Second-Party Opinion

LGFA Sustainable Financing Bond Framework

Second-Party Opinion
Reviewed by:
MORNINGSTAR | SUSTAINALYTICS

Evaluation Summary

Evaluation Date	March 29, 2023
Issuer/Originator Location	Wellington, New Zealand

The LGFA Sustainable Financing Bond Framework and its Sustainable Loans Programme Criteria contribute to the following SDGs:

Sustainable Financing Bond Framework

Sustainalytics has reviewed the LGFA Sustainable Financing Bond Framework, (the "Framework"), under which LGFA intends to issue sustainable financing bonds to finance or refinance funding it provides to its member councils and council controlled organizations (the "Borrowers"), and the net proceeds of those sustainable financing bonds will be notionally allocated to a pool of sustainable loans advanced to the Borrowers comprising: i) Green, social and sustainability loans ("GSS Loans") (see Green, Social and Sustainability Loans Criteria below); and ii) Climate Action Loans ("CALs")[1] (see Climate Action Loans Criteria below) (together "Sustainable Loans"). Sustainalytics is confident that LGFA is well positioned to issue sustainable financing bonds and use proceeds from the bonds to originate GSS Loans and CALs under its GSS Loan Criteria and CAL Criteria respectively. Sustainalytics is of the opinion that the Framework, as based on the proceeds-based pillars of general market standards for sustainable finance, is overall in alignment with the impact and transparency principles which underpin the sustainable finance market.

Furthermore, Sustainalytics is of the opinion that the components of the Framework are credible and that LGFA's criteria for assessing the eligibility of loans under the Framework will direct funds to Sustainable Loans that are expected to provide overall positive environmental and social impact.[2] Furthermore, Sustainalytics is of the opinion that the principles of impact and transparency that underlie the sustainable finance industry and many of its norms and standards, are applicable to the sustainable financing bonds LGFA intends to issue, and that LGFA's internal processes and the use of funds overall aligns with said impact and transparency principles.

LGFA intends to use the Framework to issue sustainable financing bonds following the proceeds-based pillars of the general market standards for sustainable finance, namely the Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG).[3] Sustainalytics notes that LGFA does not claim direct alignment of the Framework with these principles, given the nature of the pool of Sustainable Loans, which comprises both GSS Loans and CALs together in the same asset pool.

[1] CALs are target (or incentive) based loans, and so are sustainability-linked loans in nature and structure. LGFA defined a standard KPI and SPT to be used by the Borrowers (see Tables 1 and 2) to incentivize Borrowers to reduce their scope 1 and 2 GHG emissions through the adoption of an Emissions Reduction Plan and a 1.5°C aligned science based GHG emissions reduction targets. Failure to achieve the SPT results in declassification from the CAL Programme, rendering the Borrower ineligible to apply for new CALs until LGFA is satisfied (in its sole discretion) that the Borrower and the declassified CAL meet the CAL Criteria.

[2] Given GSS Loans are proceeds-based, they are expected to have overall positive environmental and social impact. While CALs are not proceeds-based, they are still expected to have positive environmental impact given i) the specific nature of the SPT and ii) the role that declassification from the CAL Programme will play to incentivise the Borrower to achieve the SPT. The expected positive environmental impact from CALs is linked impact, i.e. impact linked to the loan characteristics namely, the Borrower's declassification from the CAL Programme upon failure to achieve SPTs, unlike the direct environmental impact from GSS Loans.

[3] The GBP, SBP and SBG are administered by the International Capital Market Association, and are available at: https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/

Green, Social and Sustainability Loans Criteria

Green Loan Principles 2023 and Social Loan Principles 2023

Sustainalytics is of the opinion that the Green, Social and Sustainability Lending Programme – Criteria ("GSS Loan Criteria") under the Framework is credible and impactful and aligns with the Green Loan Principles 2023, and Social Loan Principles 2023 (the "Use of Proceeds Loan Principles"). The eligible categories for the use of proceeds – Energy Efficiency; Green Buildings; Clean Transportation; Sustainable Water and Wastewater Management; Renewable Energy; Pollution Prevention and Control; Environmentally Sustainable Management of Living Natural Resources and Land Use; Climate Change Adaptation; Terrestrial and Aquatic Biodiversity Conservation; Affordable Basic Infrastructure; Access to Essential Services; Affordable Housing; are aligned with those recognized by the Use of Proceeds Loan Principles and will deliver overall positive environmental and social impacts.

Climate Action Loans Criteria

Sustainability-Linked Loan Principles 2023

Sustainalytics is of the opinion that the Climate Action Loans Programme – Criteria ("CAL Criteria") for originating and evaluating CALs is partially aligned with the intent of the Sustainability-Linked Loan Principles 2023, and that the KPI and SPT to be used by the Borrowers are expected to be in line with the Sustainability-Linked Loan Principles 2023. The CAL Criteria are in line with the intent of four of the five core components of the SLLP. Sustainalytics recognizes that a primary aim of the CAL Programme is to incentivize Borrowers to achieve ambitious decarbonization targets and considers the mechanism of declassification from the Programme to be an impactful incentive to achieve such targets. However, Sustainalytics considers that the loan (pricing and margin adjustment) characteristics set out in the CAL Criteria are technically not aligned with the SLLP's loan characteristics component (Component 3 of the SLLP) because the penalty cannot be linked within the same CAL term due to existing accounting standards, but to future CALs.[4]

Overview of the KPIs and SPTs defined in the CAL criteria:

KPI	Strength of the KPI	SPT	Ambitiousness of SPT
Absolute gross scope 1 and 2 GHG emissions (tCO_2e)	Strong (As relates to Councils)	Reduction in absolute gross scope 1 and 2 GHG emissions in line with a 1.5°C science-based scenario[5]	Highly Ambitious
	Adequate (As relates to CCOs[6])		

[4] LGFA has communicated that it has chosen such loan characteristics to prevent risk related to accounting standards (see Loan Characteristics section below).
[5] Sustainalytics notes that setting such scope 1 and 2 GHG emissions reduction targets in line with 1.5°C scenario may be guided by the Science-Based Targets initiative (SBTi) or credible third parties such as Toitū Envirocare.
[6] Council Controlled Organizations.

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Scope of Work and Limitations

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[7] opinion on the alignment of the LGFA Sustainable Financing Bond Framework dated March 2023 (the "Framework") with current market standards. As part of this Second-Party Opinion, Sustainalytics assessed:

- The Framework's alignment with the underlying principles of impact and transparency and market expectations, as relating to issuance of sustainable financing bonds;
- Alignment of the Climate Action Loans Programme – Criteria (the "CAL Criteria") and the Green, Social and Sustainability Lending Programme – Criteria ("GSS Loan Criteria") (together "Sustainable Loans Programme – Criteria" or "SLPC") under the Framework with the expectations and intent of the Green Loan Principles 2023, Social Loan Principles 2023, and Sustainability-Linked Loan Principles 2023 (the "Principles"), and with their core components, as applicable;[8]
- The credibility and anticipated positive impacts of the use of proceeds and sustainability performance targets to be used by potential borrowers; and
- The issuer's sustainability strategy, performance and sustainability risk management.

As part of this engagement, Sustainalytics held conversations with various members of LGFA's management team to understand the sustainability impact of their business processes and the core components of the Framework. LGFA's representatives have confirmed that:

(1) They understand it is the sole responsibility of LGFA to ensure that the information provided is complete, accurate and up to date;

(2) They have provided Sustainalytics with all relevant information; and

(3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics' opinion of the Framework and SLPC and should be read in conjunction with that Framework and the SLPC. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and LGFA.

Sustainalytics' Second-Party Opinion assesses alignment of the Framework and its SLPC with current market expectations and standards, but does not provide any guarantee of alignment nor warrants alignment with any future versions of such standards and evolving expectations. Regarding the portion of the Second-Party Opinion which assesses:

- I) The Framework in relation to sustainable financing bonds; ii) GSS Loan Criteria and its use of proceeds categories; and iii) the CAL Criteria for potential borrowers of Climate Action Loans (CALs),[9] LGFA is encouraged to update the associated parts of the Framework 24 (twenty-four) months from the evaluation date, if necessary, and seek an update to this Second-Party Opinion to ensure ongoing alignment of the Framework with market expectations and relevant market standards.

For assessing the GSS Loan Criteria, Sustainalytics relied on its internal taxonomy, version 1.13.1, which is informed by market practice and Sustainalytics' expertise as an ESG research provider. This Second-Party Opinion:

- addresses the anticipated impacts of eligible projects but does not measure their actual impact. Reporting and measuring impact of projects financed under the Framework is the responsibility of the Framework owner or the potential borrowers; and
- opines on the potential allocation of proceeds but does not guarantee their realized allocation towards eligible activities.

For the CAL criteria, the Second-Party Opinion:

[7] When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

[8] The loan-related principles and guidelines are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association, and are available at: https://www.lsta.org/content/?_industry_sector=guidelines-memos-primary-market

[9] For CAL Criteria for potential borrowers of CALs, this Second-Party Opinion is valid until 24 months from the evaluation date, or until one of the following occurs: 1) a material change to the external benchmarks against which targets were set; or 2) a material corporate action at borrower level (such as a material M&A or change in business activity) which has a bearing on the achievement of the SPTs or the materiality of the KPIs.

- addresses the CAL Criteria in the Framework and its anticipated SPTs of KPI for the potential borrowers but does not measure progress on the KPIs at an individual loan level. Measuring and reporting on KPIs is the responsibility of the Framework owner or the potential borrowers.

No information Sustainalytics provides under this Second-Party Opinion shall be considered as being a statement, representation, warrant or argument in favour or against the truthfulness, reliability or completeness of any facts or statements and related circumstances that LGFA may have disclosed to Sustainalytics for the purpose of this Second-Party Opinion.

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Introduction

The New Zealand Local Government Funding Agency Limited ("LGFA", the "Issuer" or the "Originator") is a Council-Controlled Organization ("CCO") headquartered in Wellington and operates under the Local Government Act 2002 of New Zealand. LGFA is a funding agency that raises debt on behalf of councils and CCOs (the "Borrowers") of New Zealand.

LGFA has developed the Framework to issue sustainable financing bonds to finance or refinance funding it provides to councils and CCOs where an amount equal to the net proceeds of those sustainable financing bonds will be notionally allocated to an asset pool of Sustainable Loans comprising i) GSS Loans and ii) CALs or both ("Sustainable Loan Asset Pool"). The Framework is underpinned by the SLPC as part of LGFA's sustainable loans programme to provide Sustainable Loans to the Borrowers. The SLPC under the Framework are intended to guide potential GSS Loans and CALs between LGFA and the Borrowers. Presently, the Borrowers comprise 77 of the 78 councils in New Zealand, along with three CCOs.

