

The Treasury

Budget 2011 Information Release

Release Document

June 2011

www.treasury.govt.nz/publications/informationreleases/budget/2011

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [5] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [8] 9(2)(h) - to maintain legal professional privilege
- [9] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(h).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

**Vote Environment
Vote Climate Change**

Four-year Budget Plan

Version 6.0

December 2010

Submitted by:

Ministry for the Environment

Section 1: New Baseline and Summary of Changes

1.1 Direction of change

Strategy and priorities for the Votes

The strategy for Vote Environment and Vote Climate Change over the next four years will continue to be focused on robust policy, good science, and effective action. This involves addressing three priority areas:

- **Climate change mitigation:** The Government recognises that New Zealand needs an approach to climate change that ensures it is recognised as doing its fair share, while still being able to grow the economy. For this reason climate change is the current Government's highest environmental priority. Climate change mitigation measures are required to reduce the severity of global climate change and its effects on New Zealand. New Zealand must play its part in both international negotiations and domestic action. The latter is primarily through the Emissions Trading Scheme (ETS), which the Ministry must ensure continues to be fit for purpose into the future.
- **Effective management of water resources:** Water is New Zealand's most precious environmental and economic resource, it will increasingly come under pressure in the future. It is therefore the Government's second highest environmental priority. Innovative solutions need to be found to address major issues such as water quality and allocation. Better regulation, stronger institutions and improved knowledge and skills are required. Land use is inextricably linked; it affects the quality and quantity of our water resources. Solutions must take account of this and also the cultural significance our waterways have for all New Zealanders.
- **Improving institutions and frameworks:** Addressing New Zealand's priority environmental issues requires constant review of the tools, frameworks and institutions used to manage resources to ensure they are successfully adapting to changing situations. This is key to ensuring New Zealand achieves and maintains the balance between growing the economy and protecting the environment. Over the next four years this will include establishing the standalone Environmental Protection Authority (EPA), developing and implementing resource management reforms, improving management of the Exclusive Economic Zone (EEZ), improving reporting of New Zealand's environmental performance, and reviewing the frameworks for managing the risks posed by chemical and biological hazards in New Zealand.

Major programme changes and changes to service delivery

A key area of change is the creation of the EPA as a new standalone Crown agency from 1 July 2011. New Zealand needs a strong, independent regulatory authority to ensure the protection of its environment at a national level, while balancing the interests of the economy. This reform will bring into one entity a wide range of environmental regulatory functions and provide stronger national direction to the environment roles of regional and city/district councils. The EPA's responsibilities will include the regulatory functions of resource consenting for proposals of national significance, administration of the ETS, responsibilities under international conventions and protocols, and the functions under the Hazardous Substances and New Organisms Act (HSNO) of what is currently the Environmental Risk Management Authority (ERMA). The EPA will combine technical and regulatory skills which will improve efficiency and lead to more robust and informed decision-making.

Another key area of change is in improving reporting of New Zealand's environmental performance. Quality environmental reporting is as important to New Zealand's success as financial reporting. It assists with providing the evidence base for good decision making and helps build a reliable picture of how the country is managing its natural capital. This in turn will assist New Zealand as a nation to maintain its worldwide reputation for quality products from a quality environment. In addition, to decide how best to manage and allocate key environmental resources, such as water, there is a need for accurate and comprehensive information on the existing state of the environment. Early detection of problems means that solutions can then be put in place early enough to be effective and durable. There is also a problem with inconsistent datasets around the country which needs to be addressed.

Contribution to achieving Government priorities

The strategy for Vote Environment over the next four years will assist the Government to grow the New Zealand economy, and to do so without compromising the environment. New Zealand's natural environment helps to give it a competitive trade advantage. Improving New Zealand's economic performance must be environmentally responsive to avoid damaging the natural capital on which its economy depends. Improving water management is one of the Government's top environmental and economic priorities. Finding durable solutions to issues of water quality, allocation and storage are essential to a healthy environment and New Zealand's long-term economic progress. It is also why there is a need to end the adversarial and litigious approach that has so far dominated New Zealand's resource management system. This will be achieved through reform of the resource management framework, including the creation of the EPA.

