

The Treasury

New Zealand Sovereign Green Bonds Programme Information Release

November 2022

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Treasury Report: Green Bonds update: Proposed Green Categories and Associated Eligible Expenditures

Date:	12 May 2022	Report No:	T2022/575
		File Number:	DE-10-6-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Provide any feedback on the proposed green categories for classifying expenditures included in the green bond issuance, and the associated eligible expenditures	None

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Laura Browne	Senior Analyst, NZ Sovereign Green Bond Programme	[39]	N/A (mob)
Karina Witty	Project Lead, NZ Sovereign Green Bond Programme		N/A (mob)
Chris White	Head of NZ Sovereign Green Bond Programme	N/A (wk)	[35] ✓

Minister of Finance's Office Actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Executive Summary

Green bonds are issued with reference to a framework which outlines the issuer's strategy for choosing which expenditures are included. This involves adopting green categories, which categorise different types of expenditures and communicate to investors the programme's intended objectives and outcomes.

We propose adopting seven green categories for the NZ Sovereign Green Bond Programme Framework (the Framework), subject to further confirmation of eligible expenditures:

1. Clean Transport
2. Energy Efficiency and Renewable Energy
3. Living and Natural Resources and Land Use
4. Terrestrial and Aquatic Biodiversity
5. Climate Change Adaptation
6. Sustainable Water and Wastewater Management
7. Pollution Prevention and Control

[34], [37]

This paper also updates you on our proposed approach to reflect Te AoMāori in the Framework by incorporating elements of He Ara Waiora, alignment of work on monitoring and reporting across CERF and green bonds, the Programme's cross-agency governance arrangements, and broader work on a New Zealand climate taxonomy.

Given this programme touches a significant number of agencies across the system, we recommend you refer a copy of this advice to your colleagues in the Climate Response Ministerial Group to keep them informed of progress.

Recommended Action

We recommend that you:

- a **provide** any feedback on the seven proposed green categories for classifying eligible expenditures in the Green Bond Programme and the associated long list of eligible expenditures
- b **note** our proposed approach to reflect Te Ao Māori in the Framework, alignment of work on monitoring and reporting across CERF and green bonds, the Programme's cross-agency governance arrangements, and broader work on a New Zealand climate taxonomy
- c **refer** a copy of this report to the Climate Response Ministerial Group

Refer / not referred.

- d **note** that we will provide further advice in June 2022 finalising the green categories, alongside a near-final version of the NZ Sovereign Green Bond Framework.

Chris White

Head of NZ Sovereign Green Bond Programme

Hon Grant Robertson

Minister of Finance

Treasury Report: Green Bonds update: Proposed Green Categories and Associated Eligible Expenditures

Purpose of Report

1. This report seeks feedback on the proposed green project categories for inclusion in the NZ Sovereign Green Bond Framework (the Framework) and associated long list of eligible expenditures. It also updates you on some other aspects of programme design.

Background

2. In November 2021, Cabinet agreed to establish a NZ Sovereign Green Bond Programme, with the inaugural bond issuance in late 2022 [CAB-21-MIN-0454 refers].
3. Green bonds are issued with reference to a framework which outlines the issuer's climate and environmental strategy, and sets out the basis for identifying, selecting, verifying and reporting on expenditures included in its green bond programme.
4. The International Capital Market Association (ICMA) has developed Green Bond Principles, which are considered market best practice for establishing a green bond framework. ICMA recommends including:
 - a **use of proceeds categories, also called green categories**, which are broad categories of different types of expenditures included, or intended to be included, in the programme. Green categories communicate to investors the programme's intended objectives and outcomes
 - b **project evaluation and selection**, which outlines the process and criteria to determine the expenditures for inclusion in the pool of eligible green expenditures
 - c **management of proceeds**, which outlines the approach for allocating the net proceeds of the bond issuance to the pool of eligible green expenditures, and
 - d **reporting**, which outlines the approach for allocation and impact (output and outcome) reporting to investors.