Councils in New Zealand are made up of two tiers: territorial councils (city councils and district councils) and regional councils (together "Councils"). Under the unitary governance system of New Zealand, along with local government reforms, Councils cover only a narrow range of services, which leaves them with no: i) legislative powers; ii) powers to levy taxes, except property taxes; iii) powers to impose emission taxes on other corporations or businesses; or iv) powers to influence GHG emissions beyond operational control in their city, district or region. Councils can provide services and activities to their communities: i) through their in-house staff and operations, ii) by contracting a third party or organization; and iii) through a CCO. In contrast, CCOs are companies, trusts or other such organizations with the majority of control held by a single council or jointly with other councils. Both Councils and CCOs are governed by the Local Government Act.[10] CCOs are established for a variety of purposes including to streamline the delivery of public services such as ports, airports, holdings, water and wastewater services, infrastructure, electricity distribution, public facilities, etc.[11] Overall, CCOs' main purpose is to facilitate the achievement of objectives of Councils, while the responsibilities pertaining to delivery of specific public services are transferred to the CCOs to streamline the delivery of public services.[12]

LGFA has engaged Sustainalytics to review and provide a Second-Party Opinion on: i) the Framework's alignment with market expectations in line with the key principles of impact and transparency that underlie the sustainable finance industry as relating to the sustainable financing bonds;[13] and ii) with the market standards as relating to the SLPC including the Green Loan Principles 2023 ("GLP"), Social Loan Principles 2023 ("SLP") and Sustainability-Linked Loan Principles 2023 ("SLLP") (together the "Principles" and the GLP and SLP together, the "Use of Proceeds Loan Principles").[14] The Framework will be published in a separate document along with the GSS Loan Criteria and the CAL Criteria on LGFA's website.[15]

In line with the GSS Loan Criteria, LGFA intends to originate GSS Loans, the proceeds of which will finance or refinance, in whole or in part, existing or future green and social or both projects, assets and activities that are expected to deliver positive environmental and/or social impact. The GSS Loan Criteria under the Framework defines eligibility criteria in nine green and three social categories:

Green categories:

1. Energy Efficiency
2. Green Buildings
3. Clean Transportation
4. Sustainable Water and Wastewater Management

[10] New Zealand Legislation, "Local Government Act 2022", at: https://www.legislation.govt.nz/act/public/2002/0084/latest/versions.aspx

[11] Department of Internal Affairs, "Local Government Act 2002", at: https://www.legislation.govt.nz/act/public/2002/0084/latest/DLM171482.html

[12] Office of the Auditor-General New Zealand, "Governance and accountability of council-controlled organisations: Getting the design of a council-controlled organisation right", at: https://oag.parliament.nz/2015/cco-governance/part4.htm

[13] LGFA intends to issue sustainable financing bonds following a proceeds-based structure as informed by the use of proceeds-based pillars of the general market standards for sustainable finance such as the Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG), Green Loan Principles (GLP), Social Loan Principles (SLP), and Sustainability-Linked Loan Principles (SLLP). Sustainalytics notes that LGFA does not claim direct alignment of the Framework with these principles, given the nature of the pool of Sustainable Loans, which comprises both GSS Loans and CALs together in the same asset pool. The SBG, GBP, and SBP are administered by the International Capital Market Association, and the GLP, SLP and SLLP are administered by the LMA, APLMA and LSTA, and are available at: https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/ and https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/

[14] The Green Loan Principles, Social Loan Principles, and Sustainability-Linked Loan Principles are administered by the Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA) and Loan Syndications & Trading Association (LSTA) and are available at: https://www.lsta.org/content/green-loan-principles/; https://www.lsta.org/content/social-loan-principles-slp/; and https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/

[15] The Framework and its GSS Loan Criteria and CAL Criteria will be available on LGFA's website at: https://www.lgfa.co.nz/sustainability/sustainability-lgfa

5. Renewable Energy
6. Pollution Prevention and Control
7. Environmentally Sustainable Management of Living Natural Resources and Land Use
8. Climate Change Adaptation
9. Terrestrial and Aquatic Biodiversity Conservation

Social categories:

10. Affordable Basic Infrastructure
11. Access to Essential Services
12. Affordable Housing

In line with the CAL Criteria, LGFA intends to originate CALs, which are target (or incentive) based loans, and thus are sustainability-linked loans in nature and structure. LGFA defined a standard KPI and SPTs for the Borrowers (see Tables 1 and 2) to incentivize them to reduce their GHG emissions through the adoption of an emissions reduction plan and 1.5°C aligned science based GHG emissions reduction targets. Failure to achieve the SPTs results in declassification from the CAL Programme, rendering the Borrower ineligible to apply for a new CAL until LGFA is satisfied (in its sole discretion) that the Borrower and the declassified CAL meet the CAL Criteria.

Tables 1 and 2 below describe the KPI and SPTs LGFA defined in its CAL Criteria.

Table 1: KPI Definitions

KPI	Description
Absolute gross scope 1 and 2 GHG emissions (tCO_2e)	The KPI measures the annual scope 1 and 2 GHG emissions (in tCO_2e) reported by the Borrowers individually for the relevant sustainability reference period.[16] The KPI at the Borrower level is expected to be in line with the GHG Protocol Corporate Standard or ISO 14064 Standard. The scope 1 and 2 GHG emissions of Councils include organizational emissions from operation of assets and facilities owned and controlled by the Councils. The GHG emission sources of Councils may cover various activities, such as agriculture, energy, transport, waste, water, health, public facilities, etc. depending on the geography and governance structure of the Councils. The emissions sources of CCOs may vary depending upon the specific activities that each CCO undertakes.

Table 2: SPTs and Past Performance

KPI	Baseline	SPT 2025, 2028, 2030 or 2050[17]
Absolute gross scope 1 and 2 GHG emissions (tCO_2e)	n/a[18]	Reduction in absolute gross scope 1 and 2 GHG emissions in line with a 1.5°C science-based scenario

[16] The CAL Criteria define the sustainability reference period as the preceding 12 months of each year during which the emissions reduction targets (ERTs) or SPTs are measured (e.g. 1 July to 30 June). The sustainability reference period will be proposed by each Borrower usually in alignment with the relevant financial reporting period and as agreed with LGFA.

[17] The emissions reduction plan (ERP) of the Borrowers will include annual targets for scope 1 and 2 GHG emission reductions and cover short-term periods (up to five or six years, e.g. 2023 to 2028) in line with their 2030 target, as well as a medium-term target (six to 10 years in line with the 2030 target and beyond, e.g. 2029 to 2032), which will ultimately support the Borrower to achieve its long-term goal of net zero by 2050 (or sooner) and an alignment with the 1.5°C scenario. The SPT years are illustrative to represent typical examples of short-, medium- and long-term targets.

[18] The specific baseline is not applicable for the assessment of CAL Criteria. LGFA intends to provide flexibility to the Borrowers to select the baseline year in line with their own ERP considering the decarbonization journeys of the individual Borrowers. LGFA has confirmed to Sustainalytics that the data for the selected baseline year for each individual Borrower would be verified by a recognized independent third-party.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of the Framework, the GSS Loan Criteria and the CAL Criteria with Market Expectations and Relevant Standards

Alignment of Sustainable Financing Bond Framework with Market Expectations

Under the Framework, LGFA intends to issue sustainable financing bonds following a proceeds-based structure as informed by the proceeds-based pillars of the market standards for sustainable finance such as the GBP, SBP and SBG.[19] Sustainalytics notes that LGFA does not claim direct alignment of the Framework with these principles given the nature of the pool of Sustainable Loans, which comprises both GSS Loans and CALs together in the same asset pool. Therefore, proceeds allocated to CALs cannot be considered as credible use of proceeds category under those principles, given the proceeds allocated to CALs cannot fulfil the recommendations set out by the GBP, SBP and SBG.

Nevertheless, Sustainalytics is of the opinion that the Framework is credible and that the sustainable financing bonds will fund overall impactful social and environmental sustainable loan pools (of GSS Loans and CALs).[20] Sustainalytics notes the alignment of the Framework with the concepts underpinning the sustainable finance market, namely those of impact and transparency.

Impact

The Framework, together with its GSS Loan Criteria and CAL Criteria, will advance the sustainability objectives of LGFA by enabling GSS Loans and CALs with positive environmental and social impact. Refer to the sections below for Sustainalytics' opinion on their alignment with market expectations and relevant standards.[21]

Transparency

Transparency is recognized as a key principle with regard to sustainable finance, as it provides assurance and the necessary information to stakeholders to enable them to assess the extent to which investments are delivering positive impact. Sustainalytics highlights the following elements of the Framework that facilitate transparency:

Disclosures regarding selection of eligible loans and management of proceeds under the Framework

- LGFA intends to notionally allocate an amount equal to the net proceeds raised from the issuance of sustainable financing bonds under the Framework to the Sustainable Loan Asset Pool. Sustainable Loans must meet the eligibility criteria set out in the GSS Loan Criteria or the CAL Criteria to be included in the Sustainable Loan Asset Pool. In addition, project selection and evaluation process under the Framework encompass consideration of factors such as i) alignment to LGFA's sustainability strategy; and ii)

[19] The GBP, SBP and SBG are administered by the International Capital Market Association, and are available at: https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/

[20] Given GSS Loans are proceeds-based, they are expected to have overall positive environmental and social impact. While CALs are not proceeds-based, they are still expected to have positive environmental impact given i) the specific nature of the SPT and ii) the role that declassification from the CAL Programme will play to incentivise the Borrower to achieve the SPT. The expected positive environmental impact from CALs is linked impact i.e. impact linked to the loan characteristics namely, the Borrower's declassification from the CAL Programme upon failure to achieve SPTs, unlike the direct environmental impact of GSS Loans.

[21] Refer the following sections: i) Alignment of GSS Loan Criteria with Use of Proceeds Loan Principles; and ii) Alignment of CAL Criteria with Sustainability-Linked Principles sections.

assessment of any potential negative social and/or environmental impacts from the GSS Loans and mitigants to these impacts.
- Based on the above, and LGFA's Sustainability Committee's recommendations, LGFA's chief executive will approve each proposed GSS Loan and/or CAL.
- The Sustainable Loan Asset Pool may be replenished if: i) GSS Loans or CALs are repaid or have matured; ii) ineligible GSS Loans or CALs are removed; or iii) additional GSS Loans or CALs are identified and funded. LGFA will ensure financing that meets both the GSS Loan Criteria and CAL Criteria is not double counted within the Sustainable Loan Asset Pool.
- LGFA will maintain a register of the Sustainable Loan Asset Pool ("Sustainable Loan Register"), which will outline the Sustainable Loans that have been included in the Sustainable Loan Asset Pool. The Sustainable Loan Register will separately maintain the current value of GSS loans and CALs, based on the amounts advanced to the Borrowers under the relevant loans and ensure equivalent allocation of net proceeds raised from the sustainable financing bonds to the Sustainable Loan Asset Pool. LGFA has confirmed that the Sustainable Loan Register will be overseen by LGFA's management.
- LGFA intends to notionally allocate an amount equal to the net proceeds of the sustainable financing bonds to Sustainable Loans within two years of the issue date of the relevant sustainable financing bonds. In addition, when notionally allocating the amount equal to the net proceeds from a sustainable financing bond to Sustainable Loans, LGFA will only include Sustainable Loans in the Sustainable Loan Asset Pool that were advanced in the two years before the issue date of relevant sustainable financing bonds.
- Pending allocation, any net unallocated proceeds will be temporarily invested in: i) cash and money market securities; or ii) investment instruments that do not include GHG emissions intensive projects.
- Sustainalytics considers this level of disclosure to investors as sufficient to ensure the credibility of the project selection process. Further, for Borrower level disclosures on project selection and management of proceeds see i) Alignment of GSS Loan Criteria with Use of Proceeds Loan Principles; and ii) Alignment of CAL Criteria with SLLP sections.

Reporting

- LGFA intends to annually disclose Annual Update Reports for all outstanding sustainable financing bonds under the Framework. These reports will include i) allocation reporting encompassing a list and description of the Sustainable Loans financed or refinanced, and the amount of net proceeds notionally allocated towards the Sustainable Loan Asset Pool; ii) eligibility reporting including confirmation on Sustainable Loans meeting the eligibility criteria included in the Framework; and iii) impact reporting providing qualitative and quantitative reporting of environmental and social impacts against the relevant impact indicators. LGFA's management oversees LGFA's reporting obligations and the notional allocation of the net proceeds of sustainable financing bonds to the sustainable loan asset pool.
- LGFA has confirmed to Sustainalytics that allocation and impact reporting of the GSS loans and CALs will be reported distinctively, and avoidance of double counting will be ensured.
- See i) Alignment of GSS Loan Criteria with Use of Proceeds Loan Principles; and ii) Alignment of CAL Criteria with SLLP sections for more details regarding reporting under GSS Loans and CALs.

