



## PROACTIVE RELEASE COVERSHEET

<b>Minister</b>	Hon Simon Watts	<b>Portfolio</b>	Adaptation
<b>Name of package</b>	Progressing an adaptation framework	<b>Date to be published</b>	10 May 2024

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
15 April 2024	CAB-400 Progressing an adaptation framework	Ministry for the Environment
15 April 2024	CAB-400 Progressing an adaptation framework (Appendix A – Draft Terms of Reference for the Finance and Expenditure Committee inquiry into adaptation)	Ministry for the Environment
15 April 2024	ECO-24-MIN-0058 – Cabinet Minute of Decision	Cabinet Office

### Information redacted **YES**

Any information redacted in this document is redacted in accordance with the Ministry for the Environment's policy on proactive release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

### Summary of reasons for redaction

Some information has been withheld from the above documents to maintain the confidentiality of advice tendered by Ministers of the Crown and officials.

## Policy and Privacy

### In-Confidence

Office of the Minister of Climate Change

ECO - Cabinet Economic Policy Committee

## Progressing an adaptation framework

### Proposal

1. I seek Cabinet's agreement to initiate work to develop an adaptation framework. To establish this work, I seek Cabinet's agreement in principle to the proposed purpose, high-level objectives and scope outlined in this paper.
2. I also seek agreement to introduce a motion in the House to task the Finance and Expenditure Committee (FEC) with carrying out an inquiry into adaptation and to transfer the submissions from the Environment Committee's inquiry into climate adaptation to the FEC inquiry.

### Relation to Government priorities

3. Work on the adaptation framework will support several key Government priorities including:
  - 3.1. growth and fiscal responsibility through supporting well-functioning insurance, financial and property markets, and appropriately bounding government's fiscal exposure and spending
  - 3.2. infrastructure investment, through providing clarity to infrastructure operators
  - 3.3. resource management and emergency management reform, through clarifying roles and responsibilities of local government
  - 3.4. housing, by enabling efficient market functioning through having hazard risk information.

### Executive Summary

4. Climate change causes rising sea levels and increases the likelihood of extreme weather. As a result, property owners face increasing risks of climate-related losses due to inundation and soil erosion in some areas.<sup>1</sup> Insurers are also concerned at the rising losses attributable to climate change and are looking for leadership to reduce risk.<sup>2</sup>

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<sup>1</sup> 750,000 New Zealanders, and 500,000 buildings worth over \$145 billion are near rivers and in coastal areas already exposed to extreme flooding (Ministry for the Environment & Stats NZ, 2023)

<sup>2</sup> 30% of damages from the 12 worst flood events in New Zealand from 2007-2017 were directly attributable to climate change (Frame et al, 2020).

5. Investments to protect individual properties or groups of properties (eg, with sea walls) and managed retreat reduce losses. Better information about risks and responses will also support individuals and businesses to make their own decisions (including buyer beware).
6. Responsibilities and decision making are currently fragmented and leave significant challenges, including after a disaster occurs. If New Zealand does not address these issues, it is likely to mean a significant increase in costs, challenges to fiscal sustainability and substantial financial and non-financial impacts on individuals.
7. We need to establish an enduring and joined-up approach to adaptation based on clear guiding principles. Developing those principles is my first priority for the adaptation framework. Once developed, I will consider whether legislation is needed so that the principles guide future decisions on adaptation.
8. To turn principles into reality, clearer leadership and responsibilities will also be needed.
9. The approach will need to support well-functioning markets, incentivise appropriate investment in risk reduction, and provide a more affordable approach than the status quo.
10. I am seeking Cabinet's agreement in principle to the following objectives to guide work to deliver the adaptation framework:
  - 10.1. minimise expected long-term costs
  - 10.2. ensure responses and funding support to property owners, if any, are predictable, principled, fair and rules-based wherever possible (ie, not decided after each event)
  - 10.3. improve climate risk and response information flows
  - 10.4. address market failures and support market efficiency
  - 10.5. people have the incentive and ability to manage risk.
11. 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.
12. For this approach to endure over time, a broad consensus for New Zealand's framework for adaptation is necessary. I propose this work is taken forward with input from the proposed FEC inquiry and relevant experts comprised from industry.