The strategy for Vote Climate Change over the next four years will assist the Government to ensure New Zealand does its fair share to address the global problem of greenhouse gas pollution and climate change. It will continue to be about meaningful but realistic progress; about protecting New Zealand's international reputation, about finding the least cost way to meet our Kyoto obligations but being careful not to impose unreasonable costs on New Zealand businesses and households.

1.2 Overall impact

Total Operating (Departmental and non-departmental) Votes Environment and Climate Change	Impact (\$000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Current Baseline	1,451,295	607,716	1,319,906	627,042	624,724
Cost of new/increased activities	4,000	7,800	7,800	7,800	7,800
Amount reprioritised	(4,000)	(2,800)	(2,800)	(2,800)	(2,800)
New baseline	1,451,295	612,716	1,324,906	632,042	629,724

In order to understand the Ministry's baseline it is necessary to isolate the issue of NZ Units and Waikato River co-governance expenses as they are variable between financial years and are not within scope of reprioritisation within the baseline and multi-year appropriations, which also fluctuate between financial years.

Total Operating (Excluding Other Expenses and MYA's) Votes Environment and Climate Change	Impact (\$000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Current Baseline	94,662	92,145	84,035	84,135	86,501
Cost of new/increased activities	4,000	7,800	7,800	7,800	7,800
Amount reprioritised	(4,000)	(2,800)	(2,800)	(2,800)	(2,800)
New baseline	94,662	97,145	89,035	89,135	91,501

The net impact on Vote Environment of this Four-year Budget Plan is an increase of \$5 million per annum from 2011/12 onwards which represents a budget bid for non-departmental spending on a new Freshwater Remediation Fund.

The table below shows the other expenses within Vote Climate Change and Vote Environment which is primarily the issue of NZ Units as part of the ETS.

Votes Environment and Climate Change	Impact (\$000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Other Expenses	1,341,733	503,171	1,226,571	539,526	537,855
Multi – year appropriations	14,900	12,400	9,300	3,381	368

There are no significant changes to capital projects within Vote Climate Change and Vote Environment that need to be considered as part of the 2011 Budget.

Section 2: Vote Priorities and Pressures

2.1 Intended achievements

The Minister for the Environment's priorities for Vote Environment are:

- Improving New Zealand's freshwater management: Freshwater management (both allocation and management of quality) is vital to large sections of New Zealand's economy, including agriculture, tourism and electricity generation. It is also fundamental to the quality of life that New Zealanders enjoy. The Minister is jointly leading the development of the *New Start for Fresh Water Strategy* with the Minister of Agriculture. Over the next four years this will involve significant policy development and decision making, practice improvements, legislative change and implementation. The public debate started by the Land and Water Forum has created an excellent opportunity for significant improvement in the way freshwater is managed and therefore, the ability for New Zealand to derive significant economic benefit from this natural resource.
- Establishing the Environmental Protection Authority: The EPA will provide greater national leadership and enable timely decisions on critical infrastructure and other major resource consents. The EPA is currently operating as a statutory office within the Ministry but is expected to become a standalone Crown agency from 1 July 2011.
- Resource management reforms: The reforms are about ensuring New Zealand manages its resources more effectively and efficiently to deliver both economic and environmental benefits. The second phase of the reforms emphasises infrastructure and urban planning. These combined reforms will make New Zealand's cities more competitive, better designed, and more appealing places to live, and ensure the benefits of upcoming infrastructure development are maximised. Over the next four years the reforms will involve policy development and decision making, legislative change, and implementation including guidance and best practice material. The focus will then be on monitoring and evaluating the success of the reforms.
- Improving management of the Exclusive Economic Zone: It is necessary to manage New Zealand's marine resources more deliberately than the current situation, to ensure that both their environmental and economic potential is maximised. There are gaps in the regulatory system for New Zealand's EEZ, including no provision for environmental assessment and consenting of some activities. This creates uncertainty for investment in the development of resources and risks of poor environmental outcomes. Proposals for establishing a regulatory regime will be prepared for Cabinet; this will be followed by legislation and the development of regulations.
- Improving reporting of New Zealand's environmental performance: New Zealand is the only OECD country that does not require national level reporting about the state of the environment. That also means there is very limited mandatory and consistent collection of environmental statistics. The Ministry is undertaking the policy work to enable legislation to be introduced that provides for impartial and regular environmental performance reporting. Over time, this will ensure that there is a more robust picture of New Zealand's current and projected environmental performance, including social and economic perspectives. Upcoming steps will consider the options for providing a statutory basis to improve the assessment of New Zealand's environmental performance. Legislation will be developed in due course to reflect any amendment to the roles and functions of the Parliamentary Commissioner for the Environment and the Ministry.

