

# The Treasury

## Budget 2022 Information Release

August 2022

This document has been proactively released and is available on:

- The **Budget website** from August 2022 to May 2023 only at: <https://budget.govt.nz/information-release/2022>, and on
- the **Treasury website** from later in 2022 at: <https://treasury.govt.nz/publications/information-release/budget-2022-information-release>.

### Cabinet Document Details

Title: **Cabinet Paper: DEV-21-SUB-0237 Funding and Financing the Climate Transition**

Date: **24 November 2021**

Creator: Office of the Minister of Finance  
Office of the Minister for Climate Change

### Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [33] appearing where information has been withheld in a release document refers to section 9(2)(f)(iv).

### Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

### Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to [information@treasury.govt.nz](mailto:information@treasury.govt.nz).

Office of the Minister of Finance  
Office of the Minister of Climate Change  
Cabinet Economic Development Committee

## **Report Back: Funding and Financing the Climate Transition**

### **Proposal**

- 1 This paper reports back on the progress of the “Funding and Financing the Climate Transition” (funding and financing) work programme. The purpose of this work programme is to consider how to fund and finance Aotearoa New Zealand’s transition to a low-emissions, climate resilient economy.
- 2 This paper also seeks decisions on:
  - 2.1 The hypothecation of ETS proceeds
  - 2.2 The structure of the Climate Emergency Response Fund (CERF)
  - 2.3 The inclusion of various elements of this work within the Funding and Financing chapter of the Emissions Reduction Plan
  - 2.4 How to respond to recommendations regarding funding and financing made by the Climate Change Commission in its final advice to Government
- 3 Additionally, it updates on work underway to support the effective mobilisation of private capital.

### **Relation to government priorities**

- 4 This relates to the Government’s priority of addressing climate change, and its commitment to consider climate change in all of its work. The 2020 Speech from the Throne identified the global climate crisis as one of the country’s three longest-standing and hardest issues demanding continued and determined action.
- 5 The Government declared a climate change emergency on 2 December 2020. The Cabinet Business Committee (CBC) agreed that climate change “demands a sufficiently ambitious, urgent, and coordinated response across government to meet the scale and complexity of the challenge” [CBC-20-MIN-0097 refers].
- 6 Reflecting its commitment to decisive action on climate change, this Government is currently working on New Zealand’s first emissions budgets and developing New Zealand’s first Emissions Reduction and National Adaptation Plans (ERP and NAP).
- 7 This Cabinet paper is one of a number of papers supporting, and related to, the ERP that Cabinet will consider before the end of the year. It also supports the Government’s response to a number of recommendations from He Pou a Rangi, the Climate Change Commission (the Commission). Decisions made through this Cabinet paper will form the basis of the Funding and Financing chapter of the Emissions Reduction Plan.

### **Executive Summary**

- 8 In June the Cabinet Business Committee invited an initial report back from the “Funding and Financing the Climate Transition” work programme on an initial approach to funding and financing the climate transition [CBC-21-MIN-0060]. This paper

Treasury:4585966v1

provides that report-back, updating on actions and decisions taken so far, and proposes the next steps of the work programme.

- 9 In particular it updates on the following key work streams:
  - 9.1 Recycling Emissions Trading Scheme (ETS) proceeds
  - 9.2 An approach to Budget to support climate objectives
  - 9.3 Tools to understand the alignment of public spending
  - 9.4 Monitoring progress towards climate targets
  - 9.5 The role of institutions in mobilising private capital.
- 10 This paper also seeks decisions on how to respond to a number of recommendations made by the Climate Change Commission in its final advice to Government.
- 11 Significant progress has already been made across this work programme. There has been a strong focus on the ERP and Budget 2022 alongside other work such as the role of financial institutions. The work programme will continue throughout 2022, progressing key workstreams and incorporating support of the National Adaptation Plan.