## Background

13. 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.
14. 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.
15. There are a number of existing flaws in our systems which climate change will exacerbate. These include:
  - 15.1. strong incentives for development in at-risk areas with insufficient support for comprehensive consideration of all adaptation options
  - 15.2. uncertainty about roles and responsibilities, particularly who pays for a variety of costs, exacerbated by under-investment due to council affordability issues
  - 15.3. insufficient and inefficient distribution and use of risk information.
16. 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:
  - 16.1. a hands-off approach from government and buyer beware
  - 16.2. enablement or facilitation of investment to protect assets
  - 16.3. using building techniques and other tools to manage risk in at-risk areas
  - 16.4. stopping new development on high-risk land where the risk cannot be sufficiently managed
  - 16.5. managed retreat.
17. 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.
18. 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.

19. 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.
20. In practice, many adaptation decisions will be taken locally, with councils having a primary role in decision-making at the local level.
21. 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.

**Agreeing the Government's core objectives and scope for the adaptation framework**

22. 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.
23. 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.
24. 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.
25. I propose the following objectives guide the work to develop the adaptation framework and any subsequent work needed to implement the framework:

Objective	Explanation
Minimise expected long-term costs	Minimise the total cost to the Crown and society from the impacts of natural hazards on where people live and work and the associated infrastructure. This will include managing the Crown's fiscal exposure.
Ensure responses and funding support to property owners, if any, are predictable, principled, fair, and rules-based wherever possible (ie, not decided after each event)	Give as much clarity and certainty to New Zealanders about the Government's response to adaptation challenges and the roles of insurers, local government and other groups.

Improve climate risk and response information flows	Increase consistency and access to quality hazard and risk information to support sound decision making.
Address market failures and support market efficiency	Contribute to maintaining effective and efficient housing, financial and insurance markets. Focus on areas where there is market failure but empower individuals and communities by taking a decentralised rather than top-down approach.
People have the incentive and the ability to manage risk	Central government should focus on ensuring others have the incentive and ability to reduce risk where they can. Decisions and resourcing for adaptation should sit at the lowest level that internalises costs. This will encourage a more efficient response and reduce moral hazard created when individuals or groups do not face the downside risk of their own decisions. At the same time, this objective allows for interventions to alleviate equity or undue hardship where necessary.

26. 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.
27. I propose that Cabinet agree in principle to the above objectives, noting that the select committee may choose to make recommendations regarding the objectives of an adaptation framework.

### Scope and delivery of the adaptation framework

28. I propose that the adaptation framework focuses on where people live and work and the associated infrastructure (including future development).
29. As a default, work on the framework will cover all types of natural hazards. I am open to advice on where elements of the framework may need to be hazard specific. Different risks will have different risk management options.
30. The framework should provide decision-making principles to guide:
  - 30.1. proactive actions to reduce risks before a major event occurs;
  - 30.2. longer-term recovery decisions (ie, not emergency responses) following a major severe event.
31. The framework should be developed through the following four workstreams:

Workstream	Explanation
Principles for investment in	Communities and businesses need to know what investment will happen in their areas, for example, whether

risk response	<p>the council will build flood protection infrastructure.</p> <p>This workstream will support consideration of investments across the full spectrum of risk reduction options, including both government infrastructure investment (and how this is signalled to the public) and local infrastructure investment.</p>
Principles for cost-sharing pre- and post-event	<p>This will set out what the Government's approach is to the sharing of costs from future natural hazard risk, particularly addressing the uncertainty of what will be available to assist property owners with recovery from an event or take action in an affected area before or after a natural hazard event occurs.</p>
Roles and responsibilities	<p>This will look at how the principles need to be implemented and decisions made. This includes by identifying and using, and potentially amending, clarifying or strengthening, roles and responsibilities under existing systems, including the Civil Defence Emergency Management Act 2002, Local Government Act 2002, Soil Conservation and Rivers Control Act 1941 and Resource Management Act 1991 (RMA).</p>
Risk and response information sharing	<p>This will examine how hazard risk and response information can be better shared so that property owners, insurers, financial markets, and councils can make more informed decisions about their appetite for and management of risk. It will focus on key blockages in the system government can address.</p>