Alignment of GSS Loan Criteria with Use of Proceeds Loan Principles

Sustainalytics is of the opinion that the GSS Loan Criteria under the Framework is overall credible, impactful and aligns with the Use of Proceeds Loan Principles. Sustainalytics highlights the following elements of the GSS Loan Criteria for GSS Loans under the Framework:

Use of Proceeds

Overall Assessment of Use of Proceeds

- The GSS Loan Criteria has defined an 18-month look-back period prior to the date of GSS Loan application for existing projects for the Borrowers, which Sustainalytics considers to be in line with market practice.[22]
- LGFA has established an exclusionary criteria under the GSS Loan Criteria for sectors and activities which further excludes financing to activities such as i) manufacturing and wholesale of trade of tobacco products; ii) alcoholic beverages; iii) ownership or operation of gambling enterprises; iv) production or distribution of adult entertainment materials; v) manufacturing or retail sale and distribution of weapons and small arms; vi) transportation of live cattle; vii) whaling; viii) predatory lending activities; ix) production or refining of palm oil; x) extraction or refining of fossil fuels; xi) transmission infrastructure and systems where 25% or more of electricity transmitted to the grid is fossil-fuel-generated; and xii) restricted by CBS requirements if applicable.

Use of Proceeds Category	Activity	Sustainalytics' Assessment
Energy Efficiency	Energy efficiency measures to reduce energy requirements and manage demand for energy	- Expenditures related to reduction of energy requirements in the projects, buildings, assets, activities or facilities owned by the Councils and CCOs, such as fitting additional insulation, replacing windows, LED lightings, replacing oil and gas boilers with electric ones, upgrading and installing energy efficient hot water heating systems such as electric heat pumps and absorption heat pumps driven by solar-heated water or geothermal-heated water. The expenditures may also include installation of smart meters that optimize energy efficiency. LGFA has confirmed that consumer products such as refrigerators, washing machines, etc. will be excluded. Sustainalytics considers these investments to be in line with market practice. - LGFA has confirmed energy efficiency activities are not related to projects and assets that aid reducing GHG emissions from heavy industries and fossil fuel dependent industries and their operations that are inherently carbon intensive, or that are primarily driven or powered by fossil fuels. - The eligible projects under this category are expected to achieve i) at least 25% reduction in annual energy consumption for energy efficiency projects and technologies, ii) at least 35% less energy consumption per square metre in case of renovation of buildings and facilities. Sustainalytics views positively the inclusion of defined energy efficient thresholds for installations of energy-efficient systems, equipment and technologies.
Green Buildings	Acquisition, operation, renovation or retrofitting of existing buildings achieving minimum green building rating	- Investments in the acquisition, operation or retrofit of existing buildings (buildings that are at least two years post build completion or able to achieve an operational green building rating), that have received or are expected to receive the following green building standards, ratings or certification levels: i) For office buildings, a minimum 4 Star under NABERSNZ Energy Base Building rating or Energy Whole Building; or ii) For retail buildings, or other building types as applicable: a) a minimum of 4 Star under Green Star Performance Rating of New Zealand Green Building Certification (NZGBC), or b) a

[22] LGFA has confirmed to Sustainalytics that the GSS Loans do not include revolving credit facilities and multi-tranche loans.

		score of 8/20 for base building or 9/23 for whole building under the GHG emissions credit section of the Green Star Performance rating ("Green Star Performance Criteria"). - Sustainalytics views these expenditures related to renovation of existing buildings to be in line with market practice.
	Construction or retrofitting of new buildings achieving minimum green building ratings	- LGFA intends to finance the construction or retrofit of new buildings that have received or are expected to receive the following green building standards, ratings or certification levels: i) For residential buildings, a minimum of 7 Star Homestar rating. For projects related to public housing, a minimum of 6 Star Homestar rating may be obtained where significant other greenhouse gas emissions criteria on waste or embodied carbon are achieved. ii) For other building types, a minimum: a) NZGBC 5 Green Star Design and/or Built rating; or b) the Green Star Performance Criteria (as above, under existing buildings); or c) 4 Star NABERSNZ Energy Base Building rating or Energy Whole Building rating. LGFA has confirmed to Sustainalytics that for industrial buildings the expenditures would only be limited to the building envelope. - Sustainalytics views expenditures related to construction of new certified green buildings to be in line with market practice.
Clean Transportation	Footpaths, bicycles and related infrastructure projects	- Investments in procurement of electric scooters, bicycles and electric bicycles. - Expenditures also include construction of new footpaths and cycle paths, lighting for footpaths or cycle paths and bicycle parking facilities. - Sustainalytics considers these investments to be in line with market practice.
	Land transport	- Expenditures related to procurement of zero emissions light or heavy vehicles for public, private and freight transportation powered by electricity or green hydrogen. - Investments in procurement of new zero emissions railway carriage and other equipment for rail-based public transport powered by electricity or green hydrogen. - LGFA confirmed that freight trucks and rails dedicated to transport fossil fuel or alternate fuel blended with fossil fuel are not included for financing under the GSS Loan criteria. - Sustainalytics considers these expenditures to be in line with market practice.
	Maritime transport	- Expenditures related to procurement of zero emission ferries, high-speed craft and other types of maritime transport vessels powered by electricity, or green hydrogen. - LGFA has confirmed that tank containers and cargo ships or vessels dedicated to transport of fossil fuel or alternate fuel blended with fossil fuel are not included for financing under the GSS Loan criteria. - Sustainalytics considers these expenditures to be aligned with market practice.
	Heavy machinery	- Expenditures related to procurement of zero emission heavy machineries such as diggers, compactors, telehandlers, straddle carriers powered by electricity or green hydrogen. - Sustainalytics views these expenditures to be in line with market practice. While Sustainalytics notes that these heavy machineries could support conventional shipping vessels, Sustainalytics recognizes the positive impact of electric infrastructure in ports in reducing GHG emissions and views this to be in line with market practice.
	Infrastructure	- Expenditures related to the infrastructure: i) Installing or upgrading of charging points for electric vehicles including high-speed and normal chargers. ii) Construction of green hydrogen filling stations. iii) Equipment related to zero emission public transport[23] services such as ticketing systems, real-time display systems and information equipment and tram depots. iv) Installing shore-side power connections, charging points for ferries, ships, etc. Sustainalytics notes that this infrastructure

[23] Eligible equipment will be in relation to eligible zero emission public transportation vehicles as defined by criteria under Land Transport category.

		will cater to recharging of electric batteries. LGFA has confirmed that such facilities do not include bunkering of any fossil fuels. Sustainalytics notes that while the installation of electric charging points will support the use of electric vessels, such infrastructure will also be supporting vessels with diesel-fueled auxiliary engines. While noting this, Sustainalytics recognizes the positive impact of electric infrastructure in ports in reducing GHG emissions. v) Zero-emission port infrastructure such as electric cranes, straddle carriers powered by electricity or green hydrogen. vi) Infrastructure related to zero-emission heavy machinery such as charging points and energy stations. - Sustainalytics views these expenditures to be in line with market practice. Regarding port infrastructure, Sustainalytics notes that it could support conventional shipping vessels and that the potential Borrowers will not have control over fuel usage of the vessels supported by the port infrastructure. Nevertheless, Sustainalytics recognizes the positive impact of electric infrastructure in ports in reducing GHG emissions.
Sustainable Water and Wastewater Management	Surface runoff management	- Expenditures related to installing separate pipes for surface runoff that carry the surface water to a watercourse or fjord, replacing water supply pipes at the same time and at the same route as the surface runoff pipes. Sustainalytics notes that investments in such activities are intended to improve water supply efficiency that can prevent water loss and ensure appropriate water diversion to water bodies. - Sustainalytics notes that projects related to urban drainage systems, will include the implementation of risk assessments[24] and adaptation plans. - Sustainalytics considers this to be aligned with market practice.
	Small scale energy production measures	- Expenditures related to installations for recovering heat from wastewater, energy from gravity distribution networks and heat pumps. LGFA has confirmed that the financing will exclude wastewater from any fossil fuel operations and non-certified (RSB/RSPO) palm oil mill effluent. - Sustainalytics notes that heat pumps offer an energy-efficient heat transfer alternative to conventional systems. LGFA confirmed that project selection will assess the GWP <10 and assure leak detection and monitoring, while ensuring recovery, reclamation, recycling or destruction of refrigerants at end of life will be ensured for such systems. - Sustainalytics considers this to be aligned with market practice.
	Climate-friendly facilities	- Facilities or installations in new facilities or upgrading existing processing facilities that recover plant-available phosphorus from wastewater without using precipitant chemicals resulting in at least 30% phosphorus recovery. - Construction of new facilities and upgrading existing processing facilities for treating sludge[25] as a precursor to biogas production. - Risk and vulnerability assessment of facilities will be performed for applicable buildings/facilities. - Sustainalytics views these activities to be in line with market practice.
Renewable Energy	Bioenergy	- Following expenditures related to production of biomass, biogas or biofuels from the advanced feedstock as listed in Part A of Annex IX of the EU Directive 2018/2001,[26] including: i) Biomass fraction from mixed municipal waste (excluding separated household recyclable waste). ii) Biomass fraction of industrial waste that is not fit for use in the food or feed chain including material from retail, wholesale, and agro-food industry. LGFA has confirmed that biomass from fish and aquaculture industry is excluded.

[24] The risk assessment will i) consider both current weather variability and future climate change, including uncertainty; ii) be based on analysis of available climate data and projections across a range of future scenarios; iii) be consistent with the expected lifetime of the activity; iv) include a management response plan to the conclusions and findings of the risk assessment, noting how identified climate risks will be addressed and will be implemented.

[25] LGFA has confirmed the exclusion of wastewater and sludge from fossil fuel operations and waste from non- RSPO palm oil operations.

[26] European Union, "EU Directive 2018/2001 of the European Parliament and of the Council", at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L2001

		iii) Biofuels from straw and sewage sludge. Further, LGFA has confirmed sewage sludge excludes wastewater from fossil fuel operations. iv) Biomass fraction of wastes and residues from forestry and forest-based industries such as bark, branches, precommercial thinnings, leaves, needles, treetops, sawdust, cutter shavings, black liquor, brown liquor, fibre sludge, lignin, and tall oil. - Sustainalytics considers these expenditures to be aligned with market practice.
	Geothermal energy	- Expenditures related to geothermal electricity generation facilities where the lifecycle GHG emissions are lower than 100 gCO_2e/kWh. - Production of heat and cooling generation technology such as geothermal heat pumps and ground-heat pumps in compliance with ISO 14067 or life cycle GHG emissions below 100g CO_2e/kWh, declining to 0g CO_2e/kWh by 2050. - Transmission infrastructure specifically supporting geothermal energy generation facilities. - Sustainalytics considers this to be in line with market practice. Sustainalytics also notes that ground-heat pumps offer energy-efficient heat transfer alternative to conventional systems. Nevertheless, Sustainalytics recommends LGFA to exclude financing of heat pumps with high-GWP refrigerants, and to promote robust refrigerant leak control, detection and monitoring, while ensuring recovery, reclamation, recycling or destruction of refrigerants at end of life.
	Solar energy	- Investments in projects related to onshore solar electricity generation or solar thermal facilities, with less than 15% of electricity generated from non-renewable sources. - Transmission infrastructure specifically supporting solar generation facilities and other infrastructure such as inverters, transformers, energy storage systems and control systems. - Sustainalytics considers this to be in line with market practice.
	Wind energy	- Investments in projects related to onshore wind energy generation. LGFA has confirmed that the average life cycle GHG emissions from electricity generation from onshore wind facilities will be at or below 14.4gCO_2e/kWh. - Transmission infrastructure specifically supporting wind generation facilities. - Sustainalytics considers this to be in line with market practice.
	Energy storage	- Expenditures related to energy storage facilities such as battery storage linked to renewable energy categories as stated above. - Sustainalytics considers this to be in line with market practice.
	Network Capacity	- Expenditures related to support further electrification. - LGFA has confirmed, all expenditures under this activity will be dedicated towards renewables and where electricity transmitted through the grid is less than 90% then a pro-rata approach will be used for allocation of proceeds. - LGFA has confirmed new transmission and distribution infrastructure dedicated to connecting new fossil power plants and new nuclear plants are excluded. - Sustainalytics considers this to be in line with market practice.
Pollution Prevention and Control	Waste prevention and reuse	- Financing measures to reduce waste, such as setting up waste refuse centers. LGFA has communicated, this may include recycling plastics, scrap metal, organic waste, glass and timber. LGFA has further confirmed that a minor part of the activities may also include refurbishment or repair of products to put back to use with minimal or no further processing and will exclude products specifically used for extraction of fossil fuel or those that rely on fossil fuel. - LGFA has confirmed that financing of chemical recycling of plastics is excluded. - Sustainalytics considers this to be aligned with market practice.
	Waste collection, processing and treatment	- Financing measures such as introduction of collection schemes to increase waste sorting rates at source. - Developing new facilities for sorting wastes including residual waste sorting plants. LGFA has communicated such plants are meant for