Green bonds will finance existing Crown funding

5. Green bonds are not a new source of funding for agencies, rather they are financing for funding decisions that have already been made, typically through the Budget or delegated decision-making processes (eg contestable funds). We are working with agencies to ensure the distinction between funding and financing is understood. This distinction will likely form an important part of public communications when the Framework is issued.
6. In our engagements with agencies, we have clarified that:
 - a **funding** is the act of providing financial resources for a project or activity. It refers to the revenue sources from which public expenditure is ultimately met. This can include user charges, levies and general taxation. Funding decisions may be made by Ministers or delegated decision-makers, and
 - b **financing** refers to borrowed money that is ultimately repaid from future revenue sources. Financing can enable current expenditure to be funded from future revenue sources.

We have worked with agencies to develop the green categories and indicative long list of potential expenditures

- 7. We have undertaken preliminary engagement with agencies to generate an indicative long list of potential green expenditure. Further engagement with agencies is required to verify expenditures and determine if agencies have other expenditures that are not included in the initial long list. We also need to understand agencies' approaches to monitoring and reporting their expenditures and associated outputs and outcomes and secure their ongoing commitment to reporting on these through time.
- 8. Once we have determined the final long list of potential expenditures, we will evaluate each potential expenditure against the Framework's eligibility and assessment criteria, which are under development, and narrow the list down to a final pool, in collaboration with agencies. This process will conclude before the Framework is published in September.
- 9. Following our evaluation of expenditures, we will seek the Green Bond Committee's (a cross-agency governance group) endorsement of expenditures to be included in the pool of eligible green expenditures before the first issuance.
- 10. After the Framework is published and before the bond issuance, an investor roadshow will communicate the parameters of the Framework and expenditures and stimulate interest and demand for the bonds.
- 11. [Market sensitive] [37]
we will allocate bond proceeds to the eligible expenditures. We will report to investors on the allocation of bonds annually starting one year after the first issuance. Impact reporting on expenditures will occur at least biannually based on information provided by agencies.

[34], [37]

- 12. [34], [37]

13.

14.

15.

16. [34], [37]

We propose that the Framework includes seven green categories

17. We propose including seven green categories in the Framework, which are either directly adopted from, or an amalgamation of, ICMA categories. We have ensured that the green categories reflect the government’s climate and environmental priorities and known expenditures.

Green category	Indicative detail and estimated share of potential eligible expenditure identified to date	
1) Clean Transport	Expenditure related to reducing transport emissions, supporting mode shift, adopting low-emission vehicles, and beginning decarbonisation of heavy transport and freight including significant government-funded projects such as Auckland Light Rail and the City Rail Link.	52%
2) Energy Efficiency and Renewable Energy	Expenditure related to energy efficiency and decarbonisation programmes (commercial, industry, public, and residential), and associated research and development activities.	11%
3) Living and Natural Resources and Land Use	Expenditure to support sustainable agriculture and forestry practices along with nature-based solutions, potentially including associated research and development, such as agricultural emissions.	11%
4) Terrestrial and Aquatic Biodiversity	Expenditure to protect New Zealand’s natural flora and fauna, freshwater and marine ecosystems, protecting species, and other activities in support of the Aotearoa New Zealand Biodiversity Strategy.	13%
5) Climate Change Adaptation	Expenditure focusing on climate adaptation in New Zealand (eg Just Transitions) and in the Pacific (eg Official Development Assistance). While there is limited expenditure in the near term, we expect growing investment in the future (eg through the National Adaption Plan).	1%
6) Sustainable Water and Wastewater Management	Expenditure related to three waters, sustainable water management and water infrastructure.	11%
7) Pollution Prevention and Control	Expenditure related to waste minimisation and the transition to a circular, low-emission economy.	2%

¹ This is an initial estimate – actual Crown funding will depend on litres of petrol and RUC purchased.

We are reflecting aspects of Te Ao Māori into the Framework

18. We propose to reflect aspects of Te Ao Māori in the programme by incorporating the following principles from He Ara Waiora into the Framework:
 - a **tiakitanga** – guardianship, stewardship (eg, of the environment, particular taonga or other important processes and systems)
 - b **tikanga** – making decisions in accordance with the right values and processes, including in partnership with the Treaty partner, and
 - c **manaakitanga** – enhancing the mana of others through a process of showing proper care and respect.
19. The principle of tiakitanga will be reflected in the terms of reference for the Green Bond Committee. Tikanga and manaakitanga will be included in the process to identify, evaluate, select and report on eligible green expenditures, building on the approach taken in Budget 2022.