### Key linkages with other work programmes

32. The adaptation framework work programme has linkages with other work programmes led by other Ministers, including:
  - 32.1. Local Water Done Well
  - 32.2. Resource Management Reform
  - 32.3. Emergency management system improvements, including recovery settings
  - 32.4. Critical Infrastructure Resilience work programme
  - 32.5. Going for Housing Growth work programme
  - 32.6. OIA s9(2)(f)(iv)
  - 32.7. RMA instruments such as the National Policy Statement on Natural Hazard Decision-Making
  - 32.8. Reform of the building consent system.

33. To be clear, I do not propose that these work programmes are 'in scope' of the above workstreams, or that work on the framework will cut across these programmes. An adaptation framework is meant to fill gaps not filled by the above work programmes.
34. The adaptation framework will be most successful if progress is made in the above work programmes. In particular, the National Policy Statement on Natural Hazard Decision-Making is a top priority as it will support better consideration of climate risk in decisions on new urban development, while achieving housing goals.
35. I will work with the Ministers responsible for the work programmes outlined above to:
- 35.1. align objectives as far as possible
  - 35.2. manage trade-offs through appropriate governance arrangements such as regular meetings, bilaterals or the Climate Priorities Ministerial Group
  - 35.3. provide any relevant adaptation matters for consideration in those work programmes that may arise during the development of the framework.
36. OIA s9(2)(f)(iv)
37. I will consider the recommendations of the proposed select committee inquiry and input from relevant experts comprised from industry as to how the framework is delivered and implemented, and consult with my Ministerial colleagues on any recommendations that cover matters for other portfolios.

### **Establishing a Finance and Expenditure Committee inquiry into adaptation**

38. For this approach to endure over time, broad consensus for New Zealand's framework for adaptation is necessary. A select committee inquiry into adaptation will allow for public and cross-party consultation and consensus building.
39. On 15 February 2024 the Cabinet Legislation Committee agreed in principle to support a motion in the House to establish an ad hoc Select Committee to lead an inquiry into adaptation, subject to consultation with the Speaker, the Business Committee, the Clerk of the House, and all Parliamentary parties [CAB-24-MIN-0037 refers].
40. Having undertaken that consultation, I consider it to be a more efficient use of Parliamentary resources to utilise an existing Committee which has representation from all parliamentary parties and whose responsibility more closely aligns with the focus of the adaptation framework, namely the Finance



and Expenditure Committee (FEC), which has experience with fiscal expenditure and management of natural hazards.

41. I now seek agreement from Cabinet to lodge a notice of motion, in consultation with the Leader of the House, to debate the commencement of an inquiry into adaptation by the FEC and the transfer of submissions to the FEC from the Environment Committee inquiry into climate adaptation.
42. I propose that the inquiry commences in quarter two of 2024 and would inquire into and produce recommendations for:
  - 42.1. an agreed description of the nature of the adaptation problem New Zealand faces
  - 42.2. the proposed purpose and overarching principles that would guide decision-making on the following focus areas:
    - 42.2.1. principles for investment in risk response
    - 42.2.2. principles for cost-sharing pre- and post-event
    - 42.2.3. roles and responsibilities
    - 42.2.4. risk and response information sharing
    - 42.2.5. any other matters to be considered in addressing the problem the FEC has identified.
43. The FEC would provide an interim report in July 2024 and a final report in September 2024.
44. I propose that the notice of motion would include:
  - 44.1. tasking the FEC with commencing the required inquiry, including the draft Terms of Reference (Appendix A) which would govern the inquiry
  - 44.2. transferring the submissions from the Environment Committee inquiry into climate adaptation to the FEC.
45. The draft Terms of Reference (Appendix A) are more targeted than those set for the Environment Committee's inquiry into adaptation. This approach will ensure the findings of the inquiry are aligned with the purpose of the adaptation framework. I expect the FEC will provide an interim and final report based on the Terms of Reference.
46. I also propose to provide the FEC with the 2023 Report of the Māori Affairs Committee on Māori climate adaptation as part of their initial briefing.