## **Background**

- 12 New Zealand's economy requires significant change to meet New Zealand's emission reduction targets and adaptation needs. The costs of the transition will depend on domestic policy choices, the actions of other nations, technology developments and a range of other factors. Despite high levels of uncertainty, the Government will have to make decisions, including on funding and financing, in order to meet emission reduction targets and to address adaptation needs in a timely manner.
- 13 The Crown alone cannot bear the costs of our transition and the private sector will need to play a significant role. Meeting our climate targets and fulfilling the first and future ERP will require funding and financing from the private sector. Government can mobilise private capital by setting strong signals through policy, regulation and its own spending. In addition, government must consider climate change at all stages of its decision making in areas where it plays a role in direct investment.
- 14 Government will need to use a range of tools, including regulation, to meet its climate objectives. Direct and indirect Government funding will be an important lever to transition key parts of the economy, but in many areas regulation and other policy levers will be more appropriate ways of achieving government's goals.
- 15 In December 2020, the Cabinet Business Committee invited a report back on a strategic framework for funding and financing the climate transition [CBC-20-MIN-0126]. A subsequent paper in June 2021 set out how Government would develop its approach to funding and financing the transition. Cabinet invited a report back by the end of October 2021 on an initial approach to funding and financing [CBC-21-MIN-0060].
- 16 In that paper, Cabinet noted adequacy of funding, certainty, durability, private capital mobilisation and alignment as the inter-related objectives of the funding and financing work programme. We are seeking a number of decisions to support these objectives.

- 17 There are several work programmes underway with significant funding and financing implications. These include:
- 17.1 Emissions budgets 2022-25, 2026-30 and 2031-35 and an Emissions Reduction Plan (ERP) to achieve those emissions budgets. Decisions will also be taken by 31 May 2022 on the emissions budgets and the plan. The ERP will include a Funding and Financing chapter with links to the work programme detailed in this paper.
  - 17.2 The National Adaptation Plan (NAP), an all-of-government plan to outline the actions New Zealand will take to address the risks identified in the first National Climate Change Risk Assessment. The Climate Change Response Act requires the NAP to be completed by August 2022.
  - 17.3 The consideration of international mitigation options which will be required to support our contributions through New Zealand's first Nationally Determined Contribution (NDC1).
  - 17.4 The development of a New Zealand Green Bond Programme (GBP) [CAB-21-MIN-0119] to support large projects that deliver strong climate-positive outcomes.

### **Key elements of our funding and financing strategy**

- 18 The June 2021 Cabinet paper invited Ministers to report back and provide options across a number of areas, including recycling of ETS proceeds, an approach to Budget to support climate objectives, tools to understand the alignment of public spending, monitoring progress towards climate targets and the role of institutions in mobilising private capital. The sections below provide reports back across each of these areas.

### ***Using Emissions Trading Scheme proceeds to support our climate objectives***

- 19 In his Budget 2021 speech, the Minister of Finance indicated his intention that, from Budget 2022 onwards, the government would recycle revenue generated by the New Zealand Emissions Trading Scheme (ETS) to emissions reductions and related work.
- 20 The Commission also recommended developing and implementing a plan for recycling the proceeds from the NZ ETS unit auctions.
- 21 The ETS generates different types of revenue and proceeds. We consider the cash proceeds associated with the government auctioning of NZ units (NZUs) to be the most appropriate to recycle in accordance with the Minister of Finance's articulated ambition and in response to the Commission's recommendation.
- 22 We have considered a range of options for recycling ETS proceeds and have determined that ETS proceeds should be directed into the CERF to support our climate objectives now and into the future. This allows flexibility for proceeds, alongside additional sources of funding, to be directed into initiatives supporting our climate objectives.

### ***Supporting an enduring approach to funding climate initiatives through the annual Budget process***

- 23 In his Budget 2021 speech, the Minister of Finance also noted his view that the current way in which Budgets are produced makes it difficult to make the sustained and long-

term investments needed to fix an intergenerational, multi-faceted, complex problem like climate change.

