



## Briefing: Additional CERF savings, implications, and next steps

Date submitted: 28 March 2024

Tracking number: BRF-4553

Security level: Policy and Privacy

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Review and discuss with officials	4 April 2024
CC Hon Penny SIMMONDS Minister for the Environment CC Hon Chris BISHOP Minister Responsible for RMA Reform	Note	Nil

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment ( <a href="mailto:ministerials@mfe.govt.nz">ministerials@mfe.govt.nz</a> ).

Appendices and attachments
<ol style="list-style-type: none"><li>CERF initiatives contracted vs uncontracted funding</li><li>CCRA-driven statutory requirements</li><li>Vote Environment: Budget 2024 Initial Baseline Exercise Summary</li></ol>

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Clodagh Jolly	s 9(2)(a)	
General Manager	Arun Patel	022 013 2948	✓

Minister's comments

# Additional CERF savings, implications, and next steps

## Key messages

---

1. The Minister of Finance previously requested that Ministers put forward a package of savings relating to Vote Environment through the Initial Baseline Exercise (\$196.4m over four years / \$49.1m per annum), as well as a targeted savings initiative of at least \$100m over four years relating to the Waste Disposal Levy and Waste Minimisation Fund. On 16 February 2024 the Ministry for the Environment (the Ministry) submitted Ministers' preferred package to the Treasury. CERF initiatives were within the scope of the Initial Baseline Exercise and we have offered significant savings.
2. Following review of the proposed Budget package and discussion by Budget Ministers, the Minister of Finance has requested further advice on potential savings that could be returned from CERF-funded initiatives. We understand the Minister of Finance is interested in any further opportunities to take back funding from CERF initiatives, especially where funding isn't aligned with the Government's priorities.
3. This request comes on top of other requests from Ministers and / or the Treasury for further advice on savings options. This includes options relating to further savings from the waste disposal levy; a process to review the tagged contingencies (which also directly and indirectly affect the Climate work programme); and an Independent Rapid Review of the Ministry for the Environment due to be reported to the Minister of Finance and the Minister for the Environment no later than 3 April 2024 which has been asked to identify further savings.
4. Together, these initiatives are significant for the Ministry and its ability to deliver on Government priorities. There is a cumulative impact of an already declining baseline; significant Resource Management System funding returned to the centre through the mini-Budget; and meeting the Budget 24 savings targets. Even before any further savings are considered, these will reduce the Ministry's departmental funding in 2024/25 by 40 per cent compared to the current year, and we expect to cut the Ministry's workforce by almost one third. By 2027/28 our departmental appropriation will be 55 percent lower than present, and we expect to have reduced our workforce by 50 percent.
5. CERF funds are used to deliver a wide variety of work in the climate portfolio. Many projects are not discretionary and if not CERF funded, would still need to be delivered, leading to fewer choices elsewhere in the work programme.
6. To give a sense of the scale of the impact of returning uncommitted CERF funding:
  - i the savings offered through the Initial Baseline Exercise will reduce the Climate appropriations by 9 percent in 2024/25, and an average of 11 percent over the following three years.
  - ii If all the uncontracted climate-related CERF funding identified was returned to the centre, the climate appropriations would be by 21 percent in 2024/25, rising to 28-29 percent in the following two years.

7. There is a limit to the level of reprioritisation possible within the Climate portfolio. Consequently, whether CERF-related or not, any additional savings would severely constrain the Ministry's ability to deliver on the Government's priorities for Climate alongside its statutory commitments.
8. Furthermore, the cumulative way in which additional savings are being requested presents additional challenges and risks. The Ministry approached the Initial Baseline Exercise holistically to achieve a package that met both the requirements of the Minister of Finance and the priorities of our Ministers. While a portion of the CERF initiatives funding remains uncommitted, this funding is interwoven with the Government's wider policy programme and a subsequent decision to return some or all of this uncommitted funding cannot be done in isolation from the wider cost savings proposals we have already submitted as part of the IBE.
9. This briefing outlines the implications of potential further savings being taken from CERF-funded initiatives and recommends that should the Minister of Finance wish to proceed with such an approach, the Ministry be asked to provide further advice on re-prioritisation options across the entire savings package, to support discussions between Ministers.

## Recommendations

---

We recommend that you:

- a. **note** there is a significant cumulative impact on the Ministry's funding from an already declining baseline; the return of RM funding through the mini-Budget; and the savings required through the Budget 24 Initial Baseline Exercise
- b. **note** that CERF-related savings were already included in the Initial Baseline Exercise savings package, and a subsequent decision to return some or all of the uncommitted CERF funding should not be made in isolation from these wider proposals
- c. **note** that any further CERF-related savings (at **Appendix 1**) would severely constrain the Ministry's ability to deliver on the Government's priorities for Climate alongside its significant statutory commitments and regulatory responsibilities under the CCRA (set out at **Appendix 2**) and would require additional prioritisation discussions with Ministers
- d. **note** that an Independent Rapid Review report on the Ministry for the Environment is due to be presented to the Minister of Finance and the Minister for the Environment no later than 3 April 2024 and has been asked to identify further savings options and advice
- e. **agree** that should the Minister of Finance wish to proceed with further CERF (or other) savings, the Ministry be asked to provide further advice on re-prioritisation options across the entire savings package to support discussions between Ministers.