We are aligning Green Bond reporting requirements with complementary system activities underway

20. Alongside the Treasury's Climate Change team, we are commencing work to understand agencies' existing data collection and reporting systems to support development of an approach to monitoring and reporting for both Green Bonds and the CERF.
21. Our intention is to leverage existing processes as much as possible and avoid creating duplication. The Treasury is also working closely with the Ministry for the Environment and the Department of Prime Minister and Cabinet on the implementation of the Emissions Reduction Plan (ERP) and intend to align our approach as much as possible.

Update on governance arrangements

22. The New Zealand Sovereign Green Bonds Establishment Committee (Establishment Committee) was set up to provide oversight and guidance through the Programme's establishment phase [T2022/132 refers].
23. The Establishment Committee will transition into a permanent Green Bond Committee later in 2022. The Green Bond Committee will support Te Tai Ōhanga – the Treasury in its responsibility for the Programme, will be in place to endorse the first round of eligible expenditures for the 2022 issuance, and will provide ongoing governance of the Programme. We expect the membership will expand to reflect a broader range of agencies with expenditures in the Programme.

The Green Bonds team are closely monitoring work on a New Zealand climate taxonomy

24. The Ministry for the Environment, Reserve Bank of New Zealand, and the Centre for Sustainable Finance are interested in exploring the development of a climate taxonomy. A climate taxonomy is a classification system that informs which economic activities are defined as 'environmentally sustainable'.

The Framework does not require a climate taxonomy. Most other sovereign issuers do not have a climate taxonomy. After three years, the European Union (EU) is continuing to develop a taxonomy, but most sovereign green bond issuers in the EU have not yet adopted it. Further work is required to determine the value of a climate taxonomy for New Zealand. Key considerations include the objectives of and demand for a New Zealand-specific taxonomy, who a taxonomy is useful for, and the value of applying a taxonomy. These considerations are relative to the time and investment required to develop the taxonomy, and the anticipated impact on the climate.

25. If New Zealand were to develop a climate taxonomy, we would review the Framework and make any necessary adjustments to ensure domestic alignment and coherence for investors. This could require substantial future amendments to the Framework once the taxonomy was developed.
26. We will continue to engage with interested stakeholders and provide input into their work to develop a climate taxonomy where appropriate.

Next steps

27. We will incorporate your feedback, work with agencies to verify their expenditure, and continue to develop the Framework.
28. We will provide further advice, including the near-final Framework, for your approval in June 2022. The Framework will then be subject to an independent assurance process, before it is taken to Cabinet for endorsement in August 2022. The independent assurance process may recommend changes to the Framework which we will bring to your attention in our advice.
29. [Market sensitive] We plan to publicly release the Framework in September 2022,
[37]

Annex 1: Long list of expenditures provided by agencies sorted by proposed green category

The long list of expenditures provided by agencies requires further verification to determine the portion of funding that is eligible for NZ Sovereign Green Bond financing. The quantum of eligible expenditure outlined is expected to materially reduce as a result.

At this stage, we have focused on the total expenditure across 2021/22-2024/25, which is the proposed eligible expenditure window for the first bond issuance. Market practice is typically for the eligible expenditure window to include one year of past expenditure, the fiscal year of the issuance, and two years of forecast expenditure. Issuers typically limit allocation of past expenditures to 50% or less of the issuance. Due to this structure, totals for new funding agreed through Budget 2022 may not match totals in this report.

Note: projects and associated figures are point-in-time as at the date of the document.

