

IN C O N F I D E N C E

Office of the Minister of Climate Change

ECO - Cabinet Economic Policy Committee

Adaptation framework: Government responses to the Finance and Expenditure Committee and the Climate Change Commission, and next steps for policy decisions

Proposal

1. I seek Cabinet's approval of the formal Government responses to:
 - 1.1. the Finance and Expenditure Committee's (FEC) report from its inquiry into climate adaptation
 - 1.2. the Climate Change Commission's (CCC) report on the National Adaptation Plan.
2. This paper also provides an overview of related cross-government work programmes and signals next steps for policy decisions on the main elements of a durable adaptation framework.

Relation to government priorities

3. Cabinet's agreement to the Government's responses is a requirement of the Cabinet manual and timeframes for those responses are set by Standing Orders.
4. The work on the adaptation framework is a continuation of the work programme authorised by Cabinet in April 2024 [CAB-24-MIN-0121]. It contributes to several Government priorities on Crown fiscal responsibility, infrastructure investment, resource and emergency management reform, and housing.
5. The Government has also committed, through its Climate Change Strategy, to meet its targets to reduce the impact of climate change and prepare for its future effects. The adaptation-relevant pillars of the strategy are:
 - 5.1. infrastructure is resilient and communities are well prepared
 - 5.2. credible markets support the climate transition
 - 5.3. nature-based solutions address climate change.

Responding to a changing climate

6. A high proportion of New Zealanders live in areas susceptible to increasing natural hazard risk. Climate change increases the risk of acute extreme weather and natural hazard impacts, and long-term impacts such as sea-level rise.
7. The new reality of climate change will increasingly strain the systems governing our built environment and the stability of our housing, finance and insurance markets.
8. There are a number of existing flaws in our systems which climate change will exacerbate. These include:
 - 8.1. strong incentives for development in at-risk areas with insufficient support for comprehensive consideration of all adaptation options

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- 8.2. uncertainty about roles and responsibilities, particularly who pays for a variety of costs, exacerbated by under-investment due to council affordability issues
- 8.3. insufficient and inefficient distribution and use of risk information.
9. Adaptation can encompass a variety of interventions and policy settings, and optimal adaptation will mean different things in different places. Adaptation should always be undertaken based on least cost over the long term, and can include:
 - 9.1. a hands-off approach from government and buyer beware
 - 9.2. enablement or facilitation of investment to protect assets
 - 9.3. using building techniques and other tools to manage risk in at-risk areas
 - 9.4. stopping new development on high-risk land where the risk cannot be sufficiently managed
 - 9.5. managed retreat
10. Managed retreat is an option that should only be used where there are no other tenable options after a careful balancing exercise. It is important to note that it does not have to involve compulsory acquisition and has almost always involved voluntary arrangements in the past. The Government does not see itself having a role in forcing people to leave their homes.
11. Without assurance that the Government has adaptation to these risks clearly on its agenda, we also risk: market volatility as insurers look to reconsider their products and coverage; and challenges to the long-term fiscal sustainability of the system as costs increase over time.
12. Adaptation is a cross-system, long-term issue, with levers for intervention sitting across numerous portfolios such as emergency management, insurance, infrastructure, funding and financing, housing, and resource management.
13. In practice, many adaptation decisions will be taken locally, with councils having a primary role in decision-making at the local level.
14. We need to establish an enduring, long-term, joined-up approach to adaptation with clear guiding principles, and clear leadership and responsibilities for bringing this together. This approach will need to support well-functioning markets (including buyer beware), incentivise appropriate investment in risk reduction, and provide a more affordable approach than the status quo.

Finance and Expenditure Committee report on the inquiry into climate adaptation

15. The FEC inquiry into climate adaptation commenced on 9 May 2024. The FEC presented their official report back to the House on 1 October 2024. The FEC received over 1000 written submissions and heard around 80 oral submissions during the climate adaptation inquiry. Submitters included the insurance and banking industry, councils, businesses, property owners, academics, iwi and Māori groups, environmental groups, and the Ministry for the Environment's Independent Reference Group.