- [2]

The Minister for the Environment's priorities for Vote Climate Change are:

- Operation of the Emissions Trading Scheme and ensuring it continues to be fit for purpose: The ETS is New Zealand's primary policy instrument for addressing climate change and providing an incentive to reduce greenhouse gas emissions. With legislation in place, the focus is on effective implementation of the Scheme and the statutory review of the Scheme that is required by the Climate Change Response Act by the end of 2011. The review will provide an opportunity to assess the operation and effectiveness of the Scheme, and to assess how it should evolve beyond 2012 in the context of international progress on climate change and domestic action by key trading partners. Legislation is likely to be required to implement any recommendations from the review.
- Ensuring that New Zealand constructively assists in achieving a successor agreement to the Kyoto Protocol on climate change: The first commitment period under the Kyoto Protocol is from 2008 to 2012. The international focus is now on what replaces the current rules at the end of this period. New Zealand needs to be engaged in the design of the rules that will affect its interests and to ensure that its target reflects a fair share with respect to costs to its economy in comparison with other nations.

2.2 Link to Government's priorities

Achieving the Minister's priorities links to the following Government priorities:

- Boosting infrastructure – Establishing the EPA will provide a more efficient resource management decision making regime for proposals of national significance, particularly applicable to infrastructure proposals. Resource management reforms over the next four years will focus on infrastructure and urban planning and will ensure that the benefits of upcoming infrastructure development are maximised and provide greater certainty for investors.
- Reforming regulations – Legislative and institutional reforms in the environmental sector will reduce red tape to provide a more enabling economy for people and businesses to develop, expand and increase their productivity, while protecting the environment. This includes the resource management reforms, improving New Zealand's freshwater management, improving management of the EEZ, and the establishment of the EPA.
- Encouraging business innovation and trade – Operating an efficient and affordable emissions and climate change framework and New Zealand doing its fair share will ensure the country is well placed to gain better access to resources, to develop its global markets and to maximise the benefits of free trade agreements. Reforms in the environmental sector, including the review of frameworks for managing the risks posed by chemical and biological hazards, will also assist with lifting some of the barriers to business innovation, thereby increasing the value of business to the economy.

- Better public services – The Ministry for the Environment is committed to doing its part to improve performance of the public sector. The Ministry is continuing to undertake a range of activities to ensure that it operates as effectively and efficiently as possible and that it lifts the quality of the services it provides, including policy advice. The Ministry is confident it will live within its existing baseline, including providing for the operation of functions transferring to the EPA.

2.3 Pressures and risks

There are a number of pressures facing Vote Environment and Vote Climate Change over the forecast period.