### **Timeframes**

47. Appendix B outlines the indicative timeline for development of the adaptation framework.

48. OIA s9(2)(f)(iv)

[REDACTED]

[REDACTED]

[REDACTED]

### **Cost-of-living Implications**

49. 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.
50. The costs of these measures will be dependent on system design choices. This includes the potential for proactive adaptation measures to reduce risk and future recovery costs, which may have flow on effects to the cost-of-living depending on the approach ultimately taken.

### **Financial Implications**

51. This paper does not have financial implications.

### **Legislative Implications**

52. OIA s9(2)(f)(iv)

[REDACTED]

### **Impact Analysis**

#### *Regulatory Impact Statement*

53. A regulatory impact statement is not required for this paper.

#### *Climate Implications of Policy Assessment*

54. A Climate Implications of Policy Assessment is not required for this paper.

### **Te Tiriti o Waitangi Implications**

55. Land and other cultural assets and infrastructure held by iwi, hapū and Māori communities are disproportionately located in areas vulnerable to climate impacts and natural hazards. Specific considerations for Māori land and other cultural assets and infrastructure will enable the development of policy options that should assist in mitigating the vulnerabilities Māori face from climate impacts. Specific vulnerabilities include the increased likelihood of Māori to live in rural, remote and low-income areas and have poorer health, housing

and other outcomes, all of which lower adaptive capacity to manage these risks.

56. The recent severe weather events have emphasised the important role of local Māori cultural infrastructure, such as marae, for providing support for entire communities (not only iwi, hapū and Māori). Additionally, Māori hold important locally based mātauranga which supports understanding risks and appropriate adaptation measures.
57. A full assessment of Tiriti implications based on policy proposals will be undertaken to enable robust policy advice and well-informed final policy decisions, 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**

58. The proposals in this paper do not have population implications. However, not adapting or maladapting will have significant population implications. By taking deliberate action, we increase the likelihood of better outcomes, in particular for those groups who are more vulnerable to climate impacts including iwi/hapū Māori, rural communities, people with disabilities and communities that are exposed to multiple or high levels of natural hazard risks.

### **Human Rights**

59. Proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

### **Use of External Resources**

60. No external resources were used in preparing the advice reflected in this paper.

### **Consultation**

61. Public engagement on adaptation will occur through the select committee inquiry. The Ministry for the Environment will also undertake targeted engagement with Treaty partners, local government and industry stakeholders such as the Insurance Council of New Zealand throughout the policy development process.
62. I have also consulted with the Speaker, the Business Committee, the Clerk of the House, the Leader of the House, and other political parties on the select committee element of my proposal.
63. 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 Chief Executives Board and The Treasury were consulted on this Cabinet paper. The Policy Advisory Group (Department of Prime Minister and Cabinet) were also informed.

64. Wherever possible, feedback from agencies and Ministers has been reflected in this paper. However, several agencies and some Ministers requested additional clarity on the workstreams or additions to their scope. Some requested more specifics around deliverables of the framework and clarification of the phasing and staging for the work. Changes have not been made to this paper in that regard for two main reasons:
- 64.1. the scope must remain manageable in order to ensure real progress is made on such complex issues;
  - 64.2. the intention is for the work to evolve and be built on over time, influenced by the select committee process.
65. Officials from the Ministry for the Environment will continue to work closely with relevant agencies as this work progresses, and I will update the Climate Priorities Ministerial Group throughout the process.

### **Communications**

66. Communicating publicly about our approach to adaptation is important to build confidence amongst property owners, communities, councils, insurers and the global reinsurance market that New Zealand is addressing these challenges, and to send a signal that the current post-event arrangements should not be seen as a precedent.
67. 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**

68. I intend to proactively release this paper on the Ministry for the Environment's website subject to redaction as appropriate under the Official Information Act 1982.

