

// **SUBMISSION**



INQUIRY INTO CLIMATE ADAPTATION

// Local Government New Zealand's submission

// June 2024



Ko Tātou LGNZ.

LGNZ champions, connects and supports local government. We represent the national interests of councils. Our aim is for New Zealand to be the most active and inclusive local democracy in the world.

Introduction

Local Government New Zealand (LGNZ) welcomes the opportunity to submit on the Inquiry into climate adaptation (the Inquiry). This submission supplements our submission on the earlier Inquiry into community-led retreat, which set out the need for local and central government to work together to create an enduring framework for climate adaptation and planned retreat, including national direction for risk assessments and funding. We also encouraged the Committee to develop a more appropriate term than 'community-led retreat', we propose that a term such as 'proactive relocation' may more positively reflect the forward-thinking nature of the process.

Local government is at the frontline of climate change adaptation. Councils are responsible for assessing and responding to natural hazards and climate change risks through environmental and land-use planning. Councils also have responsibilities under the Civil Defence Emergency Management Act 2002 to support their communities in responding to and recovering from emergency events. In the face of increasing severe weather events, councils bear the brunt of failing infrastructure and some have had to compensate property owners for the impacts of those events.

LGNZ is pleased to see this Inquiry advanced with cross-party support. We believe that the Finance and Expenditure Committee is the right forum for the Inquiry, given the important funding and financing considerations central to climate adaptation. Having a clear framework that provides certainty and clarifies roles and responsibilities, including responsibility for funding, is critical so that councils, communities and businesses can plan and invest accordingly. We encourage the Government to continue this crossbench approach to developing long-term climate adaptation arrangements to provide New Zealanders with certainty.

Councils and communities are best placed to determine the adaptation options that will work most effectively in their unique place, but the Government needs to enable them with the right tools and framework. We look forward to engaging with this Inquiry to deliver these. In implementing the findings from this Inquiry, and as policy options are developed and tested, the Government must work closely with local government, which has strong and established partnerships with local iwi, businesses and other parts of its community.

Our key points

Our submission sets out the key things we would like to see reflected in the objectives and principles for the design of a climate change adaptation framework, and how we'd like to work with the Finance and Expenditure Committee and the Government on this. This submission builds on our earlier submission on the Inquiry into Community-lead Retreat.

The Committee should address planned retreat

- Planned retreat is closely related to the areas for consideration set out in the Inquiry terms of reference and is one of the core challenges confronting councils and communities. An objective of this Inquiry should be to provide for the enablement of planned retreat (albeit as a last resort option), including clear frameworks for investment and cost-sharing, roles and responsibilities.

Integrating adaptation and land-use planning

- New Zealand needs a strategic, long-term planning approach that joins up central and local government decision-making to address climate adaptation needs. Integrating adaptation planning with other land-use and placemaking decisions and plans will be necessary. We encourage the Government to develop new resource management laws alongside the climate change adaptation model for New Zealand and in collaboration with local government.

Objectives and principles for New Zealand's adaptation model

- We support the principles and objectives set out in the Report of the Expert Working Group on Managed Retreat, and in addition we want to see included:
 - The additional principles of localism, partnership, beneficiary pays, and equalisation
 - The additional objectives of an appropriate distribution of costs and liability, national consistency and integration, and reduced moral hazard.

Our submission

The Committee should address planned retreat

Planned retreat is intimately related to the areas set out in the Inquiry terms of reference and one of the key challenges councils and communities are grappling with. Recent estimates suggest that more than 282,00 homes (with an estimated replacement value of more than \$213 billion) are in flood hazard areas¹. In addition, a rise in sea level could put over 125,000 homes and buildings valued at \$38 billion at risk². Responding to these climate change impacts will significantly impact people's livelihoods and social wellbeing. Communities need to be engaged in the process and provided with opportunities to articulate their desires and preferences.

We note that while the terms of reference require the Committee to take account of submissions received by the Environment Committee on its recent inquiry into community-led retreat, retreat is not explicitly included in the terms of reference for the Inquiry. Although councils' preference is that planned retreat is a last-resort option, an objective of this Inquiry should be to provide for the enablement of planned retreat, including clear frameworks for investment and cost-sharing, roles and responsibilities, and incentives for people and organisations to begin adapting now.

Some councils have already started planning for adaptation and retreat where their communities have experienced multiple severe weather events or are exposed to high levels of risk. However, the current patchwork of legislative and regulatory powers and responsibilities is challenging to navigate and missing key elements. Central government must provide local government with the necessary tools to enable planned retreat, including national direction, strategic spatial plans, and new legislation and powers of acquisition.

We know that the Government is committed to introducing new resource management legislation based on the enjoyment of property rights. How this concept integrates with planned retreat needs consideration, and so we recommend that the Government advance its work on developing a new resource management system in conjunction with developing a framework for planned retreat so that the new system can be effectively integrated. Ensuring that any adaptation model sets out clear rights and responsibilities for planned retreat will mean that homeowners and businesses can continue enjoying their property without the threat of ad hoc or uncompensated expropriation of their property rights. Without a transparent compensation system and defined financial responsibilities, individuals and communities will be left to face compounding financial and wellbeing stresses.

The Inquiry should also seek to address moral hazards inherent in this system. Moral hazards may occur when arrangements motivate individuals to buy properties in hazardous areas because they predict they will be compensated for any losses that materialise from their increased risk. Moral

¹ Paulik R, Zorn C, Wotherspoon L, Sturman J. 2023 Modelling national residential building exposure to flooding hazards. *International Journal of Disaster Risk Reduction*, 94.

