

## Appendix 2. Overview of agency functions, responsibilities, and governance model

### *Functions of the pricing system*

1. To support implementation agencies to plan and prepare for their roles and functions in the immediate future, it is proposed that Cabinet agrees to nominating the agencies who will carry out particular functions. This is considered necessary in order to support delivery of the pricing system by 2025.
2. The proposed responsibilities for the different function across the three agencies are outlined below:
  - 2.1. MfE and MPI are jointly responsible for:
    - 2.1.1. governance and system stewardship (including system monitoring, review, and evaluation against emission targets and budgets and wider socio-economic considerations);
    - 2.1.2. system policy settings including setting and updating levy prices, categories of sequestration and mitigations incentive and rates for reward, and the revenue recycling strategy);
    - 2.1.3. emissions calculation methodology, data interoperability considerations, and standards, and;
    - 2.1.4. system reporting and publishing.
  - 2.2. MPI would be also responsible for:
    - 2.2.1. administration of the operational functions of the system;
    - 2.2.2. implementing and then updating and managing the emissions and levy calculation service, and support administrative ICT system capabilities;
    - 2.2.3. supporting participant emissions calculation;
    - 2.2.4. administration of revenue recycling funding;
    - 2.2.5. operational policy settings; and
    - 2.2.6. extension and education services.
  - 2.3. MPI and IR will be jointly responsible for:
    - 2.3.1. participant registration and relationship management respectively for the emissions calculation and levy payment systems;
    - 2.3.2. data interoperability for levy assessment, payment invoicing and compliance; and
    - 2.3.3. compliance, monitoring and enforcement, including auditing functions.

- 2.4. IR would be also responsible for:
  - 2.4.1. the levy assessment and collection functions.
  - 2.4.2. delegated authority to undertake appropriate compliance actions which would identify anomalies in participants' emissions reports and registration information.
  - 2.4.3. collect penalties identified by MPI enforcement processes.
3. The proposed approaches recognise that the existing accountabilities and core capabilities required to implement the pricing system sits across these three government agencies. In particular:
  - 3.1. MfE administers the legislated climate change framework within the CCRA (including the 2050 target, emissions budgets, and the emissions reduction plan) as well as managing emissions pricing across the economy and policy settings for other emissions pricing mechanisms (the NZ ETS and Synthetic Greenhouse Gas Levy).
  - 3.2. MPI develops and operates regulatory systems across the agriculture sector, implement and facilitate extension services within the primary sector and operate effective compliance, monitoring and enforcement systems. MPI has received funding in Budget 2022 to investigate the implementation, including building a detailed business case, and developing a prototype system, MPI has also been delegated key responsibilities for the NZ ETS forestry system.
  - 3.3. IR-specific functions would leverage off current capabilities and processes as much as possible, which have high levels of compliance by participants. In particular management of large numbers of participants, undertaking assessment, payment and rebate functions and desktop risk assessments.

#### *Responsibilities for governance of a pricing system*

4. We propose a governance approach for the pricing system whereby roles and responsibilities would be shared between Ministers, the Commission, a System Oversight Board, Māori, and implementation agencies (see Table 1).

Table 1: Proposed governance and decision-making model

Pricing system functions	Who	Roles and responsibilities
Setting levy prices	The Ministers	<p>Set final levy prices via Order in Council.</p> <p>Seek advice from the Climate Change Commission on setting levy prices.</p>
	Climate Change Commission	<p>Seek advice from the System Oversight Board and other affected parties on setting levy prices.</p> <p>Provides advice to the Ministers on setting the levy prices</p>
	System Oversight Board (this will include Māori representation)	<p>Provides advice to the Climate Change Commission on levy prices.</p>
Regulatory and operational functions	Implementation agencies	<p>Implement the pricing system, including day-to-day management of registration, reporting, payment verification and auditing.</p> <p>Implement the process for updating the centralised calculator methods, and inclusion of new mitigations and approved actions for incentives. This would include seeking external technical and scientific expertise as needed.</p> <p>Implement strategies for use of pricing system revenue and sequestration.</p> <p>Maintain compliance and enforcement.</p> <p>Monitor and evaluate the pricing system.</p> <p>Provide advice to the Ministers.</p> <p>Provide secretariat support to the System Oversight Board</p>
Technical, scientific, and mātauranga Māori expertise	Implementation agencies	<p>Implementation agency to convene external technical, scientific, and mātauranga Māori expertise when needed to support its work.</p>
Revenue recycling	The Ministers	<p>Provide direction to the System Oversight Board and agree and seek Cabinet approval of the final revenue recycling strategy.</p> <p>Maintain oversight and accountability for use of levy revenue</p>
	System Oversight Board (this will include Māori representation)	<p>Provides advice to Ministers on the recommended strategy for the use of pricing system revenue.</p>

### *Subfunctions*

5. A number of sub-functions are required to implement the reporting and payment components of the scheme:
  - 5.1. A process is required to establish and manage the regulations and data input standards for emissions calculations including enhancements over time to emissions reporting requirements, approved mitigations and sequestration, and emissions factors. This will function in a similar way to the NZ ETS process for updates to these regulations and data input standards. However, there will be additional complexity for farm level reporting that will come from a much greater number of participants and reporting based on farm level inputs. Participants that meet one or more of the thresholds will need to register for the system. It is proposed that this will occur in the IR system.
  - 5.2. Participants (or their delegated authority) will use an emissions calculator to determine their reporting and levy obligations which will calculate gross emissions and payment obligation, as well as deductions for mitigations and sequestration. It is proposed that MPI will initially provide this user interface but optionality for future enhancements will be proposed in the business case.
6. When the levy is in place in Q4 2025, participants will then be required to file a levy return and make payment (or receive a payment) through the IR system.
7. MPI, with support from IR, will provide compliance, monitoring and enforcement in line with provisions for other emissions pricing systems.