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16. The FEC report is attached at Appendix 1. The Committee recommends 10 objectives and 11 principles for the adaptation framework. The report also has 16 other recommendations across the areas of system design, who does what, who pays for investment in climate adaptation, how costs are shared for residential property retreat, kaupapa Māori, and data and information.
17. The report outlines the FEC's view on the adaptation problem which in summary includes that adaptation is long-term, complex, uncertain and contentious in nature. There is imperfect and incomplete information, trade-offs and value judgements to be made, unclear role and responsibilities, and Māori rights and interests involved.
18. I seek approval of the proposed Government response as attached at Appendix 2.
19. The response provides an early signal to the public that the Government intends to introduce adaptation legislation in 9(2)(f)(iv) 2025. It also signals that the adaptation framework work programme may include non-legislative elements and that the Government is already making progress on some of the recommendations through implementation of actions outlined in the National Adaptation Plan.
20. Under Standing Order 256, the Government must present a paper to the House responding to any recommendations of the committee not more than 60 working days after a select committee report has been presented (ie, 16 January 2025).

Adaptation framework design

21. Adaptation should provide a predictable, principled, fair, and rules-based framework for responding to the effects of climate change. Climate change adaptation potentially involves tens of billions of dollars' worth of investments and losses. Both cost minimisation and fairness are important.
22. The granular nature of adaptation favours a decentralised approach. Local government and communities are generally best placed to understand local risks and decide whether and how to protect each of their assets. In practice, finite Crown and council budgets means government buying out properties is not a viable long-term solution to adaptation.
23. The government still has an important role to play in ensuring optimal adaptation even when a decentralised approach is taken. This includes identifying and addressing specific instances of market failure in disaster response and recovery, and in establishing roles and responsibilities.
24. The framework needs to be able to adjust over time as markets themselves adjust to new realities, and as risk changes or new information emerges.
25. On 15 April 2024, Cabinet agreed to initiate work to develop an adaptation framework that is enduring, joined-up, and based on clear guiding principles. Cabinet also agreed in principle to objectives and workstreams to guide the development of the adaptation framework [CAB-24-MIN-01201].
26. The objectives are:
 - 26.1. minimise expected long-term costs

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- 26.2. ensure responses and funding support to property owners, if any, are predictable, principled, and rules-based wherever possible (ie, not decided after each event)
- 26.3. improve climate risk and response information flows
- 26.4. address market failures and support market efficiency
- 26.5. people have the incentive and ability to manage risk.
- 27. In this case, cost means investment in asset protection, plus managed retreat, plus climate related losses. Costs should be considered holistically, rather than solely focusing on minimising Crown risk at the expense of local government and communities.
- 28. Cabinet could consider any adjustments to these objectives as part of decisions on the adaptation framework 9(2)(f)(iv) 2025.
- 29. The four workstreams are:
 - 29.1. risk and response information sharing
 - 29.2. roles and responsibilities
 - 29.3. principles for investment in risk reduction
 - 29.4. principles for cost-sharing pre- and post-event.
- 30. These objectives, workstreams and the recommendations in the FEC report provide a sound foundation to progress work on the adaptation framework. Further policy work is now required to enable drafting of legislation required to support the framework.
- 31. I will work with the Minister of Finance to develop the adaptation framework based on the objectives and four workstreams already agreed by Cabinet [CAB-24-MIN-01201].
- 32. As noted by Cabinet in April 2024, there are several work programmes underway which may contribute to delivering on the objectives of the adaptation framework [CAB-24-MIN-0121]. I will work with the Ministers of Infrastructure, Resource Management Reform, Local Government and Emergency Management and Recovery, and other Ministers as necessary, over the coming months to ensure alignment of these related work programmes.
- 33. An overview of related cross-government work programmes is attached at Appendix 3. This table provides detail on the lead Minister and ministry, programme objectives, the impact/s it may have on the development of the adaptation framework and the expected delivery times.
- 34. One of these work programmes is the National Risk and Resilience Framework. This Framework is aligned with the adaptation framework as it has a proactive focus on reducing risk and building resilience to help reduce New Zealand's exposure to the harm and cost of crises, and ensure the Government's fiscal position remains sustainable through shocks and stresses.
- 35. The following actions agreed by Cabinet on 2 December 2024 [CBC-24-MIN-0112]., will support delivery of the objectives of the adaptation framework:

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- 35.1. agreed the National Risk and Resilience Framework, led by DPMC
 - 35.2. invited the Prime Minister to report back to Cabinet annually on the status and effectiveness of national risk management and opportunities for resilience-building
 - 35.3. agreed the National Risk and Resilience Framework will be used to provide Ministers greater visibility of relevant workstreams and how these relate to each other to reduce NZ's exposure to the harm and cost of crises.
36. I will bring a paper to Cabinet seeking more detailed policy decisions in April 2025 which will solidify the Government's position on how the adaptation framework is to work in practice and the non-negotiables to achieve results.