Managed within the existing baseline

1. Establishment and operation of the Environmental Protection Authority – The EPA will be established as a standalone agency from 1 July 2011. The Ministry is currently undertaking the detailed scoping and planning work to support the establishment process. At this point in time the estimated operational costs of the EPA both in its first year and beyond are still being developed. The Ministry will be in a better position to estimate costs in February/March 2011. [2]

There is some level of risk that the existing departmental and non-departmental appropriations that are intended to be transferred to fund the new Crown agency will be insufficient and a strategy will then be required to provide the required funding (refer to Section 3). The establishment costs for the EPA in the current 2010/11 year will also be able to be clarified in February/March next year. A factor that will affect the ongoing costs for the EPA stems from the extent to which it will be required to take on new roles, for example implementation and enforcement of upcoming EEZ legislation.

2. Contaminated sites remediation – The Ministry is responsible for providing support for the remediation of priority contaminated sites across the country on behalf of the Crown through government grants. The Ministry is currently working on a long-term risk-based strategy for investigating, prioritising and remediating orphan contaminated sites in New Zealand. In the short-term the priority is remediation of the high risk Tui Mine site near Te Aroha which is needed to reduce public health risks and improve the quality of water in the region. Given the high risk of the site, ceasing or scaling back the remediation may not be a viable option. Cabinet approved redirecting Crown funding within Vote Environment to the Tui Mine remediation in 2010 and directed negotiations with local government to find the balance of the projected shortfall in costs (now around \$5 million). A process for these negotiations has been put in place. If a shortfall continues to remain after the negotiations, and consideration of the Crown's contribution through the Ministry's baseline, a further discussion with Cabinet will be required.
3. Policy/implementation cycle – In managing its baseline going forward a key pressure for the Ministry is new or amended legislation that then requires implementation. This can require a high level of resource from the Ministry, that is as significant as the investment in policy development and legislation, until the new policy and legislation is embedded. The level of effort decreases as the Ministry's ongoing role becomes 'business as usual', for example implementation of the Waste Minimisation Act. Over the next four years it is expected that new policy and legislation will require a variable level of resourcing, for example current policy work on freshwater management, resource management reforms and the EEZ will be implemented over the medium term.

4. Statutory commitments – Another pressure for the Ministry in managing its baseline is its increasing number of statutory commitments that originate or are led from other areas of government. Two significant examples are Treaty of Waitangi settlements and free trade agreements. Treaty of Waitangi settlements are led by the Office of Treaty Settlements in the Ministry of Justice. The Ministry for the Environment has a contributing role during the negotiation period, to ensure the settlements are consistent with broader environmental policy, and then often has a major role in implementing the agreements related to natural resources and managing relationships, for example the Waikato River clean up and co-management/co-governance agreements. In a similar way, the Ministry contributes to the development and implementation of the environment cooperation agreements associated with free trade agreements, led by the Ministry of Foreign Affairs and Trade. These commitments require a varying amount of effort and resource over time and impact on the Ministry's ability to reprioritise its activities and resources.
5. Capability and capacity constraints – During 2010 the Ministry undertook a review of its policy function when it was identified that there was a need for significant change in order to build its capability to advise on strategic, complex policy issues and the institutions and frameworks for environmental management. The review was implemented from 1 July 2010 and the Ministry has now entered a period of rebuilding. A key component of implementing the review is building internal policy capability and decreasing the reliance on external contractors. This approach means that the Ministry's headcount is expected to grow towards 320 FTEs over the forecast period (excluding the FTEs that will transfer to the external EPA). It is expected that the rebuilding will take a number of years because of the market's limited capacity to provide the quantity of quality policy staff the Ministry requires, affected by the Ministry's reputation as a quality policy advisor also being re-established.