		domestic and industrial residual wastes.[27] LGFA has confirmed that these facilities may include material sorting and recycling. - Financing development of new waste treatment facilities or upgradation of existing facilities for sorting and recycling of waste and to improve efficiency or capacity. LGFA has communicated examples of such activities include setting up of new recycling centre for processing growing volumes of plastic waste. LGFA has confirmed that financing of chemical recycling of plastics will be excluded. - The expenditures may include waste treatment facilities for e-waste recycling. LGFA has confirmed that robust waste management policies and processes for e-waste recycling will be ensured for such activities. - Sustainalytics views these expenditures to be in line with market practice.
Environmentally Sustainable Management of Living Natural Resources and Land Use	Anti-pollution measures	- Financing activities which result in reducing pollution on land or in the water, such as, improving filtration systems of storm water infrastructure to prevent spread of microplastics. LGFA has confirmed that such activities will not be tied to the Borrower's own negative impact from their own activities. - Expenditures related to sustainable forestry. GSS Loan Criteria requires forestry projects to be certified by Forest Stewardship Council (FSC),[28] Programmed for the Endorsement of Forest Certification (PEFC)[29] or the Sustainable Forestry Initiative (SFI).[30] Sustainalytics further notes that vulnerability and risk assessment is required for such projects. LGFA has confirmed, tree species used for afforestation projects will be well-adapted to the site conditions and will include a sustainable management plan. - Expenditures related to nature restoration, such as converting an area into green space. This excludes projects related to ecological compensation where land-use changes that cause adverse effects on biodiversity and ecosystem services are compensated by providing new values in another area. These activities may include planting new forests. GSS Loan Criteria requires forestry projects to be certified by Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification (PEFC) or the Sustainable Forestry Initiative (SFI). In addition, Sustainalytics notes that such projects require Borrowers to provide information on nature, climate and environmental risks which could also include risk and vulnerability assessment if available. Based on the above, Sustainalytics notes that investments are directed towards projects that have positive biodiversity outcomes. - Financing activities related to reduction of water pollution, improvement of water quality and strengthening of biological diversity of water at ports, seas, rivers and water courses. LGFA has communicated, examples of such projects may include management of toxic algae blooms. LGFA has confirmed that Borrowers who finance such projects will not be the polluting entity that has caused the need for such project. - LGFA has confirmed that the expenditures will exclude manufacture, purchase or distribution of synthetic fertilizers, pesticides, or herbicides. - Sustainalytics views this to be in line with market practice.
Climate Change Adaptation	Climate Change Adaptation	- Investments in surface run-off management projects, such as open streams, construction of flood bypasses and local surface run-off disposal measures through artificial swales to add climate-resilience benefits to local systems. - Investments in projects for protection against natural disasters such as to protect buildings, facilities, infrastructure and cultural sites from the adverse impacts of climate change. LGFA has confirmed, such project may include: i) the installation of stop banks (compacted earth banks) to contain the power of rivers and streams in flood; ii) preventing floodwater spread into land and property up to a designed limit; iii) natural costal sea walls (using boulders); and iv) targeting planting of native grasses and trees to help with erosion and landslips. - Investments in projects related to emergency preparedness measures and installation of support systems, including climate observations,

27 LGFA has confirmed that industrial residual waste will exclude waste from any carbon intensive processes or industry.
28 FSC, "Document Centre", at: https://connect.fsc.org/document-centre
29 PEFC, "Standards and Implementation", at: https://pefc.org/standards-implementation/standards-and-guides
30 SFI, "Standards" at: https://forests.org/standards/

		early warning systems to protect against natural disasters, such as floods, avalanches, landslides and storm surges. - LGFA has confirmed that recipients of such financing must have carried out vulnerability assessments to analyze realized climate impacts and potential risks and must also have an adaptation plan that sets out how these risks are to be addressed. - Projects under this category require risk assessment which include: i) current weather variability; ii) future climate change including uncertainty; iii) analysis of climate data and projections for future scenarios; and iv) management response plan. - LGFA has confirmed to Sustainalytics that the criteria exclude projects that are carbon-intensive or support fossil fuel-related activities. Sustainalytics note that investments exclude synthetic or chemical pesticides or weedicides. Sustainalytics encourages LGFA and the Borrowers to report on environmental impacts of such projects. - Sustainalytics considers these activities to be in line with market practice.
Terrestrial and Aquatic Biodiversity Conservation	Terrestrial and aquatic biodiversity conservation	- Investments to prevent loss of oceans biodiversity and degradation of habitat of coral reefs, mangrove forests, and coastal wetlands, habitat loss and degradation, unsustainable harvesting of species, management of invasive species, climate change, and pollution. - LGFA has communicated to Sustainalytics that such expenditures may be related to protection and prevention of degradation of coral reefs, mangrove forests, and coastal wetlands from human activities such as trawling and dredging through monitoring and policing using cameras, drones, alarms, and such equipment. - LGFA has communicated expenditures may be related to plant management strategies including weed control, invasive species eradication plans, monitoring forestry for disease. - Conservation measures to prevent habitat loss and degradation, unsustainable harvesting of species, climate change, invasive species, and pollution. LGFA has communicated, examples of such preventive activities include: i) monitoring forestry for disease such as Kauri dieback, ii) protection of endangered native species, iii) protected reserves or land development restrictions, iv) afforestation and reforestation of landscapes such as wetlands and coastlands, etc. - Protection of the life-supporting capacity of ecosystems through measures to avoid, remedy or mitigate the adverse effects of activities, substances and introduced species on the functioning of natural ecosystems. LGFA has confirmed that the Borrowers which implement remediation projects, e.g. soil remediation, would not be the polluting entity that has caused the need for such remediation project. - Measures to protect areas of indigenous vegetation and habitats of indigenous fauna through native reforestation projects, and native nurseries. - Sustainalytics notes that all projects under this category will exclude synthetic or chemical pesticides and weedicides. - LGFA has confirmed to Sustainalytics that the criteria exclude animal pest management activities. - LGFA has confirmed that tree species used for afforestation projects will be well-adapted to the site conditions and will include sustainable management plan certified by credible certification agencies such as FSC or PEFC. - Sustainalytics views the activities under this category to be in line with market practice. Sustainalytics encourages LGFA and the Borrowers to report impacts of such activities.
Affordable Basic Infrastructure	Basic Telecommunications	- Development, and expansion of basic communication infrastructure such as internet coverage, fibre network, mobile phone connectivity to areas and groups with limited connectivity or lack access to these services. - LGFA has communicated, such projects may include expanding access to telecommunication infrastructure and services for those who cannot access affordable, highspeed internet service in New Zealand. LGFA has confirmed, related projects will target the 13% who still cannot

		access high speed internet in New Zealand focusing on rural and remote areas with poor or no internet connectivity.[31, 32] - Sustainalytics views that such investments related to expansion of telecommunications services and infrastructure in areas or groups with limited connectivity or no connectivity can create positive social impact and encourages LGFA and the Borrowers to report on the social impacts.
	Sewers, Sanitation and Clean Drinking Water	- Investments in infrastructure development projects to improve and increase access to adequate sewer and sanitation systems in areas with limited sanitation facilities. - Financing projects that improve and expand public access to safe, reliable and affordable drinking water, including drinking water quality improvement. - LGFA has confirmed to Sustainalytics that desalination projects and treatment of water from fossil fuel operations are excluded from this category. - Sustainalytics views activities aimed at increasing accessibility to drinking water and sanitation in areas with limited facilities to be impactful and encourages LGFA and the Borrowers to report on the social impacts.
	Transport	- Financing zero emissions transportation infrastructure projects such as bus services[33] to provide access to socioeconomically disadvantaged people or remote areas that face connectivity issues. LGFA has confirmed that these projects are focused on improving transportation connectivity that lack access to public transport. - Investments in basic infrastructure and public transportation to provide equitable access for people with disabilities or aging populations. LGFA has confirmed to Sustainalytics that public transportation for people with disabilities will meet CO_2 emissions standards within the relevant jurisdictions. - LGFA has confirmed expenditures under this category will exclude development or maintenance of major roads and highways. - Sustainalytics views that such investments related to transportation for socioeconomically or physically disadvantaged population or areas that can create positive social impact.
Access to Essential Services	Education and Vocational Training	- Financing acquisition, development, including infrastructure, programmes and services of public educational institutions that are broadly accessible to the general public. LGFA has communicated, examples may include childcare, tertiary education, vocational and technical training facilities. - Investments in projects that enhance access and inclusion of minority groups in the education system. LGFA confirmed that such example may include projects to improve access to affordable childcare centre for disadvantaged minority ethnic groups such as Maori and Pacific Island people.[34] Sustainalytics notes, and as confirmed by LGFA, the GSS Loan Criteria defines minority groups as per New Zealand's General Social Survey, which recognizes minority groups based on gender, race or ethnicity, religion, mentally challenged and new migrant.[35] - LGFA has confirmed to Sustainalytics that all investments under this category will be limited to those education and vocational training services that are accessible to all regardless of ability to pay, i.e. free, affordable or subsidized to ensure affordability and accessibility of such services. - Sustainalytics views such investments related to education and vocational training can deliver positive social impact and encourages LGFA and the Borrowers to report on such social impacts.

[31] New Zealand Ministry of Business, Innovation and Employment, "Broadband and mobile programmes", at: https://www.mbie.govt.nz/science-and-technology/it-communications-and-broadband/digital-connectivity-programmes/broadband-and-mobile-programmes/#:~:text=It%20will%20see%20around%2087%25%20of%20New%20Zealanders%2C,the%20social%20and%20economic%20benefits%20of%20faster%20broadband.

[32] Enable, "Support for rural and remote areas with no or poor internet connectivity", https://www.enable.net.nz/blog/support-for-rural-and-remote-areas-with-no-or-poor-internet-connectivity/

[33] The criteria set under the clean transportation category would be applicable, which includes financing zero emissions vehicles.

