

# New Zealand Local Government Funding Agency

**Type of Engagement:** Sustainable Financing Bond Pre-Issuance Review

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## Introduction

In March 2023, the New Zealand Local Government Funding Agency Limited (“**LGFA**”) developed a Sustainable Financing Bond Framework (“**Framework**”)<sup>1</sup> and Sustainalytics provided a Second Party Opinion<sup>2</sup> over the Framework. Under the Framework, LGFA intends to issue sustainable financing bonds to finance and/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 offered to the Borrowers comprising:

- i) Green, Social and/or Sustainability (“**GSS**”) Loans (“**GSS Loans**”) – being ‘use of proceeds’ loans that are intended to finance and/or refinance GSS projects, assets and activities that are eligible under the green and social project categories (outlined in Section 4.2.1 and Section 4.2.2 of the Framework and the LGFA GSS Lending Programme and Criteria (“**GSS Loans Criteria**”)); and
- ii) Climate Action Loans (“**CALs**”) – being ‘target (or incentive)’-based loans to incentivise Borrowers to reduce their greenhouse gas emissions that are eligible under section 4.3 of the Framework and the LGFA Climate Action Loan Lending Programme and Criteria (“**CAL Criteria**”),

The Framework defines eligible GSS projects in the following categories: 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, and Social and Affordable Housing.

LGFA engaged Sustainalytics to review the projects (the “**Nominated Projects**”) that will be funded through the issued sustainable financing bonds and provide an assessment as to whether the projects would comply with the Use of Proceeds and Project Selection, criteria of the Framework. Please note that loans under CALs is not part of the scope of this letter.

## Evaluation Criteria

Sustainalytics evaluated the underlying Nominated Projects to which LGFA may notionally allocate an amount equal to (or a part thereof) the net proceeds of any future Sustainable Financing Bonds that LGFA may issue. Sustainalytics evaluated the Nominated Projects for compliance based on whether:

- a) The Nominated Projects align with the “**GSS Loans Eligibility Criteria**” outlined in Section 4.2 of the Framework;
- b) The process to select and evaluate the Nominated Projects aligns with the “**Project Evaluation and Selection**” processes outlined in Section 4.4 of the Framework; and
- c) LGFA’s intent to manage the proceeds raised for the Nominated Projects aligns with the requirements regarding “**Management of Proceeds**” outlined in Section 4.5 of the Framework.

The Nominated Projects are summarized in Appendix 2.

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<sup>1</sup> LGFA, “Sustainable Financing Bond Framework”, at : [https://www.lgfa.co.nz/sites/default/files/2023-03/LGFA\\_Sustainable\\_Financing\\_Bond\\_Framework.pdf](https://www.lgfa.co.nz/sites/default/files/2023-03/LGFA_Sustainable_Financing_Bond_Framework.pdf)

<sup>2</sup> LGFA, “Sustainable Financing Bond Framework Second Party Opinion”, at : [https://www.lgfa.co.nz/sites/default/files/2023-03/LGFA\\_Sustainable\\_Financing\\_Bond\\_Framework\\_Second-Party\\_Opinion.pdf](https://www.lgfa.co.nz/sites/default/files/2023-03/LGFA_Sustainable_Financing_Bond_Framework_Second-Party_Opinion.pdf)

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### **Issuing Entity's Responsibility**

LGFA is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including a description of the eligible projects within each GSS Loan eligible project category. This information was provided to Sustainalytics to support its review. LGFA is also responsible for confirming to Sustainalytics that the processes for project selection and management of proceeds for the intended 2023 issuance of the sustainable financing bonds will remain aligned with the commitments described in the Framework.

### **Independence and Quality Control**

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of LGFA's 2023 sustainability financing bond issuances. The work undertaken as part of this engagement included verification of the Nominated Projects against the Framework and confirmation from relevant employees of LGFA that the processes for 'Use of Proceeds', 'Project Evaluation and Selection' and 'Management of Proceeds' for the intended 2023 issuance of the sustainable financing bonds will remain aligned with the commitments described in the Framework.

Sustainalytics has relied on the information and the facts presented by LGFA with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by LGFA.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Committee to provide oversight over the assessment of the pre-issuance review.

### **Conclusion**

Based on the limited assurance procedures conducted,<sup>3</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the Nominated Projects and the processes New Zealand Local Government Funding Agency intends to follow to manage the proceeds of sustainable financing bonds are not aligned with the Framework.

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<sup>3</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the Nominated Projects, including description of projects, estimated and realised costs of projects and project impact, which were provided by LGFA. LGFA is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to Nominated Projects.