Outside the existing baseline

6. Addressing freshwater quality at the regional level - With water being one of the highest environmental priorities for the Government, and for the Minister for the Environment, there may be further regions where the Government may wish to get involved in assisting with solutions to address serious water quality issues. The Crown is already providing funding for improvement programmes for Lake Taupo, four priority Rotorua Lakes and more recently the Waikato River. There are, however, other regions of New Zealand where it is expected that water quality improvement programmes will be needed in the near future to address specific regional issues. The Minister has signaled that he wishes to seek funding through Budget 2011 to establish a Freshwater Remediation Fund to address such issues on behalf of the Crown. The Minister of Agriculture is working through the process to establish a package of funding for rural water infrastructure, focused on capital funding for new irrigation infrastructure. This new Freshwater Remediation Fund would be complementary to the irrigation infrastructure funding and should be seen as part of an overall package for freshwater management. Together with policy announcements around the regulatory environment governing water use and quality through a National Policy Statement and future work programme, funding for irrigation and remediation can form part of the Government's response to the Land and Water Forum. This balanced approach is consistent with the recommendations of the Forum, as is specifically moving forward with both the National Policy Statement and the Remediation Fund.

The Minister proposes that around \$5 million each year of new funding be made available for the new Fund. Over the past year steps have been taken to address

water management problems in Canterbury. [2]

7. Implementing improvements to freshwater management – Development of the overall policy package to improve freshwater management in New Zealand is continuing. The final package is likely to involve a mix of greater national direction, legislative change, changes to the way water management decisions are made by councils and greater use of economic instruments. [2]

Future consideration (outside the Votes)

8. Crown's purchasing strategy for carbon liability management – Another pressure the Ministry wishes to note that will have an impact for the Crown's accounts in the future is the purchasing strategy the Crown chooses for the first Commitment Period (2008 to 2012) and the long-term carbon liability management strategy it adopts. This matter will require addressing in due course but is considered to be outside the usual budget process and not a factor for consideration with the funding for Vote Environment and Vote Climate Change at this time.

Impact of the pressures

The pressures outlined above place a severe constraint on the Ministry in terms of its capacity to take on new areas of activity in the forecast period. The Ministry will continue to manage the pressures on its existing baseline by ensuring that it focuses its activities on Ministerial priorities. Notwithstanding this focus, it will not be possible for the Ministry to deliver the priorities any earlier, or more rapidly, or to take on any additional priorities, at least during the remainder of this term of government. The pressures that are predicted to arise outside the existing baseline will require consideration by Cabinet at the appropriate time in the future.

Section 3: Proposed Changes for Budget 2011 (Reprioritisation)

3.1 Achieving the priorities

Achieving the Minister's priorities is a multi-year programme of work for the Ministry that it will continue to deliver over the next four years. This means there are no additional priorities or areas of work that have not been previously signaled and significant reprioritisation has already been undertaken within Vote Environment and Vote Climate Change. The Ministry is committed to ensuring it delivers value for money and that it operates within its agreed baseline on an ongoing basis. Delivering on the Ministerial priorities is an ambitious programme for the Ministry; however, it is achievable despite the baseline considerations and the pressures that will need to be met over the forecast period.

As set out earlier in this Four-year Budget Plan, there are two areas that have notable change within the Minister's priorities, the establishment of the new EPA and improving reporting of New Zealand's environmental performance.

The EPA is currently operating as a statutory office within the Ministry for the Environment. From 1 July 2010 it will operate as a new standalone Crown agency. The new entity will include the functions of the existing statutory office as well as those of ERMA (which will cease to exist as a separate entity); in addition it will administer the ETS (incorporating functions currently undertaken by the Ministry and the Ministry of Economic Development) from 30 September 2011. The intention is to fund the new EPA from existing appropriations from the agencies that currently undertake the EPA's functions and reprioritisation within the Ministry. As identified in the previous section, however, there is a risk that this funding will be insufficient.

In the Minister's priorities for 2010 he signaled his intention to progress work on improving New Zealand's environmental reporting. It is one of his seven priorities for 2011. One of the principles that underpin the current Government's environmental policy platform is that good science is essential to quality environmental decision making. Improving our environmental reporting will contribute to this 'good science' through consistent, comprehensive and comparable datasets and statistics, and clear roles and responsibilities of central and local government and the Parliamentary Commissioner for the Environment. It will support open government by making good data freely available to public scrutiny. Once the expanded EPA is up and running the Minister will look to introduce a new Environmental Reporting Act. In 2011 the options for a statutory basis for environmental reporting will be considered and in 2012 the intention is to introduce legislation and progress it through Parliament. Activity in this environmental reporting area will be funded from reprioritisation within the existing baseline.