Timeframes

37. The timeframes for delivery of the adaptation framework are:
- 37.1. final policy decisions on the legislative elements of the adaptation framework to be made by 9(2)(f)(iv) 2025.
 - 37.2. legislation required to support the framework to be introduced to the house by 9(2)(f)(iv) 2025.

The Climate Change Commission's report on the National Adaptation Plan

38. The Climate Change Response Act 2002 (the CCRA) sets out the statutory elements of the adaptation policy cycle, including the requirement that:
- 38.1. the Minister of Climate Change, on behalf of the Government, must prepare national adaptation plans (NAPs) to respond to six-yearly national climate change risk assessments and address the most significant climate risks New Zealand faces from climate change. The CCRA has requirements on what NAPs must contain and what the Minister must consider in preparing NAPs.¹ The Government is responsible for implementing NAPs.
 - 38.2. the CCC is required to report on the implementation and effectiveness of each NAP every two years following publication of a NAP.² The Minister of Climate Change is required to officially respond to the CCC's report within six months of the report being published.³
39. The first NAP was published in August 2022 and sets out priorities over a six-year period to help make New Zealand homes, infrastructure, economy, environment, and communities more resilient to climate change. It contains over 120 actions with 30 government agencies responsible for delivery.
40. The CCC delivered its first adaptation progress report on the NAP in August 2024. The key finding is that the NAP is not driving adaptation to climate change at the scale and pace needed and that action to create a strong foundation for ongoing adaptation is urgently needed. The report is attached at Appendix 4.

¹ Section 5ZS

² Section 5ZU

³ Section 5ZV

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41. Delivering the adaptation framework will play a key role in addressing many of the CCC's recommendations relating to institutional and policy settings needed to deliver adaptation outcomes. Adaptation foundations can also be built by implementing our climate change strategy, and through focused effort on other priority government initiatives, including:
- 41.1. National Risk and Resilience Framework
 - 41.2. Emergency Management System Reforms
 - 41.3. the Regional Infrastructure Fund
 - 41.4. the Critical Infrastructure Resilience programme
 - 41.5. the National Infrastructure Plan
 - 41.6. National Direction on natural hazard risk management.
42. The first NAP lays out the long-term goals (reduce vulnerability to the impacts of climate change, enhance adaptive capacity, and consider climate change in decisions at all levels and strengthen resilience) and priorities (enabling better risk-informed decisions, driving climate-resilient development in the right places, laying the foundations for a range of adaptation options including managed retreat and embedding climate resilience across government policy) for adaptation.
43. These provide important foundations to guide adaptation action and the proposed response to the CCC's report confirms the Government's commitment to these goals and priorities.
44. The CCC also recommended updating the table of actions that sit alongside the NAP. The Government response includes an updated table of NAP actions, with actions updated to reflect the changing context since the first NAP was published, and to better align with the climate change strategy.
45. I seek approval of the proposed Government response as attached at Appendix 5. The Government's response must be presented to the House and made publicly available by 2 February 2025.

Cost-of-living Implications

46. The proposals in this paper do not have cost-of-living implications. However, the adaptation framework, once developed, may have an impact through new measures to reduce the risks to communities with flow-on benefits to the overall cost of insurance in New Zealand. Implications are dependent on final decisions on system design.

Financial Implications

47. There are no financial implications of the proposals contained in this paper. Funding may be sought in Budget 26 to further work on an adaptation framework.

Legislative Implications

48. This paper does not have legislative implications. However, when policy decisions on the adaptation framework are made 9(2)(f)(iv) 2025, some of these may be

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implemented through legislation, including legislation required to support the framework.

Impact Analysis

Regulatory Impact Statement

49. There are no regulatory proposals in this paper, and therefore Cabinet's impact analysis requirements do not apply.

Climate Implications of Policy Assessment

50. The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal, as the threshold for significance is not met.

Te Tiriti o Waitangi Implications

51. Iwi, hapū and Māori communities are disproportionately located in areas vulnerable to climate impacts and natural hazards. A full assessment of Tiriti implications based on future policy proposals will be undertaken to enable robust policy advice and well-informed final policy decisions on the adaptation framework, and to ensure adherence to the Crown's obligations under te Tiriti. This includes testing policy options with Māori representative groups and consideration of Treaty settlements.