Yes | No

## Signatures

---



Arun Patel  
General Manager – Finance & Procurement  
**28 March 2024**

Hon Simon WATTS  
**Minister of Climate Change**  
**Date**

# Additional CERF savings, implications and next steps

## Purpose

10. This briefing outlines the implications of potential further savings being taken from CERF-funded initiatives on the Ministry's ability to deliver on the Government's priorities for climate change (and more broadly) and recommends that should the Minister of Finance wish to proceed with such an approach, the Ministry be asked to provide further advice on re-prioritisation options across the entire savings package to support discussions between Ministers.

## Background

11. The Government has an ongoing Fiscal Sustainability Programme which includes several exercises intended to identify savings options ahead of Budget 2024. There is a cumulative impact from these exercises which have material implications for the Ministry's capacity to support Government priorities, as shown in this table:

	2023/24	2024/25	2025/26	2026/27	2027/28
Pre-mini-Budget (declining baseline from expiry of time limited funding)	\$267.8m	\$225.7m	\$204.7m	\$194.4m	\$191.7m
	1,060 FTE	1,033 FTE	911 FTE	837 FTE	799 FTE
Plus, impact of mini-Budget	\$267.8m	\$176.8m	\$155.9m	\$149.3	\$146.7
	1,060 FTE	810 FTE	694 FTE	s 9(2)(f)(iv)	
Plus, departmental impact of the baseline savings target	\$267.8m	\$161.4m	\$134.2m	\$124.1m	\$121.4m
	1,060 FTE	739 FTE	597 FTE	s 9(2)(f)(iv)	

12. 2023/24 was always the Ministry's funding peak, and prior to the Fiscal Sustainability Programme our baseline was already forecast to decline by 26% as time-limited funding ended. Then the mini-Budget returned \$302m of funding (departmental and non-departmental) which was intended for implementing the RM reforms and remediating a historic deficit in the baseline needed to maintain and operate the RM system. This markedly accelerated the Ministry's downward trajectory and will require the Ministry to drop over 200 FTE from next year.
13. On top of this, the Ministry was given a 7.5 percent savings target set at \$49.1m annually from 2024/25, and a request to identify an additional significant targeted savings option of at least \$100m over four years relating to the Waste Disposal Levy and

Waste Minimisation Fund. This will require us to drop a further 100 FTE from next year.

14. There are some significant challenges associated with how the savings target was calculated. The Waste Minimisation Fund has effectively been double counted for savings purposes by being included as eligible baseline while also being subject to significant targeted savings. Calculating the eligible baseline in this way effectively doubled the funding subject to our savings target and therefore the nominal sum required. The Ministry has had to contribute much more than 7.5 percent of its baseline to meet the target. The table below shows that the Departmental savings are 18 percent of the eligible departmental baseline in 2027/28.

	2024/25	2025/26	2026/27	2027/28
Non- Departmental	33,568,000	27,368,400	23,833,400	23,833,400
Departmental	15,532,000	21,731,600	25,266,600	25,266,600
<b>Total Target</b>	<b>49,100,000</b>	<b>49,100,000</b>	<b>49,100,000</b>	<b>49,100,000</b>
Eligible Baseline - Non Departmental Baseline	542,133,000	491,237,000	483,460,000	485,167,000
Non-Departmental savings	33,568,000	27,368,400	23,833,400	23,833,400
% saved	6%	6%	5%	5%
Eligible Baseline - Departmental	174,090,000	153,105,000	146,571,000	143,861,000
Departmental savings	15,532,000	21,731,600	25,266,600	25,266,600
% saved	9%	14%	17%	18%

15. The combined impact of our declining baseline, the mini-Budget, and the baseline savings target will reduce the Ministry's departmental funding next year by \$106.5m, or 40 percent of our OBU 23/24 appropriation.

MfE Budget – Departmental	\$m	% decrease from 23/24
Current 23/24	\$267.9m	
Previous 24/25	\$225.7m	16%
24/25 post mini-Budget	\$176.9m	34%
24/25 post baseline savings	\$161.4m	40%

16. We expect to reduce the Ministry's workforce by over 300 FTE (almost one third of our current FTE) in 2024/25. By 2027/28 the departmental appropriation will decrease by 55 percent.