As part of the Minister's priority to improve New Zealand's freshwater management there is an opportunity for the Crown to establish a Freshwater Remediation Fund to provide new funding to address specific regional water quality issues. This would be part of a larger water management package, being developed with the Minister of Agriculture, which includes capital funding for new irrigation infrastructure. The Freshwater Remediation Fund would be complementary to the irrigation infrastructure funding and would form part of the Government's response to the Land and Water Forum. Accommodating the Fund within the Ministry's existing baseline is not possible and the Minister has therefore indicated he wishes to seek new funding of around \$5 million each year to establish a Freshwater Remediation Fund.

There are also some areas within the Minister's priorities where legislative change is likely to result in a need for consequential activities, functions or roles. Some legislative initiatives, such as the EEZ legislation that is already underway, will require a greater level of resourcing for subsequent regulation-making than was required for the primary

legislation. Such instances will be managed within the existing baseline and may trigger some reprioritisation within the relevant Vote.

The Ministry is currently working through a process to refresh its outcomes framework. The refreshed framework will clearly illustrate the impacts it is focused on achieving, i.e. the change or results it will be accountable for achieving over the next five to ten years. It will more clearly provide a transparent line of sight from government priorities to outcomes and impacts through to the outputs the Ministry will deliver to achieve the impacts, with each level having associated performance measures. To support the framework the Ministry will be seeking a review of the structure of the output classes within Vote Environment and Vote Climate Change to ensure they align with the Ministry's impacts and outputs. At the same time the output classes for the EPA Crown entity will be established. As part of the output class review it is hoped that there will be opportunities to consider greater use of multi-year appropriations, particularly for non-departmental expenditure that has a long-term focus, for example the remediation of contaminated sites and the issue of the purchase of NZ Units to manage the Crown's carbon liability. The result of both reviews will be greater clarity around what the Ministry is delivering and achieving for each of its appropriations.

3.2 Meeting the pressures

Key to managing the Ministry's baseline is recognition and understanding that while it has a flat baseline over the forecast period and beyond, the work programme and deliverables in themselves do not have a matching profile. This is primarily due to the different length and intensity of the implementation required. Also key is that the ability to reprioritise, in terms of phasing and timing, within the Votes is restricted by the increasing number of, and volume of resource required on, statutory commitments. This includes the Ministry's input into the negotiation and implementation of Treaty of Waitangi settlements and the negotiation and implementation of environment cooperation agreements associated with new and existing free trade agreements.

The Ministry expects to be able to manage within its forecast baseline with ongoing reprioritisation within the Votes for the types of variances that are expected to occur. The potential risks that may result in exceptions to this, however, are the pressures that have been identified around funding the new EPA and funding the shortfall for the Tui Mine remediation. To take on any other new or increased activities in the future, such as implementing the overall policy package to improve freshwater management in due course, will require new funding. This also applies to establishing the Freshwater Remediation Fund.

The Minister and the Ministry have already worked together to make changes that have increased the efficiency of the existing baseline. For example the establishment of the Community Environment Fund which has seen the merger of the Environment Centres Fund, the Sustainable Management Fund and the RMA Education and Advisory Fund. This reformed grant programme is more orderly and efficient. It will ensure the most economical gains are made from the funds available. It has also enabled funding to be redirected to the remediation of the Tui Mine, an area of risk for the Crown.

Current position

Over the last two years the Ministry has worked hard to gain a better understanding of the resources it requires to deliver its business. Analysis to date of its existing baseline has identified a saving of \$4 million in the current 2010/11 year. This has primarily resulted from generic expense transfers from previous financial years.