- 24 Building on the inter-related objectives of this work programme, we have established the CERF as an enduring, multi-year budgetary mechanism that allows for the prioritisation of initiatives aligned with our climate objectives.
- 25 In establishing the CERF we are sending a strong signal to both the public and private sectors that the Government recognises the importance of ensuring adequate funding beyond the short-term for climate-aligned initiatives and investments. This includes interventions designed to manage the impacts of the transition across different groups in society. Our expectation is that this will encourage ambition in both the public and private sectors to accelerate climate action.
- 26 Cabinet has agreed to establish the CERF [CAB-21-MIN-0349 refers] but has not yet agreed to its structure or size. We propose that the CERF be established:
  - 26.1 To resemble the multi-year capital allowance. On this basis the CERF will be forecast over four years, and spending can occur in any profile over that period, as long as the quantum of the fund is not exceeded. At the Half-Year Economic and Fiscal Update (HYEFU) every year, the next year in the forecast period will be rolled out, such that the fund can continue in perpetuity.
  - 26.2 With a starting quantum that will be forecast with an indicative operating to capital split of 50:50. However, the funding envelopes will be notional, so that either operating or capital spending can be charged against the CERF.
- 27 These design features will provide the necessary flexibility to support climate investments over the coming years, and allow us to sequence and prioritise spending as we make commitments under the ERP and the NAP.
- 28 We propose that Cabinet should agree to the starting size of the CERF in an upcoming paper on Budget 2022 allowances, ahead of the Budget Policy Statement. This starting size will be based on the ETS cash proceed forecasts at the upcoming HYEFU.
- 29 Although we propose to establish the CERF with ETS proceeds, we acknowledge that the costs of the transition will be higher. Accordingly, we expect to increase the size of the CERF following an initial “down payment” level, and the Minister of Finance will include fiscal projections for climate spending in the period to 2030 in the final Budget 2022 documents.
- 30 The CERF eligibility criteria for Budget 2022 were set in the Budget Strategy Cabinet paper [CAB-21-MIN-0349] and are focussed on initiatives which support mitigation. However, there is flexibility to amend the criteria to support broader climate priorities and objectives, and our intention is to review and update the criteria following Budget 2022, including to support initiatives which address climate adaptation.
- 31 Officials will develop reporting on initiatives funded through the CERF. This will allow us to understand the efficacy of CERF-supported spend to meet our climate objectives, and track new climate-aligned spend.

### ***Understanding the alignment of public spending to our climate change objectives***

- 32 It is important to understand how new and existing funding supports our climate objectives. Officials have considered how existing tools to do this should be

strengthened and are continuing to explore whether new tools are required to classify spend.

- 33 Officials have updated the Government's guidance for use of its Cost Benefit Analysis (CBA) tool, CBAX. This includes an update to the methodology for use of shadow emissions values for Budget 2022. The Minister of Finance has mandated the use of shadow emissions values for initiatives that are seeking funding through the CERF in Budget 2022.
- 34 CERF initiatives are also required to meet all Budget 2022 information requirements, including robust value for money analysis, and a Climate Impacts of Policy Assessment (CIPA) analysis. More broadly, it is essential that agencies and ministers use robust CBA frameworks in all areas of its climate spending and policy decisions going forward.
- 35 [33]

### ***Monitoring progress towards New Zealand's emission reduction targets and potential fiscal implications***

- 36 It will be important to monitor our progress in implementing the ERP and meeting our emission reduction targets, both domestic and international. We will also need to consider how best to monitor distributional and social impacts to support an equitable transition. This will help inform how we prioritise future spending and non-spending initiatives, including how we think about future emissions budgets.
- 37 Officials are currently working through details for the monitoring and reporting approach for the ERP. It will be considered as part of the final ERP in May 2022.
- 38 For both domestic and international progress monitoring, it will be important to estimate and manage the fiscal implications of meeting any gap between current policies and what may be needed to meet our targets.
- 39 Under the Climate Change Response Act 2002, the Commission is required to conduct annual progress audits. We propose establishing regular monitoring and reporting to demonstrate progress in reducing emissions and illustrate scenarios for the costs of meeting any such gaps. This would aid the Commission's annual audit process and would build on current projections reporting by the Ministry for the Environment. We recommend this be complemented by a standalone public annual report, which officials are currently scoping.