## Analysis and advice

### Initial Baseline Savings Exercise

17. We previously provided you with advice on a range of savings options to inform your consideration of the overall savings package put forward as part of the Initial Baseline Exercise, which included consideration of CERF-funded initiatives. The table below shows a summary of the proposed operating baseline changes through Budget 2024 (see **Appendix 3** for the full summary):

*Summary of proposed operating baseline changes through Budget 2024*

	Impact \$m increase/(decrease)					
	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	Total
Total submitted for baseline reduction target	-	(49.100)	(49.100)	(49.100)	(49.100)	<b>(196.400)</b>
If required: total amount of targeted policy savings	-	(40.100)	(41.730)	(10.000)	(10.000)	<b>(101.830)</b>
Total amount of revenue options	-	-	-	-	-	-
<b>Total savings/revenue proposed</b>	-	<b>(89.200)</b>	<b>(90.830)</b>	<b>(59.100)</b>	<b>(59.100)</b>	<b>(298.230)</b>
cost pressure funding sought (not invited)	-	-	-	-	-	-
new spending sought	-	30.150	31.887	31.887	26.934	<b>120.858</b>
<b>Total new funding sought</b>	-	<b>30.150</b>	<b>31.887</b>	<b>31.887</b>	<b>26.934</b>	<b>120.858</b>
<b>Net impact of all Budget 2024 proposals</b>	-	<b>(59.050)</b>	<b>(58.943)</b>	<b>(27.213)</b>	<b>(32.166)</b>	<b>(177.372)</b>

18. We approached the Initial Baseline Exercise holistically to achieve a package that met both the requirements of the Minister of Finance and the priorities of our Ministers. Given the scale of the cuts required it was always assumed that some level of reprioritisation would be required to deliver the Government's priorities once our much smaller baseline was confirmed by Cabinet.

#### **CERF funding – additional request from the Treasury**

19. CERF initiatives were within the scope of the Initial Baseline Exercise undertaken and were considered by the Ministry and our Ministers as part of our previous submission. In some areas we have offered significant savings already and going further is likely to undermine the viability of the initiatives.
20. Following the bilateral meeting, we provided you with a further Aide Memoire on the CERF-funded Climate Initiatives (BRF-4478 refers) which included information detailing the portion of remaining funding that is being offered up through B24 savings.
21. On 22 March, in response to a request from the Minister of Finance, the Treasury asked that we provide a breakdown of what proportion of the funding remaining in baselines is contracted vs uncontracted for CERF initiatives to support final budget decisions.
22. The table at **Appendix 1** outlines the status of remaining CERF initiatives in the Ministry's baseline. Data assumptions to note:
- i FTE are classed as contracted costs.
  - ii Based on actual personnel costs (FTE + overheads) at present, extrapolated to outyears.
  - iii Forecast data does NOT consider potential personnel changes (and impact on costs) as part of the savings exercise – this is the reason why there are some initiatives shown as overcommitted.
  - iv Includes non-personnel costs with existing contracts in place.

## Other savings requests

Earlier return of CERF funding (pre-election)

23. An earlier rapid savings exercise undertaken by the previous government returned savings of \$10.13m of CERF funding in July 2023 for 'Reducing Emissions from Waste'.

MBU tagged contingency review

24. There is currently a process underway by the Treasury to review all tagged contingencies, which will directly and indirectly affect the Climate work programme.

Waste Disposal Levy

25. As noted above, the Minister of Finance previously requested that the Ministry identify potential targeted savings of at least \$100m over the four-year forecast period relating to the Waste Disposal Levy (levy) and Waste Minimisation Fund (WMF).
26. Following review of the draft Budget package and discussion by Budget Ministers, there have been further requests from Ministers to provide advice on potential changes to hypothecation settings for the levy, including scaled options to return funding to the centre in relation to both the central and local government portion of levy revenue.

Independent Rapid Review

27. On 12 March 2024, the Minister of Finance and the Minister for the Environment jointly commissioned an Independent Rapid Review of the Ministry for the Environment, led by Iain Rennie. The purpose of the review is to identify realisable savings over the forecast period (and ideally from 2024/25) to support value for money in public spending.
28. The Independent Rapid Review was commissioned based on consideration of the Ministry's submissions made as part of the Initial Baseline Exercise, potential to find significant additional savings, and growth in headcount of the Ministry since 2017.
29. The Reviewer is due to provide a written report to the Minister of Finance and the Minister for the Environment no later than 3 April 2024. The report will identify savings options and provide advice on those options. We have shared our advice on the CERF and potential further savings with the Reviewer.

