

BRF-5004: Policy direction of the Carbon Neutral Government Programme

Date submitted: 10 October 2024

Tracking number: BRF-5004

Sub Security level: **CLASSIFICATION**: Policy and Privacy

MfE priority: Not urgent

Actions sought from Ministers		
<i>Name and position</i>	<i>Action sought</i>	<i>Response by</i>
To Hon Simon WATTS Minister of Climate Change	Agree to maintain, amend, or remove the programme's core commitments Agree to discuss your preferences with the Minister for Economic Development	17 October 2024

Actions for Minister's office staff
<p>Forward this briefing to:</p> <ul style="list-style-type: none"> the Minister for the Public Service the Minister for Economic Development. <p>Return the signed briefing to the Ministry for the Environment (ministerials@mfe.govt.nz).</p>

Appendices and attachments
Appendix 1: Summary of Options

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Matthew Schep		
Responsible Manager	Bree Graczyk	0273092095	✓
General Manager	Hemi Smiler	0220871268	

Minister's comments

Policy direction of the Carbon Neutral Government Programme

Key messages

1. The Carbon Neutral Government Programme (the programme) was established to help government agencies better understand their emissions and reduce them in line with a 1.5°C-aligned pathway. There is now an opportunity to review whether it remains the best approach to drive public sector emissions reductions within the Government's broader Climate Strategy (the Strategy).
2. 9(2)(f)(iv) This briefing seeks your direction on the programme's core commitments.
3. You have three options for the programme: maintain the current commitments for agencies to measure, report, and verify their emissions and set reduction targets and plans; amend the commitments to improve efficiency; or remove them in full.
4. Maintaining the core commitments would enable agencies to:
 - align with domestic and international standards for emissions measurement and management, consistent with corporate practices for informed business planning
 - maintain alignment with countries such as Australia, the USA, the European Union, Singapore, Japan, and South Korea
 - identify opportunities for cost-efficient emissions reductions and overall cost savings
 - continue collecting information on assets and operations that helps inform asset management, energy use, and resilience planning
 - gather secondary data, such as travel mileage, remote working numbers, service expenditures, which provides insights into broader government operations
5. This work also supports the Government to make evidence-based decisions for the state sector on resource allocation, cost efficiencies, emissions reduction priorities, and operational policy development, and aligns with the Strategy and the nine Government targets.
6. Amending the commitments would provide an opportunity to retain their benefits and address key agency concerns while aligning with the Government's broader climate goals. If you choose this option, officials can provide you with more detailed options in the next round of advice that reflect your priorities.
7. Removing these commitments may result in short-term savings for government agencies and allow for more flexibility on whether and how they measure and use energy and emissions data. Without a coordinated approach, opportunities would be missed for cross-government strategy, long-term savings initiatives, and the ongoing construction of an emissions and energy use dataset across government.

Recommendations

We recommend that you:

- a. **note** that 68 state service agencies have embedded core commitments to measure, report, and verify their emissions, set gross emissions reduction targets, and have reduction plans in line with domestic and international best practice through the Carbon Neutral Government Programme
- b. **note** that emissions accounting supports agencies to reduce emissions, manage their assets, and reduce operational costs, and further helps New Zealand to meet its international commitments
- c. **agree** to:
 - i. maintain the core commitments for agencies to measure, report, and verify emissions, set reduction targets, and have reduction plans in place **OR**
Yes | No
 - ii. amend the core commitments for agencies to measure, report, and verify emissions, set reduction targets, and have reduction plans in place and receive further advice on options for this approach **OR**
Yes | No
 - iii. remove the core commitments for agencies to measure, report, and verify emissions, set reduction targets, and have reduction plans in place
Yes | No
- d. **agree** to discuss your preferences on the policy direction of the programme with the Minister for Economic Development, including future governance arrangements.
Yes | No

Signatures



Hemi Smiler
General Manager – Climate Change Mitigation
Ministry for the Environment
7 October 2024

Hon Simon WATTS
Minister of Climate Change

[Date]

Policy direction of the Carbon Neutral Government Programme

Purpose

8. This paper seeks a decision on whether to maintain, amend, or remove government commitments for agencies to measure, report, and verify their emissions, set gross emissions reductions targets, and have reductions plans in place. The options have been informed in part by consultation with senior leaders in impacted agencies.

