely separated from climate adaptation – indeed action in one sphere should assist action in the other. The Treasury should be leading a work programme that creates the evidence base to inform the economic and financial implications of both sets of risks.

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