² Boston J. 2023. *Funding Managed Retreat*, 13.

hazard behaviours increase the cost of climate adaptation and go against the principle of fairness. These behaviours can be mitigated by making publicly funded support conditional and by using anticipatory spatial planning. However, when hazard zones are updated, councils often face costly legal challenges from interested parties who may be impacted by decreased property values and increased insurance costs. Central government should enable councils to make appropriate land-use planning and infrastructure investment decisions to mitigate climate and moral hazard risks by establishing and strengthening legal frameworks – to reduce the risk of legal challenge.

Further comment from LGNZ on enabling planned retreat can be found in our earlier submission on the Inquiry into community-led retreat.

Integrating adaptation and land-use planning

Since our submission to the Environment Committee, the Spatial Planning and Natural Built Environments Acts have been repealed, and the Government has announced it will replace the Resource Management Act with new resource management laws. We encourage the Government to develop new resource management laws alongside the climate change adaptation model for New Zealand and in collaboration with local government to effectively manage development and land use, build resilience, and enable adaptive pathways in the face of climate change impacts. In the interim, national direction that guides key aspects of the planning process, such as risk prioritisation and estimating the costs and benefits of different adaptation pathways, would be useful.

New Zealand needs a strategic, long-term planning approach that joins up central and local government decision-making to address climate adaptation needs. Integrating local adaptation planning with other land-use and placemaking decisions and plans will be necessary. LGNZ is a strong advocate for statutory spatial planning that would enable this integration and alignment. This would see central and local government and third parties such as infrastructure providers agree on shared priorities for regions, areas for growth and areas to avoid development in (for example, due to natural hazard risks), and infrastructure and investment needs.

We need to ensure that appropriate systems are available to manage community assets throughout relocation processes and to ensure people maintain access to social services once the decision to retreat has been made. It will be essential that appropriate support and investment is provided to relocate property and infrastructure services from high-risk areas. We strongly encourage the Committee to ensure local adaptation plans are well integrated with existing land use, infrastructure, and development processes to ensure an efficient and cost-effective approach to reducing risk.

Land use planning decisions have a direct impact on a community's level of risk. If high-risk land isn't zoned for development or use, the impact on people and buildings will be avoided. Land use and spatial planning frameworks must enable the development of infrastructure necessary to support relocation and the development of land needed to achieve community relocation.

Objectives and principles for New Zealand's adaptation model

We agree with the principles and objectives for New Zealand's adaptation model set out in the Report of the Expert Working Group on Managed Retreat. In addition, we believe the following principles and objectives should guide the design of a climate adaptation model for New Zealand.

Additional principles

Localism

Councils and communities are uniquely placed to determine the adaptation options that will work best in their place. Planning for relocation will only be successful if communities are brought along and have influence over decisions. Communities need to be engaged in the process and provided with opportunities to articulate their desires and preferences. There may be a place for using new and innovative engagement techniques like participatory democracy to better capture local views and preferences. Furthermore, new funding and financing tools and special powers for local government will be necessary to support locally led climate adaptation.

Partnership

A strong partnership between local and central government will support both tiers of government to achieve more for their communities. Bringing local government's voice to the table will enable central government to benefit from councils' strong and established partnerships with local iwi, businesses and other parts of their communities, as policy options are developed and tested.

City and regional deals should provide the foundation for strong partnerships between central and local government by creating long-term alignment on outcomes that local communities want and providing access to new funding and financing tools. LGNZ has also set out what a relationship reset between local and central government in New Zealand could look like as part of our [Relationship Reset Agreement](#).

Beneficiary pays

The principle of "beneficiary pays" is appropriate to guide some funding decisions. This approach encourages property owners to invest in climate adaptation and, by acknowledging that they are best placed to understand their properties' value and needs, enhances the principle of subsidiarity. It also minimises the risk of moral hazard by ensuring that property owners have an interest in risk reduction. A clear adaptation and retreat framework that provides certainty and clarifies roles and responsibilities, including responsibility for funding, is critical so that councils, communities and businesses can plan and invest accordingly.

Equalisation

There will be affordability issues for councils and low-income communities that cannot meet the costs of adaptation alone, which, when coupled with uncertainty around central government contributions and a lack of clear decision-making processes, can delay long-term investment. In some cases, central government funding support to resource adequate climate adaptation measures for these communities will be necessary and would be consistent with the principle of equalisation.

Additional objectives

An appropriate distribution of costs and liability

The increasing number of roles and duties that central government has delegated to councils over time has placed funding pressures on local government. For many of these activities, there are legal barriers to cost recovery, and for others, central government has failed to acknowledge associated national benefits by providing direct funding – as a result, these are unfunded mandates.

An objective of the climate change framework should be to ensure that where costs or responsibilities are passed on to councils, they should be provided with a means to fund them. To support this, we want central government to commit to using Regulatory Impact Statements to specifically quantify the costs of its policy decisions for councils.

National consistency and integration

We support a nationally consistent but locally led approach to adaptation planning, with national direction on risk prioritisation, adaptation options and the approach to estimating the costs and benefits of different adaptation pathways.

The adaptation framework must better enable integration of local adaptation planning with other land-use and placemaking decisions and planning – ensuring that appropriate processes are available to manage community assets throughout the relocation processes.

The institutional arrangements of organisations involved in adaptation, emergency response and recovery can be unclear, causing difficulties for local government and communities to engage with them. A lack of coordination between key organisations is also evident. The objective of the adaptation inquiry should be to clarify organisational roles and responsibilities and improve coordination.

Minimise moral hazard

Moral hazards will occur when property owners are not incentivised to guard against climate change risks because they are shielded from the costs. Central government should establish and strengthen legal frameworks to enable councils to make appropriate land-use planning and infrastructure investment decisions to mitigate climate and moral hazard risks.