## Potential impacts of additional CERF savings on the Climate Change work programme and the Ministry's work programme more broadly

30. CERF funds are used to deliver a wide variety of work in the climate portfolio and the impacts of CERF savings cannot be easily assessed in isolation from the wider cost savings proposals the Ministry submitted as part of the Initial Baseline Exercise. Many projects are not discretionary and if not CERF funded, would still need to be delivered, leading to fewer choices elsewhere in the work programme. For example:
  - i Some CERF-funded initiatives are specific priority areas for the Government, such as work to identify additional carbon sequestration opportunities (noted in the National-ACT coalition agreement).



- ii Others are foundational work that supports the Government's overall approach to emissions reduction – such as work on market governance for the Emissions Trading Scheme.
31. There is a limit to the level of reprioritisation possible within the Climate portfolio. That is partly due to the number of CCRA-driven statutory requirements in the near term (refer **Appendix 2**), as well as the non-discretionary work associated with overseeing a well-functioning Emissions Trading Scheme. Additionally, there are several coalition commitments that sit within the climate work programme. Consequently, there is already limited ability to progress priority areas outside of these categories, although we are unable to quantify this impact until the overall budget position is finalised.
  32. Consequently, whether CERF-related or not, any additional savings would severely constrain the Ministry's ability to deliver on the Government's priorities for Climate alongside its statutory commitments and regulatory responsibilities under the CCRA and would require additional prioritisation discussions with Ministers.
  33. The table below shows the cumulative impact of potential savings on Climate funding. These are approximated appropriation impacts as financial recommendations are still to be produced following Budget decisions, however it points to the significance of the potential impact on the Ministry's Climate appropriations if that additional uncontracted funding was returned.
  34. Relative to the March Baseline Update, the savings offered through the Initial Baseline Exercise will reduce the Climate appropriations by 9% in 2024/25, and an average of 11 percent over the following three years.
  35. If all the uncontracted climate-related CERF funding identified was returned to the centre, this would more than double the impact on the total Climate appropriations, which would fall by 21 percent in 2024/25, rising to 28-29 percent in the following two years.

Climate (incl IEB) \$000	24/25	25/26	26/27	27/28
<b>March Baseline Update</b>	<b>58,212</b>	<b>59,859</b>	<b>59,909</b>	<b>57,169</b>
Savings per Initial Baseline Exercise - Climate (Dept)	(5,302)	(7,125)	(6,059)	(6,088)
<b>Net of IBE</b>	<b>52,910</b>	<b>52,734</b>	<b>53,850</b>	<b>51,081</b>
% reduction	-9%	-12%	-10%	-11%
CERF – Climate-related uncontracted (Dept)	(6,692)	(10,059)	(10,951)	(8,149)
<b>Net of Both</b>	<b>46,219</b>	<b>42,675</b>	<b>42,899</b>	<b>42,932</b>
% reduction	-21%	-29%	-28%	-25%

36. There would be little impact on the outcome of waste initiatives as all of the CERF non-departmental funding (both committed and non-committed) for waste initiatives has been proposed as savings in the IBE savings proposals. It has been proposed that waste levy revenue will substitute funding for these projects. Uncommitted departmental funding for waste initiatives has also been proposed for savings.

## Potential impacts on the Ministry's work programme more broadly

37. A further decrease in CERF funding from the Climate appropriation would have significant ramifications across all work programmes delivered by the Ministry and reprioritisation would be required to ensure that top Government priorities and coalition commitments can be delivered.
38. The reduced funding would not only impede our ability to carry out our direct functions related to climate initiatives but would further reduce funding for critical enabling services required for the efficient and effective operations of the Ministry, such as ICT, Finance and Procurement, meeting our Treaty responsibilities, and science and data. Consequently there would be a necessity to reallocate funds across all appropriations to ensure that available funding is directed towards essential functions, thereby preventing any breaches in appropriations. As cost pressures arise over the years this will further necessitate reprioritisation of the work programmes.

## Next steps

---

39. The Treasury is now collating information from agencies on contracted expenditure from CERF initiatives to provide to the Minister of Finance as part of wider Budget advice early next week. The timeframe for taking decisions on any further CERF-related savings is unclear at this stage and will need to be considered alongside the advice from the Independent Rapid Review.
40. We have requested that if further savings are to be sought, that we be given the opportunity provide further advice on how best to potentially target that effort. Key Budget 2024 key dates are as follows:

16 February	Budget 2024 Initial Baseline Exercise submissions due RM Reform initiative due
Mid-late February	Treasury assessment of Budget 2024 Initial Baseline Exercise and RM Reform initiative
18 March	Cabinet approved the content for the Budget Policy Statement (released 27 March) setting out the Government's Budget objectives
18 March	Vote Environment bilateral with the Minister of Finance
16 April	Financial recommendations due for Budget 2024 package
<b>29 April</b>	<b>Cabinet agrees Budget 2024 package</b>
29 April - 30 May	Budget moratorium
30 May	Budget 2024 will be released on 30 May 2024