I. Clean Transportation

Activity	Description	\$m
Cleaner Vehicles for Low-Income New Zealanders (CERF funded)	This funding, currently held in contingency, will be used to implement, and operate: <ul style="list-style-type: none"> - a social leasing scheme that leases low-emission vehicles to low-income participants; and - a vehicle scrap and replace scheme that provides funding and in-kind support to low-income households to purchase a low-emission vehicle, or low-emission alternatives, upon scrapping a vehicle. 	\$295
KiwiRail: Future of Rail investment programme	This funding will enable KiwiRail to continue to run rail services and supports future growth in New Zealand rail. It will also enable the final tranche of KiwiRail's rolling stock investment programme to replace life-expired assets with modern, energy-efficient units.	\$1,190
Waka Kotahi: Public Transport Bus Decarbonisation (CERF funded)	This initiative provides funding to support Public Transport Authorities to invest in bus decarbonisation initiatives, such as deploying zero-emission buses or investing in associated infrastructure, to reduce greenhouse gas and harmful emissions from the bus fleet.	\$27
Auckland Light Rail (ALR)	The Auckland Light Rail (ALR) project seeks to create a linked-up rapid transit network across Auckland. This includes light rail from the City Centre to Māngere. In December 2021, Cabinet endorsed tunnelled light rail for the City Centre to Māngere corridor. The estimated cost for this is \$14.6 billion.	TBD
New Zealand Upgrade Programme	The Government's New Zealand Upgrade Programme (NZUP) includes a number of transport projects delivered by Waka Kotahi and KiwiRail that align with clean transport objectives.	\$289
Waka Kotahi: Walking and Cycling activities (NLTF)	During the 2021-24 NLTP, Waka Kotahi plans to invest in new shared pathways, bike routes, walkways, and pedestrian facilities across the country. Examples of significant projects include: <ul style="list-style-type: none"> - ATAP: Urban Cycleways Programme (\$75m) - Ngā Ūranga to Pito-one (Ngauranga to Petone) shared walking and cycling path (\$184m) 	\$618

Activity	Description	\$m
Waka Kotahi: Public Transport Infrastructure activities (NLTF)	During the 2021-24 NLTP, Waka Kotahi plans to invest in public transport infrastructure improvements and operations which enable mode shift and reduce greenhouse gas emissions. Examples of significant projects include: <ul style="list-style-type: none"> - Auckland Manukau Eastern Transport Initiative (\$262m) - Subsequent phases of City Centre to Māngere rapid transit (\$55m) 	\$1,235
EECA: Low Emission Transport Fund (LETF)	To help accelerate the decarbonisation of the New Zealand transport sector, the LETF will support the demonstration of high-potential and replicable solutions, and adoption of low-emission transport technology and infrastructure.	\$35

II. Energy Efficiency and Renewable Energy

Activity	Description	\$m
EECA: Government Investment in Decarbonising Industry Fund (GIDI)	The GIDI fund provides grants for businesses to implement projects to decarbonise the use of industrial process heat through fuel switching and/or energy efficiency. Assistance through the GIDI fund will help to accelerate the decarbonisation of industrial processes, to apply innovative technologies and provide economic stimulus.	\$497
EECA: Warmer Kiwi Homes	A government-funded programme offering insulation and heater grants to low-income homeowners. Focused on managing distributional impacts and ensuring an equitable transition. Key benefits relate to energy affordability and warmer, healthy homes.	\$222
EECA: Carbon Neutral Government activities <ul style="list-style-type: none"> - <i>Carbon Neutral Government Programme (CNGP)</i> - <i>State Sector Decarbonisation Fund (SSDF)</i> 	EECA provides funding to agencies mainly to support fleet optimisation and leasing of electric vehicles. The funding also supports delivery of CNGP. The SSDF provides co-funding to State sector agencies to replace coal boilers with low-emission alternatives and for other energy efficiency or renewable energy projects, including efficient lighting and electric vehicles. Three-quarters of the funding is targeted for hospitals, schools, and universities, which are the biggest emitters.	\$63
HUD: Infrastructure Acceleration Fund	This is a contestable fund of \$1 billion for infrastructure investment to support new housing supply where infrastructure providers face funding and finance barriers. We are yet to test whether this can be sufficiently linked with environmental outcomes.	TBD
Kānoa - Regional Economic Development & Investment Unit (REDIU) (MBIE): Energy Sector Projects	MBIE manages a range of energy sector investments in regional New Zealand.	\$12