### ***Establishing an effective institutional landscape to drive the mobilisation of public and private investment***

- 40 Cabinet previously noted that an objective of the funding and financing work programme is the effective mobilisation of private sector capital, and directed officials to explicitly consider the appropriate role of public financial institutions to drive public and private investment towards climate objectives.
- 41 To date, officials have undertaken an initial review of the current institutional landscape for climate financing, including of the New Zealand Green Investment Finance Ltd (NZ GIF); and a targeted market sounding to inform policy development.

- 42 Findings from the market sounding articulated the importance of government playing a coordinating role (both internal, within the public sector, and external, for the private sector). The market sounding also identified barriers to the effective mobilisation of private capital, including:
- 42.1 a lack of a pipeline of projects with the scale and risk profile to attract private capital;
  - 42.2 the lack of market capability in this space; and
  - 42.3 barriers arising from data availability and quality.

[33]

- 46 Building on these findings, this workstream will now develop:
- 46.1 Options to change NZ GIF settings so it can play a more transformational role in driving private sector investment in climate.
  - 46.2 A proposal to support more effective mobilisation of private capital through more coordinated engagement with the private sector
- 47 Officials will explicitly consider opportunities for each workstream to support the Māori economy
- 48 How the Crown approaches utilising investment entities across innovation, commercialisation and infrastructure sectors will require future decisions on the returns Government expects from climate related investments. At a portfolio level we consider the use of sub-commercial as well as commercial products will be necessary.
- 49 Government investment through financial and climate institutions is only one tool for mobilising private finance. Government will need to use a range of tools, including regulatory, policy and pricing signals, to mobilise private capital to support our climate objectives. This will be key to meeting our targets and fulfilling Emission Reduction Plans as the Crown alone cannot provide all the funding and financing that will be required.

### **Addressing Funding and Financing in the Emissions Reduction Plan**

- 50 The ERP will include a cross-cutting chapter on Funding and Financing issues which officials are currently drafting. The chapter will set out key issues involved in funding and financing the transition, reflect decisions made in this and related work programmes and respond to feedback received through the consultation phase of the ERP.
- 51 Additionally, the chapter will set out key actions the government is taking in this area. These are summarised in Annex 2. This refers to new actions since the consultation

for the ERP was launched. The text of the chapter may additionally refer to ongoing and pre-existing work across government.

- 52 The ERP will also contain a summary of the CCC's recommendations and government's response to them. Given that the ERP chapter will respond to all relevant recommendations and the strong links between the chapter and this work programme, we are using this paper to seek Cabinet approval to high level responses for all relevant funding and financing recommendations made by the Commission. Our proposed response with commentary is set out in Annex 2.

### **Implementation and next steps**

- 53 The funding and financing work will continue to progress in parallel with work to develop both the ERP and the NAP. We propose to continue to provide updates to the Climate Response Ministers Group (CRMG) as the funding and financing programme continues, to help it coordinate with the wider climate policy decisions to be taken through the ERP, the NAP and other supporting climate policy programmes.
- 54 The immediate next steps for the work programme include:
- 54.1 Decisions on the size of the CERF to be taken through the Budget Policy Statement process
  - 54.2 Drafting the Funding and Financing chapter of the ERP
  - 54.3 Administering the CERF through Budget 2022
  - 54.4 [33]
  - 54.5 Supporting the development of a monitoring approach for the CERF
- [33]
- 55 Following this, we will report back to Cabinet by May 2022 setting out the focus for the work programme going forward, as previously directed by Cabinet [CBC-21-MIN-0060].