[34] Auckland Council, "Kauri Kids early childhood education centres", at: https://aucklandleisure.co.nz/kaurikids/

[35] New Zealand Ministry of Social Development, "The Social Report 2016", p. 308, at: https://socialreport.msd.govt.nz/documents/2016/msd-the-social-report-2016.pdf

Affordable Housing	Social Housing	- Construction of registered social housing facilities, including Community Housing Providers, and low-cost housing provided to tenants who are typically low income, reliant on benefits as a significant source of income (i.e., tenants should not pay more than 35% of their income on rent) or to support eligible applicants on the Ministry of Social Development Housing Register. - LGFA has confirmed to Sustainalytics the GSS Loan Criteria defines target population Priority A and Priority B in line with New Zealand's Ministry of Social Development (MSD) Housing register criteria.[36] Furthermore, LGFA has confirmed that it adopts the rent caps and affordability thresholds for social housing set by the MSD.[37, 38] - Considering the clear target population with a focus on those who have been identified as needing the greatest support, Sustainalytics considers the investments under this category to be socially impactful.
	Affordable Housing	- Construction and provision of housing at significantly lower cost than market and/or that supports owners or tenants to overcome barriers to access housing, which may include: - Progressive home ownership (PHO) models or schemes[39] to address financial barriers to home ownership, including rent-to-buy, shared equity and papakainga,[40] often in partnership with iwi, government entities or charitable organizations. Sustainalytics notes that PHO schemes provide financing to construct and provide housing or support owners or tenants who are lower-to-median income and includes three priority groups in New Zealand i.e. Māori, pacific peoples, and families with children. - Sustainalytics notes that the PHO schemes primarily targets socio-economically disadvantaged and ethnic minority groups of New Zealand. Sustainalytics further notes that the PHO schemes ensure financial and social benefits to such groups through: i) reasonable degree of flexibility in its funding approach; ii) working with PHO providers to ensure financially informed and equitable access to housing; iii) funding a 15-year interest-free loan; and iv) MAIHI Framework ensure households are empowered to achieve their housing aspirations through bespoke solutions with flexibility in the approach.[41] - To ensure avoidance of risks related to predatory lending and over-indebtedness, the PHO model includes: i) rental and ownership affordability guidance through financial modelling tools to indicate affordability levels;[42] and ii) the due diligence criteria requires the PHO products of PHO providers to be certified as 'not oppressive' as defined in the Credit Contracts and Consumer Finance Act 2003.[43] - Moreover, LGFA has confirmed that the criteria targets investments towards people with below median income levels or disadvantaged groups in New Zealand.[44] Sustainalytics notes that the income criteria for an eligible household is capped at NZD 130,000 for PHO schemes,

[36] New Zealand Ministry of Social Development, "Housing Register", at: https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/housing/index.html
[37] New Zealand Ministry of Social Development, "Calculating your rent payments", at: https://www.workandincome.govt.nz/housing/live-in-home/live-in-public-housing/calculating-rent-payments.html#null
[38] New Zealand Ministry of Social Development, "Official information responses", at: https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/official-information-responses/2022/june/14062022-requesting-the-requirements-of-priority-a-and-b-of-the-housing-register-point-system-and-how-these-assessments-are-made.pdf
[39] New Zealand Ministry of Housing and Urban Development, "Progressive Home Ownership Fund", at: https://www.hud.govt.nz/our-work/progressive-home-ownership-fund/
[40] Papakainga refers to housing development projects or housing for Māori.
[41] The PHO model includes varied financial benefits and follows Māori and Iwi Housing Innovation Framework for Action principles (MAIHI) to ensure households are empowered to achieve their housing aspirations through bespoke solutions with flexibility in the approach. New Zealand Ministry of Housing and Urban Development, "Progressive Home Ownership Fund – Investment Framework", at: https://www.hud.govt.nz/assets/Uploads/Documents/Investment-Framework_January-2022.pdf
[42] New Zealand Ministry of Housing and Urban Development, "Progressive Home Ownership Fund – Financial Modelling", https://www.hud.govt.nz/our-work/progressive-home-ownership-fund/
[43] New Zealand Ministry of Housing and Urban Development, "Due Diligence Criteria", https://www.hud.govt.nz/assets/Uploads/Documents/Due-diligence-criteria.pdf
[44] Sustainalytics notes that New Zealand's median annual household gross income was NZD 89,127 in 2021, at: https://www.ceicdata.com/en/new-zealand/annual-household-income/median-annual-household-gross-income#:~:text=New%20Zealand%20Median%20Annual%20Household%20Gross%20Income%20data,from%20Jun%202007%20to%202021%2C%20with%2015%20observations

		as per the Progressive Home Ownership Fund – Investment Framework, which is above the median income of New Zealand. The cap for eligibility is commensurably higher for multi-generational households or extended households.[45] However, LGFA has set a criterion to target beneficiaries below median income threshold. - Based on the above, Sustainalytics considers target population with a focus on those who have been identified as needing the greatest support and socially disadvantaged to be socially impactful.

Project Evaluation and Selection

- The GSS Loan Criteria, as part of the GSS Loan application process, requires Borrowers to provide information specific to each use of proceeds category with respect to projects or assets meeting the GSS Loan Criteria. The Borrowers are required to apply for each of the green and social use of proceeds category through separate application forms for each of the green and social categories. The GSS Loan Criteria requires the Borrowers to provide documentation evidence to verify alignment against GSS Loan Criteria.
- The loan applications are assessed by LGFA's management team, and then presented at a session of the Sustainability Committee before a final recommendation is made by the Sustainability Committee for approval by LGFA's Chief Executive. Sustainalytics notes that this process ensures appropriate evaluation and selection of eligible projects as per the GSS Loan Criteria at the Borrower level, which also encompasses eligibility reporting (See Reporting section below).
- Sustainalytics further notes that the Framework requires assessment of any potential negative social and/or environmental impacts from the GSS Loans, including mitigation measures to these impacts, which applies to the GSS Loan Criteria requiring the Borrowers to identify and mitigate environmental risks associated to use of proceeds through Borrower level management systems or internal processes. LGFA has confirmed to Sustainalytics that LGFA addresses E&S risk management at Borrower level, which is reviewed by LGFA's Sustainability Committee. The GSS Loan Criteria, as part of its application process, inquires on the processes by which the Borrower identifies and manages perceived, actual or potential environmental and social risks associated with the relevant project. The GSS Loan Criteria requires Borrowers to provide risk and vulnerability assessment and management plans under relevant green and social categories and their criteria.
- Based on the delegation of responsibility and the presence of adequate environmental and social risk management processes, Sustainalytics considers project evaluation and selection mechanism set out in the GSS Loan Criteria to be in line with market practice.

Management of Proceeds

- The GSS Loan Criteria require Borrowers to: i) use the net proceeds of the GSS Loan to finance or refinance green and/or social assets; ii) ensure that the project or asset financed or refinanced continuously meet the eligibility criteria outlined in the GSS Loan Criteria; and iii) provide evidence on LGFA's request that the value of the green and/or social projects or assets as per the GSS Loan Criteria, is not lower than the amount of the GSS Loan.
- LGFA has communicated to Sustainalytics that the GSS Loans are provided for a specific eligible funding need or project. LGFA has confirmed that Borrowers will apply for a GSS Loan from LGFA and then draw down loan proceeds exclusively for financing that specific project when disbursements are required, i.e. the Borrowers do not prefund the projects. Further, LGFA has confirmed that the Borrower must apply at least an amount equal to the aggregate principal amount of the GSS Loan to the project. Moreover, as communicated

[45] New Zealand Ministry of Housing and Urban Development, "Progressive Home Ownership Fund – Investment Framework", at: https://www.hud.govt.nz/assets/Uploads/Documents/Investment-Framework_January-2022.pdf

by LGFA, as part of annual reporting commitments, the Borrowers must include a confirmation on the application of GSS Loan proceeds to the projects under the GSS Loan Criteria in a given financial year. Therefore, LGFA has communicated that proceeds are not expected to remain unallocated.

- LGFA has also confirmed, in cases where proceeds are unallocated, the Borrowers usually invest the proceeds in line with their treasury policy and most of the council treasury policies include money market deposits and cash as approved instruments for short-term or temporary investments. LGFA has confirmed that the GSS Loan Criteria includes additional conditions to ensure appropriate management of proceeds, which are also included in each loan term, such as: i) prior notification regarding any changes in the project; ii) early redemption conditions; and iii) annual reporting on projects.[46] The Borrowers are required to report unallocated proceeds, if any, as part of allocation reporting.
- LGFA has confirmed to Sustainalytics that the GSS Loan application will be signed by the CFO, treasurer or senior treasury officer of the Borrower who is expected to exercise oversight on loan proceeds at the Borrower level. LGFA has further confirmed to Sustainalytics that it will work with the Borrower's overseer of the management of proceeds. Moreover, LGFA also expects the Borrower to track the proceeds in line with existing internal systems and processes used to track proceeds similar to other borrowings that they undertake. Considering the above, Sustainalytics notes that the GSS Loan Criteria does not require Borrowers to have dedicated internal processes for managing proceeds of GSS Loan, because the projects are not prefunded, and the loan proceeds are drawn down exclusively for financing eligible green and social projects. Moreover, Borrowers follow existing internal mechanism to track loan proceeds appropriately, which is also ensured by LGFA's loan application process and exclusive eligible project financing process per se.
- Nevertheless, Sustainalytics notes that upon LGFA's request, the Borrower is required to provide any other information to verify the evidence regarding the Borrower's compliance with the GSS Loan Criteria and market practices for GSS Loans. Based on the above, and as confirmed by LGFA, Sustainalytics notes that the Borrowers will also report on the type of temporary proceeds (if any) and inform LGFA on the internal tracking systems, when requested by LGFA as stipulated in the GSS Loan Criteria.
- Based on the requirements for Borrowers to ensure tracking, overseeing and managing proceeds, Sustainalytics considers the GSS Loan Criteria's processes to manage GSS Loan proceeds at Borrower level to be in line with market practice.

Reporting

- The GSS Loan criteria requires Borrowers to annually report on allocation and impact of net proceeds of GSS Loans borrowed and disclosed to LGFA.
- The Borrowers are required to report the breakdown of notional allocation of the net proceeds of GSS Loans to green and/or social projects, including the project description, recorded project value, amounts disbursed as part of allocation reporting and unallocated proceeds.
- The Borrowers are required to report on the impacts of projects based on agreed impact indicators. LGFA has confirmed to Sustainalytics that the Borrowers are required to report on at least one KPI per use of proceeds category, or where applicable, report on one KPI at each project level.
- Furthermore, the GSS Loan Criteria require Borrowers to provide eligibility reporting to confirm that the projects continue to meet the green and/or social use of proceeds criteria outlined in the GSS Loan Criteria.
- LGFA may decide to declassify a GSS Loan and declare it immediately due and payable in the event the relevant project no longer meets the GSS Loan Criteria.
- Sustainalytics considers the reporting commitments and processes required at Borrower level under the GSS Loan Criteria to be in line with market practice.

[46] The borrower must notify LGFA if a project does not satisfy the GSS Loan Criteria if the nature of project changes, or if LGFA determines the project no longer satisfied the GSS Criteria. In such scenario, the loan is immediately declared due and payable (early redemption), i.e. declassified as a GSS Loan.

Alignment of CAL Criteria with the SLLP

Sustainalytics is of the opinion that the CAL Criteria partially aligns with the intent of the SLLP, and prospective CALs under the CAL Criteria are in line with the intent of four of the five core components of the SLLP. Sustainalytics considers that the CAL Criteria are not aligned with the SLLP's loan characteristics component (Component 3 of the SLLP), while recognizing the mechanism of declassification from the Programme to be an impactful incentive to achieve ambitious decarbonization targets. Sustainalytics highlights the following elements of the CAL Criteria:

Selection of Key Performance Indicators

Relevance and Materiality of KPIs

In its assessment of materiality and relevance, Sustainalytics considers: i) whether an indicator speaks to a material impact of a borrower's activities on environment or social issues; and ii) to what portion of impact the KPI is applicable.

Sustainalytics has viewed the KPI as related to Councils and CCOs separately when assessing their strengths, specifically considering the differences in their scope of applicability.