Population Implications

52. The proposals in this paper do not have direct population implications. However, rural communities are often more vulnerable to climate impacts and natural hazards due to their isolation and limited access to services.

Human Rights

53. Proposals in this paper regarding the Government's response to the Committee's report are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Use of external Resources

54. No external resources were used in the development of this paper.

Consultation

55. The Department of Internal Affairs, Critical Infrastructure Resilience Unit and Cyclone Recovery Unit (Department of Prime Minister and Cabinet), Ministry of Housing and Urban Development, National Emergency Management Agency, Ministry for Primary Industries, Ministry of Transport, Ministry for Business, Innovation and Employment, Department of Conservation, the Climate Change Interdepartmental Executive Board, Ministry of Culture and Heritage, Natural Hazards Commission Toka Tū Ake, Land Information New Zealand, Ministry of Foreign Affairs and Trade, Ministry for Māori Development Te Puni Kōkiri, Ministry of Education, Ministry of Health, Ministry of Social Development, Statistics New Zealand and The Treasury were consulted on this Cabinet paper. The Department of Prime Minister and Cabinet were informed.

Communications

56. My office will develop a communications plan to outline the Government's decisions and intent, as well as updates on progress where appropriate.

Proactive Release

57. I intend to proactively release this Cabinet paper within the required 30 business days of a Cabinet decision, subject to Official Information Act 1982 considerations.

Recommendations

The Minister of Climate Change recommends that the Committee:

Finance and Expenditure Committee report

- 1 **note** that on 1 October, the Finance and Expenditure Committee (FEC) presented its report on the inquiry into climate adaptation to the House;
- 2 **approve** the proposed Government response to the FEC inquiry into climate adaptation at Appendix 2;
- 3 **authorise** the Minister of Climate Change to make minor editorial changes on the Government response to the Finance and Expenditure Committee report, in line with the direction agreed to by Cabinet and in consultation with the Prime Minister's office and relevant Ministers where required;
- 4 **invite** the Minister for Climate Change to present the Government response to the House in accordance with Standing Order 256 and publish the response by 16 January 2025;

Adaptation framework design

- 5 **note** that the Minister for Climate Change will work with the Minister of Finance to develop the adaptation framework based on the following four workstreams previously agreed by Cabinet [CAB-24-MIN-01201 refers]:
 - 5.1 principles for investment in risk response
 - 5.2 principles for cost-sharing pre- and post-event
 - 5.3 roles and responsibilities
 - 5.4 risk and response information sharing;
- 6 **note** that the Minister for Climate Change will develop the adaptation framework based on the following objectives previously agreed in principle by Cabinet [CAB-24-MIN-01201 refers]:
 - 6.1 minimise expected long-term costs
 - 6.2 ensure responses and funding support to property owners, if any, are predictable, principled, and rules-based wherever possible (ie, not decided after each event)
 - 6.3 improve climate risk and response information flows

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- 6.4 address market failures and support market efficiency
- 6.5 people have the incentive and ability to manage risk;
- 7 **note** that the Minister for Climate Change will seek input from the Ministers of Infrastructure, Resource Management Reform, Local Government and Emergency Management and Recovery, and other Ministers as necessary;
- 8 **note** the overview of related cross-government work programmes which can also help to achieve these objectives at Appendix 3;
- 9 **note** the following timeframes:
 - 9.1 final policy decisions on the legislative elements of the adaptation framework to be made 9(2)(f)(iv) 2025
 - 9.2 legislation required to support the framework to be introduced to the House by 9(2)(f)(iv) 2025;

The Climate Change Commission's report on the National Adaptation Plan

- 10 **note** that on 16 August the Minister for Climate Change tabled the Climate Change Commission's 2024 progress report on the National Adaptation Plan (NAP) in the House;
- 11 **approve** the proposed Government response to the Climate Change Commission's 2024 progress report on the NAP at Appendix 5;
- 12 **authorise** the Minister of Climate Change to make minor editorial changes on the Government response to the Climate Change Commission's 2024 progress report on the NAP, in line with the direction agreed to by Cabinet and in consultation with the Prime Minister's office and relevant Ministers where required;
- 13 **invite** the Minister of Climate Change to present the Government response to the House in accordance with section 5ZV of the Climate Change Response Act 2002 and publish the Government response by 2 February 2025.

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change