### **Financial Implications**

- 56 The establishment of the CERF in Budget 2022 will have fiscal implications, impacting net core Crown debt. The specific impact will be addressed through the Budget Policy Statement process. Its establishment will also have an impact on the operating balance, but this impact is somewhat unknown as it will be dependent on the nature of the investments funded from the Climate Emergency Response Fund. These impacts will be forecast from HYEFU and included in the Budget Policy Statement.
- 57 The following elements of the work may require additional policy resource for agencies to implement or develop further, and will be considered through the Budget:
- 57.1 The creation and establishment of a monitoring mechanism for the CERF;
- [33]
- 57.3 The development of a monitoring and reporting approach towards climate
- [33]

- 58 CAB-21-MIN-0119 notes a direct cost of \$1 million for the development and support the first issuance of a GBP, excluding costs of monitoring and reporting. As the work to support monitoring and reporting through the CERF progresses, there may be opportunities for efficiencies with the GBP that may lessen the total financial implications of these work programmes. However, as noted above and within CAB-21-MIN-0119, these costs have not yet been fully scoped and are dependent upon future Cabinet decisions.
- 59 Ultimately due to the nature and timeframes of the development of the ERP and the NAP, many costs are likely to be realised progressively over time as foundational work is undertaken and initiatives become ready for funding and implementation. Any further actions arising from the funding and financing work that require funding will be agreed by Cabinet at a future date.

### **Legislative Implications**

- 60 There are no legislative implications to the proposals in this paper but the work may lead to recommendations with legislative impacts.

### **Impact Analysis**

#### **Climate Implications of Policy Assessment**

- 61 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply as there is no direct emissions impact at this stage. While the programme seeks to ensure funding and financing for policies which will decrease greenhouse gas emissions and increase climate resilience as key policy objectives, the overall strategy and components of this ongoing work programme do not directly have any emissions impact at this stage.
- 62 The CIPA team will work with officials developing the proposals to assess the emissions impacts of policy proposals as they are advanced – as appropriate – at a later date.

#### **Population Implications**

- 63 There are no meaningful population implications expected at this stage.

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

- 64 Māori have a significant stake in climate action, and have Treaty-based rights and interests in natural resource use and management. It will be critical for this work programme to uphold Treaty of Waitangi principles.
- 65 We have begun initial engagement with a few iwi/Māori business leaders as part of the market sounding to understand the needs for the Māori economy within the context of this work and support the findings and recommendations of the Financial Institutions workstream. Progression of this workstream will involve further engagement.
- 66 We will continue to consider Treaty implications as they arise through this work programme.

#### **Human Rights**

- 67 The proposals in this paper are not in any way inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

## Consultation

68 The following government departments and agencies have been consulted on this Cabinet paper:

68.1 The Ministry of Business, Innovation and Employment

68.2 The Ministry of Housing and Urban Development

68.3 The Ministry for Primary Industries

68.4 The Department of Prime Minister and Cabinet

68.5 The Reserve Bank of New Zealand

68.6 The Ministry of Transport

68.7 The Ministry of Social Development

68.8 Te Puni Kōkiri

## Communications

69 There will be no proactive communications of this proposal. Communications will be developed in line with any decisions made as part of the Emissions Reduction Plan and Budget 2022.

## Proactive Release

70 This paper will be proactively released post Budget 2022, with redactions as appropriate under the Official Information Act 1982.

## Recommendations

The Minister of Finance and Minister of Climate Change recommend that the Committee:

1 **Note** that in June 2021, Cabinet invited Ministers to provide options and seek decisions on an initial approach to funding and financing by October 2021 at the latest, including on:

1.1 A method for and use of recycling Emissions Trading Scheme proceeds

1.2 An approach to climate change funding through Budget 2022 that is aligned with the direction of the public finance system modernisation work programme

1.3 [33]

1.4 Monitoring progress towards New Zealand's emission reduction targets, including the fiscal risk of our Nationally Determined Contributions (NDCs) alongside decisions on updating the NDC

1.5 Options on the appropriate institutional landscape to support disbursement of public funds and accelerate the mobilisation of private sector finance;