Background

9. Sixty-eight state service agencies are currently mandated to measure, verify, and report their emissions annually to the Ministry for the Environment (the Ministry), in line with corporate standards and best practice. A further 21 state sector organisations follow these commitments voluntarily.
10. These core commitments have been supported by a cross-agency work programme to further emissions reduction, including fleet transition, coal-fired boiler replacement, and improving building energy efficiency. Much of this work was led by the Ministry for Business, Innovation and Employment (MBIE), which manages All-of-Government procurement.
11. In FY22/23, 84 agencies reported their emissions, including 18 measuring for the first time. Collectively, a 14% reduction in emissions compared to base year has been achieved, amounting to a total reduction of 238,019 tCO₂-e.

The Government has emissions reduction expectations of businesses and the economy

12. In April 2024, the Prime Minister announced the reduction of net greenhouse gas emissions as one of nine Government Targets. In July 2024, you announced the Strategy, which commits to meeting New Zealand's climate change targets and supports businesses and communities to participate in the climate transition.
13. The Strategy recognises that our households, businesses, and the broader economy are experiencing the effects of a changing climate. It calls for coordinated efforts to reduce emissions and prepare for future impacts, emphasising that all sectors need to work together to achieve meaningful outcomes.
14. The government sector is a large market player in the economy, both through its own operations and those of its suppliers and has a continued opportunity to reduce its emissions alongside the private sector, and support emissions reductions in the economy more broadly.

Options analysis

15. This options analysis provides guidance on whether to maintain, amend, or remove the core commitments of the programme. It evaluates the relevance and strategic value of the programme in driving emissions reduction, and its alignment with government priorities. A summary of this analysis can be found in **Appendix 1**.
16. To inform these options, the Ministry engaged with senior leaders from all 68 mandated reporting agencies and received 38 responses across a variety of agency types. Feedback revealed a range of views on the programme's value. Many agencies highlighted the benefits of integrating emissions management into business operations and strategic planning and others expressed concerns about administrative burden and limited emissions reduction opportunities.

Option 1: Maintain the core commitments

Benefits and impacts

17. Maintaining the programme's core commitments ensures a standardised and consistent approach for measuring, reporting, and reducing emissions across government agencies. This helps create a comprehensive view of emissions and energy use in the public sector, which can support long-term cost savings, operational efficiency, and reduced climate impact.
18. These practices have enabled the government to keep pace with private sector companies, including those subject to mandatory climate-related disclosures. Emissions accounting and reporting has become standard practice in the private sector, and these commitments support consistency between public and private sectors.
19. Emissions data provides insights into energy use to the asset level, allowing agencies to identify opportunities for fuel-switching, upgrades, and efficiency measures that can help manage operating costs and exposure to energy prices. Integrating this data with Emissions Trading Scheme pricing/forecasting allows agencies to better manage operating costs and mitigate exposure to fossil fuel prices and security of supply concerns.
20. Agencies have reported tangible benefits from the programme's measurement and reduction commitments, such as:
 - **The Ministry of Foreign Affairs and Trade** used emissions data to support investment in the installation of a solar photo voltaic array at the New Zealand High Commission in the Solomon Islands, which cost \$250,000 and delivers around \$70,000 in annual electricity cost savings.
 - **Health New Zealand's** coal boiler replacement programme is projected to save approximately \$0.45m and up to 8,000tCO₂-e per year, and its Energy Transition Programme is projected to save \$3.5m and 23,000t tCO₂-e annually.
 - **Kāinga Ora's** travel optimisation project produced cost savings of \$1.8m in FY24, with additional OPEX savings anticipated in FY25 (\$2.3m) and FY26 (\$6.3m), plus an estimated CAPEX reduction of \$23m.

