

Budget 25 talking points

THE ASK

The Minister of Finance has written to Ministers making clear this year's Budget is focused on boosting economic growth and requires fiscal discipline from agencies, including specific savings to fund government priorities.

1. The Environment Minister was asked to identify savings options in the waste minimisation fund, Climate Resilience for Māori and other environmental funds. This is part of a push to deliver better value from grants and funds across the public sector.
2. MoF also advised the Ministry may be subject to a separate process run by Associate Finance Minister David Seymour, based on the Ministry's significant growth since 2017. This might request further baseline savings.
3. Government has made clear its ambition for resource management reform to unlock housing and infrastructure growth. We have been invited to bid for an initiative to deliver RM Phase 3 implementation.

OUR APPROACH

Timing: Briefing for Ministers on December 5, final options on December 13, Package for TSY confirmed and letters signed for MoF on December 18.

Minister Simmonds office is coordinating with Ministers Bishop, Watts and Hoggard's offices to arrange a joint meeting with Ministers week beginning December 9.

OVERALL NARRATIVE (SUMMARY KEY MESSAGES)

The Ministry's focus in Budget 25 is on delivering maximum ongoing savings and benefits through the waste levy and other funds and grants, while ensuring the government's resource management reforms can be implemented, including via alternative sources of funding

The Ministry has been asked to provide budget initiatives covering the following areas:

- **Waste Levy** - Present options for capping the Waste Minimisation Fund at \$15m \$30m and \$60m – with the quantum of savings dependent on other decisions related to the waste work programme (e.g. CSVL funding).
- **Funds and Grants** – Identify savings options while also considering whether the coherence and settings of the fund landscape could be improved to secure better value. Savings scenarios are requested of \$1.25m and \$2.5m for climate resilience for Māori, and \$2.67m and \$5.3m for other environment funds.
- **RM implementation** – We were invited to put forward a bid and will discuss with ministers the timing for this, along with additional resourcing options for later years. Options include cost recovery, and the use of the expanded waste levy for national direction implementation.

These "asks" of the Ministry are connected and we are approaching them in an integrated way.

The first consideration is whether to put forward a RM bid in B25. The next is how to make best use of the waste levy for environment activities, while achieving savings across the Ministry's grants and funds portfolio.

There is potential to use the expanded waste levy to achieve savings to the Crown now by offsetting the cost of existing environment funds, while providing funding in later years to implement the government's broader deregulation agenda. An important caveat is the need for the levy to fund only certain activities, permitted under law.

Delaying the RM bid may be better timing for Phase 3 implementation and line up with any new use of the waste levy. We would use Cabinet papers on RM throughout 2025 to ensure a 'no surprises' bid cost for Budget 26.

Meanwhile, we are looking across the Ministry for potential reprioritisation options if RM implementation is funded in Budget 25, or to otherwise deliver more savings.

Each Deputy Secretary is leading an exercise within their business group to investigate what programmes or activities can be reduced to minimum viable levels, or otherwise scaled, or stopped.

In doing this we face important constraints. The Ministry was subject to significant baseline and targeted savings in Budget 24 and is set to 9(2)(f)(iv) from the 1230 funded FTEs in 2023/24 to 9(2)(f)(iv) in 2026/27. This is the fastest decline in the public sector.

We're working on a number of fronts to ensure we can continue to deliver government priorities, and our statutory obligations while managing a reduction of this size.

This includes reducing the level of delivery of most of our statutory obligations within the environmental system to minimum viable levels.

RM MESSAGES

We have been invited to submit a bid for RM Phase 3 implementation – on the understanding this would largely be funded through reprioritising existing activities and/or scaling the initiative.

Treasury has signalled the bid needs to show we are responsive to the need for fiscal discipline.

We will discuss with the minister what can be delivered within existing RM funding and whether Budget 25 is the best time for this investment

We'll also discuss how options for implementation of national direction and phase 3 could be scoped and sequenced and what alternative sources of revenue might be available to support this work. Sources could include cost recovery, reprioritisation, and use of the expanded waste levy.

The Ministry considers there is potential in the expanded waste levy both to realise savings in B25, and to fund community initiatives needed to support the government's deregulation programme, including aspects of RM implementation (subject to legal advice) in later years.

A new environmental fund, for example, could offset the loss of Jobs for Nature and freshwater funding as they end and provide a source of funding for government initiatives.

Meanwhile, we are looking across the Ministry for potential reprioritisation options in the event the RM bid goes ahead, or to otherwise deliver additional savings.

Our challenge is continuing to deliver our statutory obligations, most of which have been reduced to minimum viable levels

CLIMATE AND ENVIRONMENT FUNDS

We are preparing options for savings in both climate and environment funds, achieved through a mix of reductions in fund amounts, fund consolidation and improved fund management – grounded by reviewing the overall portfolio focused on value for money.

The Ministry's broader fund landscape has also become fragmented, with several relatively small funds for discrete purposes. There is opportunity for rationalisation, which will support achieving greater value from available funding over time.

Current smaller funds could also be incorporated, enabling improved investment choices to be made over time by better comparing the value of different investment options.

Climate funds

For Climate we've been asked for options to achieve savings between \$1.25m and \$2.5m per annum.

These savings will need to come from Climate Resilience for Māori, as the only other fund in the climate bucket is a relatively small contribution towards the Ministry's UN Framework Convention on Climate Change which must be continued.

The ask effectively focuses on the future of the Climate Resilience for Māori funding, and asks for two options - halving funding, and removing funding entirely from FY 25/26 (\$10m is currently allocated, with \$9m also to spend in 2024/25 which is shaping towards pilot initiatives).

Change in this area requires careful thought, given legal provisions and the importance of relationship management with tangata Māori, particularly the Iwi Chairs Forum.

With regard to the waste minimisation fund savings, the Minister for Finance has asked the Ministers of Climate and Environment to work together on the interactions this has with the second emissions reduction plan.

Our advice is the \$15m cap is too low and a \$30m cap would *only* cover the \$30m assumed for ERP2, which is why we recommend scoping an additional option for a cap of \$40 to \$50m.

Environment funds

The Ministry has been asked to find savings of between \$2.67m and \$5.3m (annual averages) across all environment grants and funds. Consideration of fund consolidation has also been requested.

Again, there is potential to use waste levy funding to support environment funds; this avoids the need for government expenditure outside the levy (i.e. savings).

We also consider there is potential to consolidate some funds. This would avoid/reduce investment silos – these can get in the way for choosing the best value investments, and in some cases risk unfairly restricting which population groups can access funding. Environmental management is also highly interdependent.

Some funds won't have savings potential, including the Waikato River Co Governance, multilateral and UN Environment Programme contributions.

Waste Minimisation Fund Caps

We are developing a package of options to realise savings by capping the waste minimisation fund at \$15m, \$30m and \$60m.

The waste disposal levy brings in approximately \$150m to central government each year (it is increasing). Funds not used in the administration of the levy, or committed waste portfolio, could be considered available to use for other environmental activities, providing a savings for the Crown.

We intend to examine a \$40m to \$45m cap which allows for the \$30m a year commitment to emissions reduction initiatives through ERP2, and some additional waste minimisation commitments. Under this scenario between \$50m – \$100m a year may potentially be available from 2026/27 depending on choices.

We do not believe a cap as large as \$60m is needed for the fund.

As mentioned Ministers could choose to use the “residual” levy funding to invest in offsetting other grants and funds, and/or hold back funding for new environmental investment in the future, such as RM implementation and community activities to enable the broader deregulation agenda when community funding falls away after 2026.