- 2 **Note** that the Crown alone cannot provide all the funding and financing required to fulfil our Emission Reduction Plans and meet our climate targets, and that the private sector will therefore need to play a significant role;

#### *Emission Trading Scheme proceeds and the Climate Emergency Response Fund*

- 3 **Note** that as part of its decisions on the Budget 2022 Strategy Cabinet agreed to establish a Climate Emergency Response Fund [CAB-21-MIN-0349 refers];
- 4 **Agree** that the Climate Emergency Response Fund should be established with forecast ETS proceeds from the forecast period from 2022/23 to 2025/26;
- 5 **Note** that the proposal in recommendation 4 will have an impact on net core Crown debt, however the impact on the operating balance is somewhat unknown as it will be dependent on the nature of the investments funded from the Climate Emergency Response Fund;
- 6 **Note** that the size of the CERF, initially based on ETS cash proceeds, will be confirmed in an upcoming Cabinet paper on Budget 2022 allowances ahead of the Budget Policy Statement;
- 7 **Note** that the intention is for the quantum of the Climate Emergency Response Fund to be at least the forecast ETS proceeds; however the level of the fund may exceed ETS proceeds as determined by Cabinet during the Budget process;
- 8 **Agree** that the Climate Emergency Response Fund be an enduring Budget mechanism, capable of supporting capital and operating expenditure;
- 9 **Note** that the Climate Emergency Response Fund will be announced in the Budget Policy Statement;

#### *Monitoring progress towards New Zealand's emission reduction targets*

- 10 **Agree** that officials should develop a regular monitoring and reporting approach to climate, including on fiscal risks associated with our climate targets;
- 11 **Agree** this will include updates to Climate Chief Executives and the Climate Response Minister's Group to inform strategic policy decisions;
- 12 **Agree** that the reporting approach will also include a publicly facing report.

#### *Assessment and monitoring tools*

- 13 **Note** CBAX has been updated to include shadow emissions prices for Budget 2022 to support better integration of climate change considerations;

[33]

#### *An effective institutional landscape*

[33]

*The Emissions Reduction Plan*

- 17 **Note** the ERP will contain a chapter on funding and financing that will:
- 17.1 set out key issues involved in Funding and Financing
  - 17.2 reflect decisions made in this and related work programmes
  - 17.3 respond to relevant feedback received through the ERP consultation
  - 17.4 Respond to the Commission's advice on funding and financing issues
- 18 **Note** that the Commission made a number of recommendations relating to funding and financing as set out below;
- 19 **Agree** the suggested high level response to each of these recommendations as indicated below;

<b>Commission Recommendation</b>	<b>Suggested Response (rationale for responses in Annex 2)</b>
9.2: "Assessing and meeting funding requirements for implementing each emissions reduction plan in line with emissions budgets"	<b>Agree</b>
9.3 "Establishing Vote Climate Change as a specific multi-agency appropriation which consolidates existing and future government funding for core climate change mitigation and adaptation activities"	<b>Disagree and propose alternative</b>
9.4 "Providing consistent signalling across investments, policy statements, direction to officials, internal policies and directives to ensure that all regulatory and policy frameworks and decisions are aligned with low emissions and climate resilience objectives."	<b>Agree in principle</b>
11.4a "Developing and implementing a plan for recycling proceeds from NZ ETS unit auctions into emissions reductions, adaptation, climate education, equitable transitions and meeting international climate change obligations. This plan should include mechanisms to ensure that it contributes to equitable outcomes for iwi/Māori."	<b>Agree</b>

12.1 "Starting to factor shadow emissions prices into policy and investment analysis in central government immediately"	<b>Confirmed</b>
12.2 "Encouraging and facilitating local government and the private sector to use shadow emissions prices by, for example, providing guidance to upskill and grow local government capacity to use them in their policy and investment analysis"	<b>Agree in principle</b>
12.3 "Measuring and reporting on how the post-COVID-19 economic stimulus is delivering climate benefits and the transformational investment needed to reach the climate and economic goals"	<b>Disagree</b>
13.2b "Exploring the extension of the mandatory climate related disclosure regime to cover a broader range of activities, for example public entities and the national and local level"	<b>Agree in principle</b>
13.2c "Evaluating the benefits of extending mandatory climate related disclosure to cover emissions enabled by loans, from financial institutions, over a certain threshold"	<b>Agree in principle</b>