- **The Ministry of Justice** has received advice that estimates that on average, every \$1 spent on short-term building energy management opportunities¹ could result in over \$6 in savings over the first two years.
21. At the aggregate level, emissions and energy data supports the development of evidence-based strategies for the public sector, enabling targeted resource allocation, cost-efficient initiatives, and prioritisation of emissions reductions that support greater efficiency and savings across government.
 22. Emissions accounting supports agencies to collaborate with suppliers, landlords, and other contractors to implement emissions reduction plans, supporting the broader climate transition across the economy. This collaboration helps public sector agencies work more effectively with private sector suppliers who integrate emissions monitoring and reduction into their operations.
 23. Emissions reporting often requires agencies to develop secondary datasets on business activities that may not be captured elsewhere at the whole-of-government level. These metrics, such as travel mileage, remote working numbers, and expenditure on services, could be useful for setting broader government priorities and direction for agencies.

Costs and implementation

24. The programme commitments involve both reporting compliance costs and upfront expenses for some reduction initiatives, which are generally funded through agency baselines. Many agencies report that these costs are offset by savings achieved from emissions reduction efforts. However, the benefits are not proportionate for all agencies, particularly for smaller ones with fewer reduction opportunities or capital assets.
25. In a survey of 63 state service agencies in the programme, 61 reported a collective annual cost of \$1.65m for emissions accounting services², and 53 reported a collective 34.0 FTE for emissions accounting in FY23. Many agencies integrate these responsibilities within existing business support roles and do not have programme-specific staff. Programme administration costs are \$95,000/year³ and staff responsibilities have recently been incorporated into the Ministry's existing climate data functions.
26. The continuation of the programme will be relatively straightforward, although support services will be scaled back as the Ministry adopts a more streamlined approach. Many agencies have been working for several years to fully integrate emissions data into their business operations. As this has become more embedded across the public sector, one-off implementation costs have been largely accounted for, and the ongoing running of the programme is less intensive than it was at the start.

Domestic and international impact

27. Maintaining the commitments helps New Zealand meet its obligations under the Net-Zero Government Initiative (NZGI), which commits governments to reducing their public-

¹ For example, optimising building management systems, HVAC, lighting, and hot water schedules.

² Based on agency-reported costs, just under half of this is for external auditing/verification services.

³ This funds the data collection tool and technical support, for which the Ministry is currently in the second year of a three-year contract.

sector emissions and support the transition to a low-emissions economy. This alignment helps New Zealand maintain its international standing and keep pace with jurisdictions such as Australia, the USA, the European Union, South Korea, Singapore, and Japan.

28. The programme's data helps inform broader climate strategy and policy development, but its direct influence on achieving national emissions targets is limited. However, it plays a key role in influencing the government's supply chain and the wider economy as a large market player.

Option 2: Amend the core commitments

Benefits and impacts

29. Amending the core commitments could tailor the programme to better address agency-specific needs and optimise value for money in terms of cost savings and emissions reductions. If you choose this option, officials can provide you with a suite of options that could streamline and update the programme.
30. This could involve adjusting the requirements to improve relevance and reduce administrative burdens, particularly for smaller agencies or those with limited reduction potential, without affecting core operations. Potential adjustments include:
- changing the frequency or scope of emissions reporting
 - exploring less frequent verification requirements
 - allowing more flexible reduction targets based on agency size and capacity
 - excluding specific emissions sources (such as emergency response or national security) from reduction targets
 - setting reduction targets and strategies for government as a whole rather than for individual agencies
 - including adaptation planning and reporting across the public sector
31. This approach would retain the benefits of the core commitments while reducing administrative burdens, particularly for smaller agencies. Focusing on high-impact areas and reducing reporting requirements for agencies with limited emissions could enhance overall programme effectiveness. It also has the opportunity to support other work programmes, such as crown land afforestation and voluntary carbon markets, 9(2)(f)(iv)
32. There is also an opportunity to integrate adaptation planning and risk management for public sector agencies, similar to private sector climate-related disclosures. This approach, adopted by Australia's public sector, could support broader resilience objectives for government assets and operations.