III. Living and Natural Resources and Land Use

Activity	Description	\$m
Kānoa - REDIU (MBIE): Living and Natural Resources and Land Use Projects	Kānoa manages a range of contracted agriculture, horticulture and forestry investments in regional New Zealand.	\$34
Kānoa - REDIU (MBIE): Regional Strategic Partnership Fund (RSPF)	The RSPF is a regional economic development investment programme with a green element built into its objectives, which will be demonstrated through an integrated ESG approach.	\$20
MPI: Sustainable Food and Fibre Futures (SFFF) Fund	The SFFF Fund supports problem-solving and innovation in New Zealand's food and fibre sector by co-investing in initiatives that make a positive and lasting difference. SFFF replaces the Primary Growth Partnership (PGP) and the Sustainable Farming Fund (SFF).	\$108
MPI: Industry Transformation Plans – Food and Beverage, Forestry, Fisheries	Actions may deliver new technologies, diversification, emissions reductions, development of high-value jobs, and improved environmental performance. These will in turn fuel economic growth, including the Māori economy, and strengthen New Zealand's position as a provider of sustainable high-value food and fibre products.	\$26
<i>Agriculture</i>		
MPI: Accelerating development of greenhouse gas mitigations (CERF funded)	This initiative will accelerate development and uptake of high impact agricultural mitigation technologies, reduce greenhouse gas emissions, and help meet our targets and international commitments.	\$217
MPI: Accelerating the delivery of a national integrated farm planning system for New Zealand farmers and growers	This funding supports the career pathway scheme for farm advisors, an integrated farm planning accelerator fund, data and tools for farmers to develop plans, and the ongoing development of the integrated farm planning framework.	\$20
MPI: Agriculture Climate Change Funds	Science, research, technology, capacity and capability in climate change related to the primary land-based sectors.	\$60
MPI: Supporting producers and Māori entities to transition to a low-emissions future (CERF funded)	This initiative ensures farmers, growers, and whenua Māori entities (producers) can access support and have the confidence to move to low-emissions farm systems.	\$24
MPI: Developing the He Waka Eke Noa pricing system (phase one)	This initiative funds essential development work necessary to support and enable decisions during 2022/23 on the options for the implementation of the agricultural emissions pricing scheme in accordance with new obligations under the Climate Change Response Act 2002.	\$6
<i>Forestry</i>		
MPI: Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity (CERF funded)	This initiative responds to the Climate Change Commission recommendation to increase native afforestation to create permanent carbon sinks to offset emissions from hard-to-abate sectors.	\$123

Activity	Description	\$m
MPI: Maximising carbon storage: increasing natural sequestration to achieve New Zealand's future carbon goals (CERF funded)	This initiative will maximise the sequestration benefit from forestry and other land uses, drive increased carbon storage in long-lived wood products, and quantify the mitigation potential of coastal ecosystems.	\$83
MPI: Increasing woody biomass supply to replace coal and other carbon intensive fuels and materials (CERF funded)	Woody biomass offers the best alternative to coal, and sufficient supply is critical to decarbonisation. Projections show New Zealand faces woody biomass shortages by 2030, while demand is expected to rise sharply as efforts to reduce carbon emissions from fossil fuels pick up pace.	\$47
MPI: Hill Country Erosion (HCE) Fund	The HCE Programme is a partnership between the Ministry for Primary Industries (MPI), councils and landowners. It provides funding support to regional erosion-control projects that are beyond the capacity of councils to address on their own.	\$26

IV. Terrestrial and Aquatic Biodiversity

Activity	Description	\$m
MfE: Essential Freshwater Reform activities <ul style="list-style-type: none"> - <i>Kaipara Moana Remediation Programme</i> - <i>Freshwater Improvement Fund</i> - <i>Public Waterways & Ecosystem Restoration Fund</i> - <i>Te Mana o Te Wai</i> - <i>Essential Freshwater Fund</i> 	These programmes, relating to essential freshwater, aim to: <ul style="list-style-type: none"> - halt the degradation of the Kaipara harbour - support the management of New Zealand's lakes, rivers, streams, groundwater and wetlands - address contamination of New Zealand's waterways, create enduring environmental benefits, support sustainable land use, and create jobs with a regional spread, and - support Māori to improve the health of freshwater bodies of importance to them. 	\$360
DOC: Battle for our Birds and Save our Iconic Kiwi	Battle for our Birds (BFOB) is DOC's nationally-coordinated, landscape scale predator control programme. The goal of the programme is to ensure a representative range of New Zealand native species and ecosystems remain in a healthy, functioning condition for future generations.	\$115
DOC: Predator Free 2050 (PF2050)	A programme for the research, development and improvement component of Predator Free New Zealand by 2050 (PF2050). This enables research and development of new tools and techniques for predator control, funds the PF2050 programme co-ordination, and social science on PF2050.	\$75
DOC: Ramping up deer management and goat control (B22)	This initiative will reduce damage to vegetation and indigenous flora from deer and goats by scaling up direct management in the field and improved co-ordination across agencies and organisations.	\$22
MPI: Protecting biodiversity, water and farmland from invasive wilding conifers	This initiative provides funding for phase 2 of the National Wilding Conifer Control Programme. The programme delivers coordinated control to prevent the spread of wilding conifers (NZ's number one weed) and progressively reduce the affected area to the point where they can be sustainably managed by landowners.	\$100