## Recommendations

The Minister of Climate Change recommends that the Committee:

### *Adaptation framework*

1. **agree** to initiate work to develop an adaptation framework that is enduring, joined-up, and based on clear guiding principles;
2. **agree in principle** that the objectives of the adaptation framework are to:
  - 2.1. minimise expected long-term costs;
  - 2.2. ensure responses and funding support to property owners, if any, are predictable, principled, fair, and rules-based wherever possible (ie, not decided after each event);
  - 2.3. improve climate risk and response information flows;
  - 2.4. address market failures and support market efficiency;
  - 2.5. people have the incentive and ability to manage risk;
3. **agree** that the following areas are in scope of the adaptation framework:
  - 3.1. where people live and work and the associated infrastructure (including future development);
  - 3.2. all types of natural hazards as a default;
4. **agree** that developing the adaptation framework will include the following workstreams:
  - 4.1. principles for investment in risk response
  - 4.2. principles for cost-sharing pre- and post-event;
  - 4.3. roles and responsibilities;
  - 4.4. risk and response information sharing;
5. **invite** the Minister of Climate Change to work with Ministers responsible for work programmes on Local Water Done Well, resource management reform, emergency management system improvements (including recovery settings), Critical Infrastructure Resilience work programme, Regional Infrastructure Fund, Going for Housing Growth work programme, RMA instruments such as the National Policy Statement on Natural Hazard Decision-Making, and the building consent system, to:
  - 5.1. align objectives as far as possible;

- 5.2. manage trade-offs through appropriate governance arrangements such as regular meetings, bilaterals or the Climate Priorities Ministerial Group;
- 5.3. provide any relevant adaptation matters for consideration in those work programmes that may arise during the development of the framework;

*Select Committee*

6. **note** that on 15 February 2024 the Cabinet Legislation Committee agreed in principle to support a motion in the House to establish an ad hoc Select Committee to lead an inquiry into climate adaptation, subject to consultation with the Speaker, the Business Committee, the Clerk of the House, and all Parliamentary parties [CAB-24-MIN-0037 refers];
7. **note** that the Minister of Climate Change has consulted with the Leader of the House, other parties and the Clerk of the House on the proposal to establish an ad hoc Select Committee and that this paper fulfils the report-back requested by the Cabinet Legislation Committee;
8. **agree** to support a motion in the House that the Finance and Expenditure Select Committee (FEC) leads an inquiry into climate adaptation and that the current Environment Committee inquiry on climate adaptation including the submissions of this inquiry should be transferred to the FEC;
9. **agree** that the motion will include an instruction to the FEC to commence an inquiry into the adaptation framework, informed by the draft terms in Appendix A;
10. **note** that the motion will also include an instruction for the Environment Committee to cease their inquiry into climate adaptation at the commencement of the FEC inquiry;
11. **authorise** the Minister of Climate Change, after consultation with the Leader of the House and any other necessary consultation across the House, to finalise and lodge a motion in line with these decisions;

*Consultation*

12. **note** that public engagement on adaptation will occur through the select committee inquiry. The Ministry for the Environment will also undertake targeted engagement with Treaty partners, local government and industry stakeholders.

Authorised for lodgement

Hon Minister Watts


Minister of Climate Change

## **Appendix A – Draft Terms of Reference for the Finance and Expenditure Committee inquiry into adaptation**

1. Inquire into and produce recommendations for:
  - a. an agreed description of the nature of the climate adaptation problem New Zealand faces;
  - b. proposed purpose and overarching principles that would guide decision-making on the following focus areas:
    - i. investment framework for risk response
    - ii. cost sharing framework for pre-and post-event
    - iii. roles and responsibilities
    - iv. climate risk and response information sharing
    - v. any other matters to be considered in addressing the problem the Committee has identified.
2. The Committee will:
  - a. commence its inquiry in early May 2024
  - b. deliver an interim report of their findings to the House at the beginning of July 2024 focusing on the purpose, overarching principles and which of the focus areas (listed in 1b) should be progressed in climate adaptation legislation
  - c. deliver a final report on their findings to the House by the end of September 2024
  - d. consider the submissions to the Environment Select Committee and include a summary of these submissions in the interim report.

## Appendix B: Indicative timeframes for the Adaptation Framework

OIA s9(2)(f)(iv)



OIA s9(2)(f)(iv)