Costs and implementation

33. Adjustments could reduce some administrative and compliance costs, especially for smaller agencies. Up to \$750k could be saved across agency baselines annually if

yearly audit and verification is not required⁴. As emissions reporting is often part of existing roles, changes to programme requirements are unlikely to impact staffing costs.

34. The majority of potential changes to the programme would require a Cabinet decision. Depending on the scale of changes, implementing these would be fairly straightforward, though would likely require additional staff support if the programme expands to include adaptation components.

Domestic and international impact

35. Amending the commitments could better align with government climate goals while providing flexibility during a fiscally constrained period. However, perceived weakened public sector action could raise concerns domestically and internationally, 9(2)(f)(iv) [REDACTED] Excluding a future net-zero target would require withdrawing from the NZGI and could impact the voluntary carbon market.
36. A balanced approach to amendments is necessary to maintain the integrity of the programme while providing agencies with flexibility to adapt to their unique contexts. Adding adaptation planning and risk management could position New Zealand as a leader in integrating climate resilience into public sector operations, but it would also significantly expand the programme's scope and administrative requirements.

Option 3: Remove the core commitments

Benefits and impacts

37. Removing the programme's core commitments would end the requirement for agencies to measure, report, or reduce emissions under a coordinated framework, shifting responsibility to individual agencies to decide whether and how they continue emissions reduction efforts. While many larger agencies may maintain these activities independently, smaller agencies or those with limited reduction opportunities would benefit from reduced administrative and compliance requirements.
38. Feedback from agency consultation indicates mixed views on the programme's value. While many agencies appreciate the coordinated framework, others find the requirements burdensome. Removing the commitments would provide greater flexibility and enable agencies to reallocate resources, but it could also lead to a loss of consistency and alignment in emissions management and strategic investment across the public sector.

Costs and implementation

39. Removing the commitments could deliver short-term cost savings related to the annual reporting and verification process. However, since many agencies have integrated emissions management into their BAU activities and already absorbed one-off implementation costs, some may choose to continue these efforts independently. As internal emissions accounting is often part of existing business support roles, it is unlikely that removing these requirements would lead to a reduction in FTEs.

⁴ The average yearly cost for audit and verification services is \$12k/agency, with a collective figure of around \$750k for the mandated agencies, funded from agency baselines.

40. The long-term cost impact of removing the core commitments is uncertain. Without a coordinated, mandated framework, opportunities for long-term savings through energy efficiencies and strategic investments may be missed. Agencies may also find it harder to justify higher upfront capital investments without central guidance and support.
41. This option would require a Cabinet decision to formally disestablish the programme requirements. While this would remove the mandate, it does not guarantee that agencies would discontinue emissions reduction activities. Larger agencies with established systems may choose to continue this work for internal planning, compliance with other policies, or to meet sustainability goals.

Domestic and international impact

42. Removing the commitments would end the standardised approach to public sector emissions management, potentially reducing alignment with government climate priorities. The loss of consistent emissions data could impede strategic planning at both the agency and whole-of-government levels.
43. This change would also require New Zealand to withdraw from the Net-Zero Government Initiative (NZGI), potentially impacting our international reputation and alignment with key partners. It could create disparities between the public and private sectors, as many companies already integrate emissions reporting into their operations.
44. Removing the commitments could undermine government credibility in managing climate-related risks and send mixed signals to the market. A robust communications plan would be essential to mitigate these risks and clearly outline the government's ongoing commitment to climate action.

Alignment with the Economic Development portfolio

45. The previous government implemented a range of policies in the procurement space to support emissions reduction across the government sector. These are within the remit of the Minister for Economic Development (the Minister), who is a programme co-lead.
46. MBIE is planning to brief the Minister on her options for the procurement portfolio [REQ-0004688 refers]. We recommend that you share this briefing with her and discuss your preferences for the programme, including whether or not to continue the co-lead model.