The Ministry's analysis has also identified a potential, albeit much smaller, saving in 2011/12. This has resulted from instances where appropriations were given for new areas of work that had significant establishment costs. Such areas of work are now well

embedded and the 'business as usual' ongoing operational costs are lower than the establishment costs. This potentially creates a saving in 2011/12 because appropriations were set on an ongoing basis at the establishment costs level, for example, the funding for the development and administration of the Waste Minimisation Act set by the previous government. The potential saving in 2011/12 is much smaller than in 2010/11 because of the reprioritisation to partially fund [2] of the on-going operational costs of the standalone EPA.

It is unlikely that there will be savings in the Ministry's baseline beyond 2011/12. This is because increased funding may be required for operating the EPA, or to go towards new implementation areas such as the policy package for improving freshwater management. During the forecast period it is likely additional funding will be required in this area but this cannot be quantified until decisions are made on the final policy package.

Over the next few months the Ministry will continue to refine its analysis of its expenditure and baseline for the current year and the upcoming four years. A key focus of this work will be developing a more certain expenditure profile of both the establishment of the standalone EPA and the ongoing operating costs. Greater clarity will be provided in February/March 2011 and the total level of savings in 2010/11 will be identified at this time.

Strategy

Given the uncertainties that exist at this time around the establishment (2010/11) and ongoing operational (2011/12 onwards) costs of the EPA, the potential funding shortfall for the Tui Mine remediation, and given the saving of \$4 million that has already been identified in the Ministry's 2010/11 baseline, the following strategy is proposed:

- A one-off reprioritisation in Vote Environment of \$2.5 million from 2010/11 departmental funding to the non-departmental output class 'Contaminated Sites Remediation Fund' for Tui Mine remediation. The negotiations underway with local government are on the basis that 50 per cent of the outstanding costs of around \$5 million will be met by the Crown and 50 per cent by local government. At the conclusion of the negotiations approval will be sought from Cabinet for the reprioritisation, subject to local government being able to meet the other 50 per cent of the shortfall. If the negotiations are not successful direction will be sought from Cabinet on how the matter should be managed from that point.
- Retention of the remainder of the 2010/11 savings within Vote Environment at this time so that they can be applied to any shortfall in establishment costs for the EPA. When clarity on EPA requirements is reached in February/March 2011, any 2010/11 residual funding will be returned to the core. Timing of expenditure for some of the large one-off establishment costs may mean that an expense transfer for the EPA may be required from 2010/11 to 2011/12 (for example fit-out of a building).
- Retention of any savings identified in 2011/12 within the 2011/12 baseline as a whole and to redirect them to the EPA, if they are required, to manage the risk around any funding shortfall for the on-going operation of the EPA. Clarity on the funding for the EPA will be provided in February/March 2011 and any residual funding returned to the core.

This approach means that all of the pressures related to current activities can be managed within the existing baseline and the baseline balances across the forecast period.

As a result the Ministry will not be seeking any generic in-principle transfers from the Ministry's 2010/11 baseline into future years. While a number of generic expense

transfers have been made in recent years it is expected that this practice will no longer be needed within Vote Environment and Vote Climate Change, except in exceptional circumstances for specific deliverables that have been delayed. A possible future example would be the development of National Environmental Standards, and a current possibility is a transfer for EPA establishment costs as identified above.

Going forward

Over the last two years the Ministry has increasingly narrowed its work programme to ensure it is focused on delivering Ministerial priorities, which align to the Government's strategic direction and priorities. As a result it is considered that the Ministry's alignment with government priorities is such that no further work programmes should be stopped from 2011/12. The Ministry will continue its work to manage the pressures it faces over the next few years and to reprioritise and scale back activities within the Votes as necessary to achieve the priorities. Given that uncertainties continue to exist in a number of areas, including the costs of the EPA, ongoing monitoring of expenditure will identify further reprioritisation that may be necessary during the next four years to ensure that essential work is delivered.