KPI: Councils – Absolute gross scope 1 and 2 GHG emissions (tCO_2e)

Sustainalytics considers the KPI under the CAL Criteria as related to the Councils to be material and relevant given that ICMA's sector materiality matrix identifies Climate Change (GHG Emissions and Energy) as a material theme for all sectors.[47] Under their operational boundary, Councils may cover various activities depending on their geography and governance structure, including those related to agriculture, energy, transport, waste, water, health and public facilities. Therefore, the KPI is material and relevant. The role of Councils, local governments and agencies (CCOs) is well recognized in New Zealand's First Emissions Reduction Plan 2022.[48] Although Councils have limited powers without legislative authority, their role in contributing to the country's decarbonization pathway is crucial.

While Sustainalytics could not establish specific applicability for the KPI, given that the CAL Criteria are programmatic and cover a range of Borrowers, Sustainalytics considered a range of applicability based on its research of existing GHG inventories of Councils. Moreover, the activities reported under the scope 1, 2 and 3 GHG emission inventories vary depending on the Councils' geographic locations and governance structures, which influences total GHG emissions. Nevertheless, based on Sustainalytics' research, scope 1 and 2 GHG emissions reported by the Councils from an organizational perspective[49] are indicatively above 40% of total GHG emissions (scope 1, 2 and 3). Therefore, Sustainalytics considers the KPI as related to the prospective Councils under the CAL Criteria to have a high scope of applicability.

KPI: CCOs – Absolute gross scope 1 and 2 GHG emissions (tCO_2e)

Sustainalytics considers the KPI under the CAL Criteria as related to the CCOs to be material and relevant given that ICMA's sector materiality matrix identifies Climate Change (GHG Emissions and Energy) as a material theme for all sectors.[50] As CCOs cover various sectors the KPI is, therefore, material and relevant. The role of Councils, local governments and agencies (CCOs) is well recognized in New Zealand's First Emissions Reduction Plan 2022.[51] CCOs role in contributing to the country's decarbonization pathway is crucial.

Sustainalytics notes that the scope of applicability may vary substantially across different CCOs considering the wide range of industries represented by the CCOs. Scope 1 and 2 GHG emissions, from utilities for example, may

[47] ICMA, "SLBP – Illustrative KPIs Registry: Sector Materiality Matrix", at: https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/
[48] New Zealand Government, "Towards a productive, sustainable and inclusive economy: Aotearoa New Zealand's First Emissions Reduction Plan", (2022), at: https://environment.govt.nz/assets/publications/Aotearoa-New-Zealands-first-emissions-reduction-plan.pdf
[49] See KPI characteristics section below.
[50] ICMA, "SLBP – Illustrative KPIs Registry: Sector Materiality Matrix", at: https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/
[51] New Zealand Government, "Towards a productive, sustainable and inclusive economy: Aotearoa New Zealand's First Emissions Reduction Plan", (2022), at: https://environment.govt.nz/assets/publications/Aotearoa-New-Zealands-first-emissions-reduction-plan.pdf

represent a significant portion of the total GHG emissions for some CCOs, but a very small portion of total GHG emissions for other CCOs. Based on the above, Sustainalytics was not able to provide an assessment that applies to all CCOs. Therefore, Sustainalytics considers the scope of applicability for the KPI as related to the CCOs to be limited. Furthermore, Sustainalytics encourages LGFA to consider lending CALs under the CAL Criteria to CCOs for which scope 1 and 2 represent a substantial proportion of total GHG emissions over which they have influence.[52]

KPI Characteristics

In its assessment of the KPI characteristics, Sustainalytics considers: i) whether a clear and consistent methodology is used; ii) whether it follows an externally recognized definition; iii) whether the KPIs are a direct measure of the performance of the borrower on a material environmental or social issue; and, if applicable, iv) whether the methodology can be benchmarked to an external, contextual benchmark.[53]

KPI: Councils – Absolute gross scope 1 and 2 GHG emissions (tCO_2e); and KPI: CCOs – Absolute gross scope 1 and 2 GHG emissions (tCO_2e)

Sustainalytics considers the definition and methodology to calculate the performance of the KPI as related to Councils and CCOs under LGFA's CAL Criteria to be clear and consistent. Sustainalytics notes that the activities reported by different Councils in their respective GHG emission inventories may vary due to the diversity in operations based on geographic location and structural differences in terms of transfer of services to CCOs or other organizations. Nevertheless, both Councils and CCOs are required to obtain external verification of their GHG emissions inventories by a credible verifier to verify reporting in alignment with the GHG Protocol Corporate Standard or ISO14064 Standard.

LGFA has confirmed to Sustainalytics that Councils report their operational GHG emissions using operational corporate boundaries based on the GHG Protocol Corporate Standard or ISO 14064, instead of geographical boundaries. This is because Councils lack powers to legislate, levy taxes and exert influence on GHG emissions. Based on its research, Sustainalytics further notes that Councils and CCOs report GHG emissions in line with ISO14064 or the GHG Protocol Corporate Standards consistently.

Sustainalytics considers the KPI to be directly linked to the Borrowers' performance regarding material environmental impact, given that the KPI targets GHG emission reduction activities that are directly under the operational control of Councils and CCOs.

In addition, the KPI under the CAL Criteria support benchmarking against external emissions reduction trajectories, such as those developed by the SBTi.

Overall Assessment

Sustainalytics considers the KPI - Absolute gross scope 1 and 2 GHG emissions (tCO_2e) - to be strong as it relates to the Councils and limited as it relates to the CCOs given that: i) it speaks to a material ESG issue; ii) it is directly related to Councils' and CCOs sustainability performance; iii) it has a high scope of applicability as related to the Councils and an adequate scope of applicability as related to the CCOs; iv) it follows a clear and consistent methodology with external references; and v) it is comparable to an external contextual benchmark. In addition, Sustainalytics encourages LGFA to consider lending CALs under the CAL Criteria to CCOs for which scope 1 and 2 represent a substantial proportion of total GHG emissions over which they have influence.

KPI Criteria	Strength of KPI Criteria				
Absolute gross scope 1 and 2 GHG emissions (tCO_2e)	**As relates to Councils**	Not Aligned	Adequate	Strong	Very strong
	As relates to CCOs	Not Aligned	Adequate	Strong	Very strong

[52] Sustainalytics believes that this proportion should be 10% or above of total scope 1, 2 and 3 GHG emissions under the Borrower's influence in order to ensure the meaningfulness of the KPI.
[53] External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

Calibration of Sustainability Performance Targets

Alignment with LGFA's and New Zealand's Sustainability Strategy

LGFA has set the following SPT for its KPI:

- SPT: Reduction in absolute gross scope 1 and 2 GHG emissions in line with a 1.5°C science-based scenario.

Sustainalytics considers the SPT to be aligned with the New Zealand government's strategy for reducing GHG emissions. LGFA's Statement of Intent (SOI) sets Environmental and Social Responsibility as a key strategic priority for improving LGFA's sustainability outcomes and assisting local government in New Zealand in achieving their sustainability and climate change objectives in line with New Zealand's national decarbonization goals. New Zealand has adopted a national target to reduce net GHG emissions by 50% compared to 2005 levels by 2030, which corresponds to a 41% reduction when managed using a multiyear emission budget in line with the country's Nationally Determined Contribution (NDC).[54] In this sense, New Zealand's Emissions Reduction Plan[55] complies with the commitments outlined in the NDC. The plan focuses on the role of Councils and CCOs to enable development of renewable energy infrastructure, improve energy efficiency and support the switch to low-emission fuels and technologies for council-owned buildings and public facilities. Additionally, the plan elaborates Councils' role in engaging with communities, implementing nature-based solutions on the ground and supporting New Zealand's transition to a climate-resilient country. LGFA also requires that Borrowers provide their own emissions reduction plans to reduce operational GHG emissions in line with the science-based trajectory.

Strategy to Achieve the SPT

Under its CAL Criteria, LGFA requires Borrowers to provide an emissions reduction plan and intends to assess the Borrowers through the following strategy:

- Emissions Reduction Plan: The Borrowers are required to provide a GHG emission inventory and an emissions reduction plan to achieve GHG emission reduction targets[56] in line with a science-based trajectory aligning with the 1.5°C scenario. The plan must include annual targets for reduction of scope 1 and 2 GHG emissions covering short-, medium- and long-term targets with key levers, decarbonization projects, activities, costs and timeframe. LGFA has confirmed to Sustainalytics that an annual review will be undertaken for each Borrower under the CAL Criteria. LGFA has further confirmed to Sustainalytics that it will seek: i) confirmation that the emissions reduction plan is active and relevant; ii) verified GHG emission inventories; and iii) specific details of any positive or negative changes regarding any aspects of emissions reduction plan and inventory levels. LGFA will also conduct annual reviews to review verified inventories and confirm whether a Borrower is on track to achieve its targets. In addition to annual reviews, LGFA will also conduct detailed reviews every three years.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPT, Sustainalytics considered whether the SPT aligns with or goes beyond New Zealand's national commitments and how the SPT aligns with a 1.5°C science-based scenario.

LGFA intends to provide flexibility to Borrowers to select the baseline year according to their own emissions reduction plan, considering the decarbonization journeys of the individual Borrowers. LGFA has confirmed to Sustainalytics that the data for the selected baseline year for each Borrower would be verified by a recognized independent third-party agency. Sustainalytics encourages Borrowers under the CAL Criteria to select the latest reporting year as the baseline year for their emissions reduction plan.

SPT: Sustainalytics was able to only use the science-based trajectory's 1.5°C alignment to assess ambitiousness.

[54] UNFCCC, "New Zealand's First Nationally Determined Contribution, (2021), at: https://unfccc.int/sites/default/files/NDC/2022-06/New%20Zealand%20NDC%20November%202021.pdf

[55] New Zealand Government, "Towards a productive, sustainable and inclusive economy: AOTEAROA NEW ZEALAND'S FIRST EMISSIONS REDUCTION PLAN," at: https://environment.govt.nz/assets/publications/Aotearoa-New-Zealands-first-emissions-reduction-plan.pdf

[56] Under the CAL Criteria, the emissions reduction plan should be reported as a metric based on the reduction in a Borrower's scope 1 and 2 GHG emissions reported for each sustainability reference period against a baseline performance. The CAL Criteria provide up to 24 months flexibility around reporting additional scope 3 GHG emissions to Borrowers that are not already recording and reporting at the time of applying for their initial CAL.

Sustainalytics could not assess the past performance of the Borrowers using historical data, as it is not feasible to assess the same for each Borrower as part of assessment of the CAL Criteria. That said, Sustainalytics notes that LGFA intends to assess the historical data of each Borrower on a case-by-case basis. The historical data would be assessed in comparison with the targeted short, medium- and long-term GHG emissions reduction against the Borrower's historical emissions performance once they qualify for the CALs as per the CAL Criteria.

Sustainalytics could not assess the performance of the Borrowers' peers as conducting a peer performance assessment is not feasible given the differences in various factors across Councils and CCOs, including geographical location, administrative nature, organizational structures and functions among others, in addition to the lack of data on the set of confirmed Borrowers so far.

In terms of alignment with science, the CAL Criteria requires the Borrowers to provide GHG emission inventories and an emissions reduction plan following a science-based trajectory setting short-, medium- and long-term targets for absolute gross scope 1 and 2 GHG emissions in alignment with the 1.5°C scenario, achieving a 50% reduction by 2030 compared to 2005 and net zero emissions by 2050. Sustainalytics notes that setting such scope 1 and 2 GHG emissions reduction targets in line with a 1.5°C scenario may be guided by the Science Based Targets initiative (SBTi), a credible third-party assurance firm or Toitū Envirocare. The Borrowers are required to provide LGFA with GHG emission inventories that include verification of GHG management and historical emission data along with the intended targets verified by a recognized independent third-party agency on an annual basis. This is intended to ensure the alignment of the short-, medium- and long-term targets with the 1.5°C scenario and support the achievement of a 50% emissions reduction by 2030 compared to a 2005 baseline and net zero emissions by 2050. Furthermore, LGFA confirmed that the CALs would be lent only to public sector entities (Councils and CCOs) under the purview of Audit New Zealand and the Office of the Auditor-General of New Zealand, thus bringing an additional layer of scrutiny from central government entities if the Borrowers deviate from the attested and qualified targets.