Next steps

47. If you decide to maintain or amend the core commitments, we can provide you with further advice on additional opportunities for the programme to align with the Strategy, including:
 - potential alignment with climate-related disclosures obligations
 - 9(2)(f)(iv)
 - high-level strategy to support the government's emissions reduction journey.
48. If you decide to amend or remove the core commitments, we will provide you with advice in a subsequent briefing on the steps required, including advice on specific amendments if needed. Some changes may require a Cabinet direction.

Appendix 1: Summary of Options

Objectives	Criteria	Option 1: Maintain Core Commitments	Option 2: Amend Core Commitments	Option 3: Remove Core Commitments	Comments/Implications
Objective 1: Supports climate integration and strategic alignment	Overall assessment of Objective 1	✓ ✓	✓ ✓ ✓	✓	Amending the programme could balance flexibility and consistency, supporting climate considerations across the public sector, while allowing for varying agency capacities.
	Integration of climate considerations into day-to-day operations, policy, and long-term planning.	Reinforces climate considerations and strategic asset planning for the public sector. Long-term benefits include cost savings, operational efficiencies, and reduced climate risk.	Provides greater flexibility by reducing some administrative burden on agencies while retaining long-term benefits.	Provides flexibility for agencies but risks inconsistent application across the sector. There would be potential missed opportunities for reductions and strategic investments.	The programme broadly follows government climate policy and has the ability to influence private sector reductions and other climate work programmes.
	Alignment with national climate goals and other work programmes.	A supporting programme that complements efforts to meet New Zealand's NDCs and public sector strategic investments, enhancing national climate goals.	The programme could be adjusted to support high-impact reduction areas, and other initiatives, such as afforestation on crown land, voluntary carbon markets, and adaptation planning for the public sector.	Removes the potential for significant emissions reductions and coordinated support for other government climate initiatives.	
Objective 2: Supports ease of implementation and cost savings	Overall assessment of Objective 2	✓ ✓	✓ ✓	✓	9(2)(f)(iv)
	Ease of implementing this option, and any additional resource requirements	Continuation would be straightforward for the Ministry and agencies. 9(2)(f)(iv)	Most amendments would be straightforward and would require a further briefing. Some may also require a Cabinet decision and programme updates. Any substantial additions to the programme would require further resourcing.	A Cabinet decision would be required, and work would need to be done to withdraw New Zealand from the Net-Zero Government Initiative.	Amending has the greatest opportunity to support the Climate Strategy and retain long-term savings and resource efficiency. Further decisions and additional resourcing would be required for any scaling up of the programme.
	Short-term and long-term financial impacts, including cost savings, administrative costs, and opportunities for resource optimisation.	There are ongoing compliance costs, as well as potential operational cost savings. Some smaller agencies not likely to realise these benefits.	Could lower compliance costs, particularly for smaller agencies, while retaining focus on long-term savings and efficiency opportunities.	Immediate reduction in compliance costs but forgoes long-term savings. Some agencies may continue this work independently, due to sunk implementation costs. Likely to create additional costs in the future if emissions accounting was restarted.	
Objective 3: Supports Domestic and International relationships	Overall assessment of Objective 3	✓ ✓ ✓	✓ ✓	✓	Maintaining some form of public sector commitment could provide assurance to stakeholders and the public, while a complete removal might result in negative perceptions domestically and internationally.
	How stakeholders and the public may perceive each option, with a focus on reputational impacts and support for government actions.	Likely to reinforce government commitment to climate action and maintain alignment between private and public sector expectations. 9(2)(f)(iv)	Could be seen as a pragmatic approach that balances commitment and flexibility. Some stakeholders may view amendments as a weakening of climate commitments, 9(2)(f)(iv)	Could create a gap between government climate commitments and actual practice, potentially reducing domestic and international credibility. Removal would necessitate withdrawal from the NZGI.	Many jurisdictions that New Zealand maintains close relationships with have a public sector reduction programme as part of the NZGI.
	Consistency with level of ambition indicated by other countries, such as Australia, the USA, European Union, Singapore, Japan, and South Korea.	Likely to be consistent with highest ambition from other countries on a similar pathway.	Likely to compare to other countries on a similar pathway.	Likely to be lower than other countries on a similar pathway.	