20 **Note** that the ERP will also include a list of actions and that this list is indicatively set out in Annex 1;

*Other next steps*

21 **Note** that implementation of some decisions made as part of this report back will be dependent on Budget 2022 bids and decisions; and

22 **Note** Cabinet previously invited a further report back on this work by May 2022.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

Hon James Shaw

Minister of Climate Change

## Annex 1: Suggested Funding and Financing Actions for inclusion in the ERP

New initiatives since the publication of the ERP discussion document:

- Establishment of the Climate Emergency Response Fund (CERF)
- Hypothecation of Emissions Trading Scheme proceeds
- [33]
- Green Bond Programme
- Update of CBAX
- [33]

[33]

Pre-existing initiatives that were mentioned in the consultation document:

- The Government Investment in Decarbonising Industry Fund
- Low Emissions Transport Fund
- Technology Demonstration Fund
- Kāinga Ora – Sustainability Financing Framework
- Ongoing work by NZ GIF
- The banning of default KiwiSaver funds from investing in fossil fuel production
- Mandatory climate-related disclosures
- Kānoa’s Regional Economic Development and Investment Unit’s \$200 million Regional Strategic Partnership Fund
- MPI work with the banking industry to develop the Sustainable Agriculture Finance Initiative (SAFI) guidance, for use by banks
- RBNZ work exploring challenges Māori face in accessing capital

## Annex 2: Suggested Response to Funding and Financing Recommendations from the Climate Change Commission

Commission Recommendation	Suggested Response	Justification and link to Funding and Financing Work Programme
9.2: “Assessing and meeting funding requirements for implementing each emissions reduction plan in line with emissions budgets”	<b>Agree</b>	This is a key part of ongoing work to develop the ERP. In the course of their policy development agencies are responsible for considering what funding is required, as well as considering whether existing funding can be used. Agencies are developing budget bids where new funding is required.

Treasury:4585966v1

Commission Recommendation	Suggested Response	Justification and link to Funding and Financing Work Programme
		<p>The CERF provides funding to support ERP related initiatives. Through the CERF process the Treasury will review and assess funding bids from agencies and make funding recommendations to Budget Ministers. Through this process, across submitting agencies and the Treasury, Government as a whole will therefore be assessing the funding needs of the ERP.</p>
<p>9.3 “Establishing Vote Climate Change as a specific multi-agency appropriation which consolidates existing and future government funding for core climate change mitigation and adaptation activities”</p>	<p><b>Disagree and propose alternative</b></p>	<p>We understand the intent behind this recommendation is to increase transparency for climate change funding. However, we do not consider a specific Vote or Appropriation to be the best way of increasing transparency, and nor would it align with how we currently operate the public finance system.</p> <p>However, we support the intent behind this recommendation. The establishment of the CERF – as a new dedicated funding source for new climate initiatives – will meet this intent..</p>
<p>9.4 “Providing consistent signalling across investments, policy statements, direction to officials, internal policies and directives to ensure that all regulatory and policy frameworks and decisions are aligned with low emissions and climate resilience objectives.”</p>	<p><b>Agree in principle</b></p>	<p>We agree that climate change should be considered throughout government’s work. This is why through the funding and financing work programme we are establishing the CERF, refreshing our approach to CBAX and planning to review CIPA (subject to funding).</p> <p>We therefore agree in principle with this recommendation. Given the breadth of the recommendation we do not consider it possible to accept in full, as it will be subject to the specifics of the area in question. Officials and ministers will need to consider how best climate change can be better considered throughout all stages of their work on a case by case basis.</p>
<p>11.4a ““Developing and implementing a plan for recycling proceeds from NZ ETS unit auctions into emissions reductions, adaptation, climate education, equitable transitions and meeting international climate change obligations. This plan should include mechanisms to ensure that it contributes to equitable outcomes for iwi/Māori.”</p>	<p><b>Agree</b></p>	<p>This paper recommends the recycling of NZ ETS unit auction proceeds towards the CERF.</p> <p>The current criteria for the CERF determine eligibility based on evidence of emissions reduction, addressing distributional impacts of the transition or taking an ao Māori approach to climate action. The outcomes noted by the Commission can therefore be addressed through the breadth of these existing criteria (which can additionally be amended in future).</p>