MPI: Protecting and preserving kauri, New Zealand's iconic taonga	This initiative provides funding to manage the threat of kauri dieback to New Zealand's iconic kauri trees and buy time while seeking a cure by containing the disease. It will finalise and implement a Kauri Protection National Pest Management Plan under the Biosecurity Act 1993.	\$32
MPI: Containing wallabies to protect NZ agriculture, forestry and native plants	This initiative funds a coordinated national programme focusing on managing wallabies (a serious NZ pest) outside current containment areas and investing in high priority research to improve the effectiveness of wallaby management to provide future management options (eg roll-back, or eradication).	\$28
MPI: National Pathway Management Plan for Clean Hulls	This initiative will pilot a Clean Hulls Programme for the upper North Island, covering 70% of New Zealand's vessel fleet. The programme aims to prevent the spread of invasive marine species that can have significant impacts on the marine environment, marine based industries, and aquaculture, and taonga species.	\$4
Kānoa - REDIU (MBIE): Terrestrial and Aquatic Biodiversity Projects	Kānoa manages a range of contracted aquaculture, climate resilience and fencing of waterways projects in regional New Zealand.	TBC

V. Climate Change Adaptation

Activity	Description	\$m
MFAT: Pacific Resilient Ecosystems	The goal of the Resilient Ecosystems Programme is to restore and protect ecosystem services that support development outcomes and adaptation to climate change. This is done through ensuring: <ul style="list-style-type: none"> - Strengthened community resilience to the impacts of climate change - Pacific communities thrive, supported by healthier and more resilient ecosystems due to reduced threats from invasive and improved biosecurity - Countries and communities are benefitting from nature-based solutions actions and investments. 	\$18
MFAT: Pacific Water Security	The intended outcome of the Water Security Programme is to improve Pacific Island Countries' resilience to climate change through strengthening water security. This is done through addressing water scarcity, averting water-related emergencies, and building resilient systems.	\$33
MBIE: Just Transitions Partnerships	The Just Transitions Partnership team supports regional partners to understand, plan and navigate their transition to a low-carbon economy in a way that is fair and equitable – a just transition.	\$4

VI. Sustainable Water and Wastewater Management

Activity	Description	\$m
DIA: Grants for Water Infrastructure and Delivery	Projects to support the development of Three Waters infrastructure and support increased resilience to natural hazards and climate change.	\$256
DIA: "Better Off" Tranche 1	Projects targeted at climate change and natural hazard resilience.	\$500
Kānoa - REDIU (MBIE): Water storage investments.	Kānoa manages a range of contracted water storage investments in regional New Zealand.	TBC

VII. Pollution Prevention and Control

Activity	Description	\$m
MfE: COVID-19 Response and Recovery Fund (CRRF) Waste Minimisation and Resource Recovery Package	A package of individually funded projects which include recycling and resource recovery infrastructure to support waste minimisation.	\$68
MfE: Reducing emissions from waste (CERF)	This initiative seeks to implement a suite of proposals to reduce emissions in line with the target reduction pathway in the emissions reduction plan. This initiative will reduce and divert organic waste from landfills and enable emissions to be reduced	\$75
MfE: Contaminated Sites Remediation Fund	Regional councils and unitary authorities can apply for funding for the remediation of contaminated sites that pose a risk to human health and the environment. This can be on behalf of landowners.	\$19
Kānoa - REDIU (MBIE): Waste sector investments	Kānoa manages a range of contracted waste and recycling investments in regional New Zealand.	TBC