Overall Assessment

Sustainalytics considers the SPT to align with New Zealand's sustainability strategy and to be highly ambitious given that Borrower's SPTs are expected to align with the science-based targets to reduce GHG emissions, to help limit global warming to 1.5°C and support the achievement of net zero emissions by 2050 in New Zealand.

SPT Criteria	Ambitiousness of SPT Criteria			
Reduction in absolute gross scope 1 and 2 GHG emissions in line with a 1.5°C science-based scenario	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious

Loan Characteristics

Under LGFA's CAL Programme, a Borrower's failure to achieve the SPT results in the Borrower's declassification from the Programme, making them ineligible for any future CALs that include a margin discount, until LGFA is satisfied (in its sole discretion) that the Borrower and the declassified CAL meet the CAL Criteria.[57] However, the margin discount on existing loans remains in place until loan maturity. According to LGFA, a CAL's margin cannot be adjusted within the CAL's term due to accounting standards. LGFA has communicated to Sustainalytics that it has adopted accrual accounting across its liability and asset portfolios because it best reflects LGFA's low-risk margin-based business model. Introducing a financial penalty, as per LGFA, introduces accounting standards risk that LGFA may be required to mark-to-market CAL assets, which would in turn create a material accounting mismatch between assets and the underlying liabilities funding these assets. Sustainalytics recognizes that a primary aim of the CAL Programme is to incentivize Borrowers to achieve ambitious decarbonization targets and considers the mechanism of declassification from the Programme to be an impactful incentive to achieve such targets, especially given that LGFA will publicly report on the declassification of Borrowers. Nevertheless, as an incentive or a penalty on achievement or failure to achieve SPT is not linked within the same CAL term, but to the future CALs, Sustainalytics is of the opinion that the programme is technically not aligned with the loan

[57] A Borrower is declassified when it fails to meet the committed SPT. LGFA has confirmed that declassification from the programme details will be publicly disclosed and it serves as a significant reputational impact. Declassification from CAL does not entail any margin adjustment of existing loan term, but renders the Borrower ineligible to borrow any future CALs, until LGFA is satisfied (in its sole discretion) that the Borrower and the declassified CAL meet the CAL Criteria.

characteristics component of the SLLP (Component 3 of the SLLP), which requires an economic impact linked to the non-achievement of SPTs for existing funding.

Reporting

The CAL Criteria requires potential Borrowers to annually report to LGFA on its progress on the KPI within five months after each sustainability reference period,[58] which is in line with the SLLP. In addition, the CAL Criteria requires councils to provide annual confirmation in writing that they are still meeting the targets set in their emissions reduction plan and that it has not lapsed or been superseded. The latest external emissions inventory verification report has to be provided within five months of the Borrower's year-end. The CAL Criteria also requires the Borrowers to disclose relevant information that enables LGFA to monitor the level of ambition of the targets set for the specific loan, such as: i) externally verified GHG emissions performance; ii) performance against targets for the sustainability reference period; iii) confirmation on achievement of targets; and iii) summary of progress against a target, which may include status of achievement against short- and medium-term targets; key events that may prevent achievement of short-term targets; and key actions to be taken to achieve the targets. In addition, in case of future events such as mergers, acquisitions, divestures, disposal of assets, etc., the CAL criteria require Borrowers to report on the following: i) any recalculations, revision to the baseline performance and/or changes in the target or emissions reduction plan based on agreement with LGFA. Overall, the reporting commitments are aligned with market expectations. Sustainalytics encourages LGFA to further encourage Borrowers to publicly provide annual reporting on their progress on the KPI.

Verification

The CAL Criteria require Borrowers to have an external verifier provide limited or reasonable assurance or verification[59] on the SPT annually, which is in line with the SLLP on verification.

Section 2: Assessment of LGFA's Sustainability Strategy

Credibility of LGFA's Sustainability Strategy

Sustainalytics is of the opinion that LGFA demonstrates a commitment to sustainability which is outlined in the LGFA Statement of Intent (SOI). Environmental and Social Responsibility is a key strategic priority in the SOI, part of a larger organizational objective to improve LGFA's sustainability outcomes and assist local government in New Zealand in achieving their sustainability and climate change objectives. In line with this strategic priority, LGFA intends to launch a Sustainability Policy in March 2023, which recognizes that social, cultural, economic and environmental well-being must be considered and integrated when taking a sustainable development approach. LGFA established a Sustainability Committee responsible for facilitating achievements of its sustainability objectives.[60, 61]

LGFA's sustainability strategy follows the goals of New Zealand's Emissions Reduction Plan, which highlights the role of Councils and local agencies (CCOs) to enable the development of renewable energy infrastructure, improve energy efficiency and support the transition to low-emission fuels and technologies for council-owned buildings and public facilities. New Zealand's Emissions Reduction Plan also elaborates the role of Councils or CCOs in engaging with communities, implementing nature-based solutions on the ground and supporting New Zealand's transition to a climate-resilient country.[62] In addition,

[58] The sustainability reference period refers to the preceding 12-month period of each year.
[59] LGFA has confirmed to Sustainalytics that the annual external verification will be limited or reasonable assurance.
[60] LGFA, "Statement of Intent – 2022-25", at: https://www.lgfa.co.nz/sites/default/files/2022-06/SOI%202022-2025%20FINAL.pdf
[61] LGFA, "Sustainability at LGFA", at: https://www.lgfa.co.nz/sustainability/sustainability-lgfa
[62] New Zealand Government, "Towards a productive, sustainable and inclusive economy: Aotearoa New Zealand's First Emissions Reduction Plan," at: https://environment.govt.nz/assets/publications/Aotearoa-New-Zealands-first-emissions-reduction-plan.pdf

LGFA's environmental and social responsibility strategic priorities entail setting decarbonization targets as per the carbon reduction management plan and increasing its green, social and sustainable lending loan book.[63]

Sustainalytics is of the opinion that the LGFA Sustainable Financing Bond Framework and its underpinning CAL Criteria and the GSS Loan Criteria are aligned with the LGFA's sustainability strategy and New Zealand Government's environmental and social goals.

LGFA's Environmental and Social Risk Management

Sustainalytics recognizes that the net proceeds from the bonds issued under the Framework will be directed to a pool of eligible GSS Loans and CALs that are expected to have a positive environmental and social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with eligible projects could include issues involving land use and biodiversity associated with large-scale infrastructure development, effluents and waste generated in construction or occupational health and safety. Additionally, LGFA and its Borrowers may also be exposed to issues related to over-indebtedness, predatory lending, business ethics and stakeholder engagement.

Sustainalytics is of the opinion that LGFA can manage and mitigate potential risks through implementation of the following:

- General risk management measures: LGFA's SOI outlines LGFA's ESG risk identification and management responsibilities and processes. LGFA's Sustainability Committee reviews ESG risks related to its Sustainable Loans and informs LGFA's management and chief executive, based on which LGFA's management is expected to identify and manage potential environmental and social risks.[64]
- Land use and biodiversity: New Zealand's Resource Management Act 1991 (RMA) applies to LGFA and its Borrowers, which outlines the framework to avoid, remedy or mitigate any adverse effects of activities on the environment, also applies to local governments and agencies. The Act outlines a set of duties and restrictions relating to the use of and activities allowed on land, coastal marine areas, river and lake beds, as well as regulations relating to environmental pollution control, including land, water, soil, noise and air pollution.[65]
- Management of effluents and waste generated in construction: New Zealand's RMA prohibits the discharge of contaminants and hazardous substances into the environment and places restrictions on the dumping and incineration of waste in coastal marine areas without consent or a permit. Anyone proposing an action requiring consent must conduct an impact assessment of the effects of that proposal and demonstrate that all adverse impacts on the environment are identified and that appropriate mitigation measures are developed.[66]
- Occupational health and safety: LGFA's SOI stipulate compliance objectives and targets following New Zealand's Health and Safety at Work Act (2015), which also applies to LGFA. The Act also applies to LGFA's Borrowers. The Act outlines the roles, responsibilities and duties of employers, officers, and workers for ensuring health, safety and welfare at the workplace. The Act stipulates requirements for: i) the design, manufacture, installation, use and handling of equipment, substances and structures; ii) worker engagement practices, such as establishing a health and safety committee and conducting regular safety meetings; iii) risk management processes to identify, assess and minimize risks; and iv) recording, reporting and resolving workplace incidents.[67]
- Over-indebtedness and predatory lending: In 2021, LGFA approved its Responsible Investment Policy which commits LGFA to investing responsibly by incorporating ESG factors into its investment analysis and decision-making processes relating to the management of its liquid assets portfolio. LGFA's Sustainability Committee advises the chief executive and the board on sustainability issues, including environmental and social risks in LGFA's operating, borrowing and lending activities. Chaired by LGFA's head of sustainability and comprising four independent members as at March 2023, the Sustainability Committee reviews, approves and monitors GSS Loans and CALs, including the aspects of E&S risks.
- Business ethics: LGFA has established a code of ethics which stipulates measures for ethical business conduct.[68] The code of ethics also provides guidance on compliance with applicable laws and regulations,[69] including the NZX code of ethical behaviour of the NZX Corporate Governance Code.[70]

[63] LGFA, "Statement of Intent – 2022-25", at: https://www.lgfa.co.nz/sites/default/files/2022-06/SOI%202022-2025%20FINAL.pdf
[64] LGFA, "Statement of Intent – 2022-25", at: https://www.lgfa.co.nz/sites/default/files/2022-06/SOI%202022-2025%20FINAL.pdf
[65] New Zealand Legislation, "Resource Management Act 1991", at: https://www.legislation.govt.nz/act/public/1991/0069/latest/DLM230265.html?search=ts_act_environment+act+1986_resel_25_a&p=1#DLM231904
[66] Ibid.
[67] New Zealand Legislation, "Health and Safety at Work Act 2015", at: https://www.legislation.govt.nz/act/public/2015/0070/latest/DLM5976660.html
[68] LGFA, "Code of Conduct", (2020), at: https://www.lgfa.co.nz/sites/default/files/2021-09/LGFA%20Code%20of%20Ethics%20Policy%28Aug20%29%20-%20Current.pdf
[69] LGFA, "Social Sustainability", at: https://www.lgfa.co.nz/sustainability/sustainability-lgfa/social-sustainability
[70] NZX, "NZX Corporate Governance Code", at: https://www.nzx.com/regulation/nzx-rules-guidance/corporate-governance-code

- Stakeholder engagement: Under the regulatory oversight of NZX's listing rules, LGFA requires ensuring adequate channels for transparent and accountable, periodic engagement and reporting on ESG issues with stakeholders.[71] LGFA's SOI outlines a key strategic priority for LGFA to set industry leadership and engagement with local government stakeholders on sector and individual council issues.[72]

Based on these policies and compliance requirements, Sustainalytics is of the opinion that the LGFA has adequate measures in place and is well positioned to manage and mitigate environmental and social risks commonly associated with the sustainable financing bond proceeds and underlying GSS Loans and CALs.