Commission Recommendation	Suggested Response	Justification and link to Funding and Financing Work Programme
12.1 "Starting to factor shadow emissions prices into policy and investment analysis in central government immediately"	<b>Confirmed</b>	Efforts have focused on the development and implementation of shadow emissions values for use by central government. For Budget 2022, these have been updated from their initial values, reflecting new information, and have been directly integrated into Treasury's CBA tool, CBAX, to support budget initiative bids in Budget 2022. These values have been updated through interagency consultation and consideration. Interagency discussions to inform and update central government's use of shadow values have noted the recommendation of the Commission to encourage and facilitate local government and private sector usage.
12.2 ""Encouraging and facilitating local government and the private sector to use shadow emissions prices by, for example, providing guidance to upskill and grow local government capacity to use them in their policy and investment analysis"	<b>Agree in principle</b>	We agree that the central government can play a helpful supporting role to both local government and the private sector in passing on the knowledge obtained through developing and utilising shadow emission values to inform decision making. Officials are considering how best to give effect to information sessions or possible publications that can support others outside of central government benefit from the learnings of central government's use and consideration of shadow emission values. Central government usage of shadow emission values and the publication of our methodology, tools and selected emission value ranges leads by example and provides useful resources to local government and the private sector to understand how central government has considered which values to choose and options for its incorporation into CBA
12.3 ""Measuring and reporting on how the post-COVID-19 economic stimulus is delivering climate benefits and the transformational investment needed to reach the climate and economic goals"	<b>Disagree</b>	Government funded a range of measures to respond to COVID-19, including through economic stimulus, but the intent of this was not primarily to support climate objectives. At the time of expenditure, we did not put in place monitoring and reporting mechanisms to support analysis of how climate objectives were supported. Therefore, given that significant work would be required we do not consider it to be a high priority for use of resources to assess how this expenditure supported climate objectives in isolation.  However, the monitoring and reporting framework we are developing for the CERF will meet the intent of this recommendation for climate expenditure in the future.
13.2a ""Investigating and developing actions government can take to help mobilise private sector finance, including ways to improve access to	<b>Agree</b>	We agree that agencies should investigate these actions.

Commission Recommendation	Suggested Response	Justification and link to Funding and Financing Work Programme
low-emissions finance for Māori collectives”		<p>The financial institutions workstream in this work programme is already contributing towards actions for supporting the mobilisation of private finance, including through the development of the investment coordination function.</p> <p>Additionally, we note that this aligns well with the Sustainable Finance Forum’s recommendation for a Whole of Government Sustainable Finance Strategy.</p> <p>We also acknowledge that this recommendation notes access to finance for Māori. Work is underway to better understand these barriers through a project being led by the RBNZ. Government supports this work and will see how its findings can support further policy work within central government.</p> <p>Additionally, MBIE and TPK are also investigating actions that could help this objective.</p>
13.2b ““Exploring the extension of the mandatory climate related disclosure regime to cover a broader range of activities, for example public entities and the national and local level”	<b>Agree in principle</b>	We agree that agencies should explore and evaluate these actions. Agencies are actively considering the extension of the scope of the mandatory climate-related disclosure regime.
13.2c ““Evaluating the benefits of extending mandatory climate related disclosure to cover emissions enabled by loans, from financial institutions, over a certain threshold”	<b>Agree in principle</b>	