Section 3: Impact of the Potential Use of Proceeds and SPTs Selected

Importance of Clean Transportation, Green Building and Renewable Energy in the contexts of GHG emissions in New Zealand

The transport sector accounted for 17% of New Zealand's gross GHG emissions in 2021.[73] The GHG emissions from road transport in New Zealand increased by 90% between 1990 and 2018,[74] mainly due to the gradual increase in population, higher dependency on vehicles, lack of integrated public transport networks and lack of policy interventions.[75]

As part of its decarbonization strategy, the New Zealand Government set a goal to reduce transport emissions by 41% by 2035 compared to a 2019 baseline[76] and released an Emissions Reduction Plan in May 2022 including major investments in public transport.[77] In line with this, the New Zealand Government set up an action plan for improving the reach, frequency and quality of public transport and making it more affordable for low-income users.[78] In January 2021, New Zealand had 2,600 public transport buses in operation, but fewer than 40 were electric.[79] Under the ERP, the New Zealand Government targets to entirely decarbonize the public transport bus fleet by 2035 and to permit the purchase of only zero-emission public buses from 2025.[80] The Emissions Reduction Plan also focuses on the development of active mobility infrastructure, meaning walking and cycling infrastructure,[81] such as walkways and segregated cycleways alongside roads or separate bikeway networks.[82]

In addition to transport, the built environment accounts for 20% of New Zealand's 2021 total GHG emissions,[83] with construction and demolition waste accounting for approximately 50% of total waste landfilled.[84] New Zealand's Climate Change Response Act 2019 lays out policies and initiatives for the country to reach climate neutrality by 2050, while the government's Building for Climate Change Programme of 2020 sets the requirements for the reduction of GHG emissions during construction.[85] Within the programme, the New Zealand Government aims to transform the building sector by incorporating efficiency standards for energy and water use and mandatory reporting requirements on construction material and construction waste.

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71 NZX, "NZX Listing Rules – Appendix 1 – NZX Corporate Governance Code", at: https://www.nzx.com/regulation/nzx-rules-guidance/nzx-listing-rules
72 LGFA, "Statement of Intent – 2022-25", at: https://www.lgfa.co.nz/sites/default/files/2022-06/SOI%202022-2025%20FINAL.pdf
73 New Zealand Ministry of Environment, "Aotearoa New Zealand's first emissions reduction plan, Chapter 10 - Transport", at: https://environment.govt.nz/assets/Emissions-reduction-plan-chapter-10-transport.pdf
74 Ibid.
75 Hasan, Md. et al (2019), "Emissions from the road transport sector of New Zealand: key drivers and challenges", Environmental Science and Pollution Research, at: https://www.researchgate.net/publication/333911354_Emissions_from_the_road_transport_sector_of_New_Zealand_key_drivers_and_challenges
76 New Zealand Ministry of Transport, "Reducing greenhouse gas emissions from transport", at: https://www.transport.govt.nz/area-of-interest/environment-and-climate-change/climate-change/
77 New Zealand Ministry for the Environment, "Emission Reduction Plan", at: https://environment.govt.nz/assets/publications/Aotearoa-New-Zealands-first-emissions-reduction-plan-At-a-glance.pdf
78 Ibid.
79 New Zealand Ministry for the Environment, "Public Transport Decarbonisation", at: https://www.transport.govt.nz/area-of-interest/environment-and-climate-change/public-transport-decarbonisation/
80 Ibid.
81 New Zealand Ministry of Transport, "Public Transport, Walking and Cycling", at: https://www.transport.govt.nz/assets/Uploads/Briefing/briefing-public-transport-walking-cycling.pdf
82 Ibid.
83 Thinkstep anz, "Hotspot or not? The Carbon Footprint of NZ's built environment", at: https://www.thinkstep-anz.com/resrc/reports/the-carbon-footprint-of-new-zealands-built-environment/
84 Level, "Minimising waste - construction and demolition produce large amounts of waste", at: https://www.level.org.nz/material-use/minimising-waste/
85 New Zealand Ministry of Business, Innovation and Employment, "Building for Climate Change: Transforming the Building and Construction Sector to reduce emissions and improve climate resilience", (2020), at: https://www.mbie.govt.nz/dmsdocument/11522-building-for-climate-change

On energy generation, which accounts for approximately 40% of the country's GHG emissions,[86] New Zealand heavily relies on carbon intensive resources such as oil (32%), natural gas (21%) and coal (7%), which contribute to 60% of total primary energy generation.[87] To advance the country's efforts in decarbonizing its energy mix and meeting future energy needs, New Zealand Government aims to achieve 100% renewable electricity generation by 2030 and transition to a carbon-neutral economy by 2050. To support these targets, the government has made multiple renewable energy investments via the NZD 3 billion (EUR 1.7 billion) Provincial Growth Fund, established the NZD 400 million (EUR 230 million) Green Investment Fund, and provided the NZD 27 million (EUR 15 million) for the National New Energy Development Centre from 2018 onwards.[88]

Based on the above, Sustainalytics is of the opinion that LGFA's funding towards a pool of loans to Councils and CCOs intended to finance clean transportation, green buildings and renewable energy projects, as well as the potential Borrowers' efforts to reduce scope 1 and 2 GHG emissions have the potential to contribute towards New Zealand's goal of transition to a low-emission economy.

Importance of Affordable Housing in New Zealand

Among developed countries, New Zealand has some of the least affordable housing, with 300,000 families living in inadequate housing conditions due to overcrowding, low housing stock and lack of affordability.[89] Put into context, the median house price in the country on July 2022 was USD 810,000,[90] compared to an average annual household income of USD 110,451 (June 2021),[91] which implies that an average house in New Zealand can cost up to eight times more than the average annual household income;[92] an average home in Auckland, for example, costs USD 935,000, or 35 times the median income. [93]

In addition, the affordable housing stock of New Zealand covers only 42% of the estimated total at-risk population.[94] In order to meet the demand for affordable housing, the New Zealand Government committed to increasing the public and transitional housing under its Public Housing Plan, through which the Ministry of Social Development will collaborate with Kāinga Ora[95] and registered community housing providers to offer an intended additional 9950 affordable housing units between 2021 and 2024.[96]

Sustainalytics is of the opinion that LGFA's financing towards affordable and social housing is expected to contribute to improving the quality and accessibility of affordable housing in New Zealand.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The Framework and its SLPC are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG Target
Energy Efficiency	7. Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency

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[88] New Zealand Trade and Enterprise, "Renewable Energy", at: https://www.nzte.govt.nz/page/renewable-energy
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[90] NZ Adviser, "Why is housing affordability an issue in New Zealand?", (2022), at: https://www.mpamag.com/nz/mortgage-industry/guides/why-is-housing-affordability-an-issue-in-new-zealand/420832#:~:text=The%20report%20found%20that%20housing,Australia%2C%20Canada%20and%20the%20UK.
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[95] Kāinga Ora Homes and Communities, "About us", at: https://kaingaora.govt.nz/about-us/
[96] New Zealand Ministry of Housing and Urban Development, "Public Housing Plan", at: https://www.hud.govt.nz/our-work/public-housing-plan/#:~:text=The%20Public%20Housing%20Plan%20%28PHP%29%20sets%20out%20the,wh%C4%81nau%20with%20a%20stable%2C%20affordable%20place%20to%20live.

Green Buildings	9. Industry, Innovation, and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible, and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
		6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Pollution Prevention and Control	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
	12. Responsible Production and consumption	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Environmentally Sustainable Management of Living Natural Resources and Land Use	15. Life on Land	15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
Climate Change Adaptation	13. Climate Action	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
		13.2 Integrate climate change measures into national policies, strategies and planning
Terrestrial and Aquatic Biodiversity Conservation	14. Life below water	14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
	15. Life on Land	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements
Affordable Basic Infrastructure	9. Industry, Innovation, and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and

		human well-being, with a focus on affordable and equitable access for all
Access to Essential Services	4. Quality Education	4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university
		4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Energy Efficiency	7. Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Green Buildings	9. Industry, Innovation, and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible, and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
KPI	**SDG**	**SDG Target**
Absolute gross scope 1 and 2 GHG emissions (tCO_2e)	9. Industry, Innovation, and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

Conclusion

LGFA has developed the LGFA Sustainable Financing Bond Framework following proceeds-based pillars of general market standards for sustainable finance. The Framework is underpinned by LGFA's CAL Programme and CAL Criteria and GSS Loans Programme and GSS Loan Criteria. Under the Framework, LGFA intends to issue sustainable financing bonds and allocate the net proceeds of these bond to Sustainable Loan Asset Pool(s) (such pools comprising GSS Loans, CALs or both).

In Sustainalytics' opinion, the Framework in relation to sustainable financing bond issuances is expected to advance LGFA's and New Zealand's sustainability objectives and generate positive environmental and social impact. Sustainalytics is also of the opinion that the LGFA's processes for the selection of eligible GSS Loans and CALs, the mitigation of key environmental and social risks and reporting on commitments outlined in the Framework are generally aligned with principles underpinning the sustainable finance market, namely those related to impact and transparency.

Under the GSS Loan Criteria, the use of proceeds may finance green and social projects or assets. Sustainalytics considers that the projects funded under the GSS Loan Criteria are expected to provide positive environmental and social impact. The GSS Loan Criteria outlines a process by which proceeds will be allocated and managed, and makes commitments for reporting on the allocation and impact of the use of proceeds, which are overall in line with market practice. Therefore, Sustainalytics considers the GSS Loan Criteria to be aligned with the GLP and SLP.

Under the CAL Criteria, LGFA intends to link classification or declassification of each CAL upon achievement of the following SPT:

1) Reduction in absolute gross scope 1 and 2 GHG emissions in line with a 1.5°C science-based scenario.

Sustainalytics considers the KPI – Absolute gross scope 1 and 2 GHG emissions (tCO_2e) – to be strong as it relates to the Councils and adequate as it relates to the CCOs given that: i) it speaks to a material ESG issue; ii) it is directly related to Councils' and CCOs sustainability performance; iii) it has a high scope of applicability as related to the Councils and an adequate scope of applicability as related to the CCOs; iv) it follows a clear and consistent methodology with external references; and v) it is comparable to an external contextual benchmark. In addition, Sustainalytics encourages LGFA to consider lending CALs under the CAL Criteria to CCOs for which scope 1 and 2 represent a substantial proportion of total GHG emissions over which they have influence.

Sustainalytics considers that the SPT under the CAL Criteria aligns with LGFA's and New Zealand's overall sustainability strategy, which recognize the roles of Councils and CCOs in the country's decarbonization plan and sets the guiding strategy for Councils and CCOs. The Councils and CCOs establish their own emissions reduction plans, targets and decarbonization strategies based on the national GHG emissions reduction plan. Furthermore, Sustainalytics considers that the SPT is highly ambitious given that it is expected to align with a science-aligned trajectory to reduce GHG emissions, limit global warming to 1.5°C and support New Zealand's goal of net zero emissions by 2050. However, Sustainalytics considers the loan characteristics defined under the CAL Criteria not aligned with the SLLP loan characteristics component, as the incentive or penalty in relation to achieving the SPT is not linked within the same CAL term, but to future CALs. Nevertheless, Sustainalytics recognizes the mechanism of declassification from the Programme to be an impactful incentive to achieve ambitious decarbonization targets. Therefore, Sustainalytics overall considers the CAL Criteria to be partially aligned with the intent of the SLLP.

Based on the above, Sustainalytics is confident that LGFA is well positioned to issue sustainable financing bonds and use proceeds from the bonds to originate GSS Loans and CALs under its GSS Loan Criteria and CAL Criteria respectively. Sustainalytics is of the opinion that the LGFA Sustainable Financing Bond Framework, as based on the proceeds-based pillars of general market standards for sustainable finance, is overall in alignment with the impact and transparency principles which underpin the sustainable finance market. Furthermore, Sustainalytics is of the opinion that the GSS Loan Criteria to originate GSS Loans, i.e. use of proceeds loans, is aligned with the Green Loan Principles 2023 and the Social Loan Principles 2023. Sustainalytics is also of the opinion that the CAL Criteria to originate the Climate Action Loans to be partially aligned with the intent of the Sustainability-Linked Loan Principles 2023.

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