## Appendix 1: New Zealand Local Government Funding Agency’s Use of Proceeds Eligibility Criteria

Use of Proceeds <sup>4</sup>	Eligible Criteria
Green Buildings	<p>- LGFA intends to finance and/or refinance the acquisition, construction, retrofit, operation and/or refurbishment of new buildings that have received or are expected to receive the following green building ratings:</p> <ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul> <p>Additionally, LGFA intends to finance and/or refinance the acquisition, construction, retrofit, operation and/or refurbishment of existing buildings (i.e. 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 ratings:</p> <ul style="list-style-type: none"> <li>i) For office buildings, a minimum 4 Star under NABERSNZ Energy Base Building rating or Energy Whole Building rating; or</li> <li>ii) For retail buildings (or other building types as applicable): a) a minimum of 4 Star Green Star Performance rating of New Zealand Green Building Certification (NZGBC) , or b) a Green Star Performance rating and a score of 8/20 (base building) or 9/23 (whole building) within the GHG emissions credit section of the Green Star Performance rating tool.</li> </ul>
Climate Change Adaptation	<ul style="list-style-type: none"> <li>- 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.</li> <li>- 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. Such projects may include: <ul style="list-style-type: none"> <li>i) the installation of stopbanks (compacted earth banks) to contain the power of rivers and streams in flood;</li> <li>ii) preventing floodwater spread into land and property up to a designed limit;</li> <li>iii) natural coastal sea walls (using boulders); and</li> <li>iv) targeting planting of native grasses and trees to help with erosion and landslips.</li> </ul> </li> <li>- Investments in projects related to emergency preparedness measures and installation of support systems, including climate observations, early warning systems to protect against natural disasters, such as floods, avalanches, landslides, and storm surges.</li> <li>- Projects under this category require risk assessment which include: <ul style="list-style-type: none"> <li>i) current weather variability;</li> <li>ii) future climate change including uncertainty;</li> <li>iii) analysis of climate data and projections for future scenarios; and</li> </ul> </li> </ul>

<sup>4</sup> Sustainalytics notes that out of all the 10 UoP categories listed in the Introduction, LGFA has its Nominated Projects only in the categories listed in Appendix 1

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	iv) management response plan.
Social & Affordable Housing	- Construction, maintenance, and operation 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.

## Appendix 2: Summary of 2023 Nominated Projects

### Details of the Nominated Projects and Estimated Approved GSS Loan Amounts<sup>5</sup>.

#### 1. Green Buildings

**Table 1**

No	Nominated Project Name	Nominated Project Description	Area Covered	Estimated Approved GSS Loan Amount (NZ\$)
1.	<u>Tākina, Wellington Convention Centre and Exhibition Centre (the 'Centre')</u>	<p>The Centre due to open in 2023 has been built to host international and local conferences. The Centre's top two floors include space to host meetings, conventions and international / local conferences. The Centre's ground floor includes the exhibition gallery which has been built to enable New Zealand to secure and host global travelling exhibitions as well as to present locally produced shows.</p> <p>The Centre has achieved a 5 Star Green 'Custom Design Rating' (certified in Apr-21) from the NZGBC. When benchmarked against comparable new builds, the Centre has been designed to reduce energy use by 60% and operational carbon emissions by 66%. Energy usage will be monitored and adjusted by building systems and will be made available to the public on screens on the ground floor.</p> <p>The Nominated Project is located in Te Aro Wellington.</p>	18,000 sqm	180,000,000
2.	<u>Naenae Pool and Fitness Centre (the "Pool")</u>	Hutt City Council is rebuilding its Olympic swimming pool and fitness centre, which is due to open in July 2024.	5,125 sqm	41,000,000

<sup>5</sup> LGFA has communicated to Sustainalytics that the Estimated Approved GSS Loan amounts 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.

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		<p>The new Pool is expected to solely use electricity from the national grid as opposed to natural gas which was used in the old pool. The annual emissions reduction by this upgrade is expected to be around 45%, close to 275 tonnes carbon emissions. The new Pool will also be more energy efficient with up to a 53% reduction in energy use.</p> <p>The fitness centre is also being refurbished to make it more resilient to the impacts of changing climate and natural disasters. It is noted that currently in New Zealand, there is no pool which has been certified by the NZGBC and Hutt City Council is working together with Green Star Accredited Professionals to get the pool certified in line with best practices as noted in the country's other aquatic centres. Additionally, the Pool is expected to achieve a 5 Star NZGBC Green Star rating.</p> <p>The Nominated Project is located in Te Awa Kairangi ki Tai Lower Hutt.</p>		
3.	<u>Whangarei Civic Centre</u>	<p>Whangārei District Council is investing in a new building which will be a community hub for all local government related activities and house all its staff members under one roof. The civic centre is expected to achieve a NABERSNZ rating of 4.5 Stars.</p> <p>The Nominated Project is located in the Whangārei District</p>	5,000m <sup>2</sup>	59,000,000

## 2. Climate Change Adaptation

**Table 2**

No	Nominated Project Name	Nominated Project Description	Approved GSS Loan Amount (NZ\$)
1.	<u>River works and respective land purchase aspects of the RiverLink Project</u>	Together with Mana Whenua partners Ngāti Toa Rangitira and Taranaki Whānui ki te Upoko o te Ika, the RiverLink Project is a collaboration between Hutt City Council, Greater Wellington Regional Council and Waka Kotahi NZ Transport Agency. The project integrates flood protection works within and around Te Awa Kairangi Hutt River which also includes the Making Places Urban Development Plan, and Melling transport	227,000,000

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		<p>improvements.</p> <p>As part of the flood prevention improvements, this project involves upgrading the stopbanks on either side of Te Awa Kairangi Hutt River as well as realigning, deepening, and widening the river channel to protect Lower Hutt city centre from a one in 440-year flood event, at the same time enhancing the ecological health of the river.</p> <p>Sustainalytics notes that LGFA has communicated , for the RiverLink Project, a detailed vulnerability assessment has been carried out.</p> <p>The Nominated Project is located in the Hutt Valley.</p>	
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### 3. Social and Affordable Housing

**Table 3**

No	Nominated Project Name	Nominated Project Description	Approved GSS Loan Amount (NZ\$)
1.	<u>Ōtautahi Community Housing Trust</u> (“ŌCHT”)	<p>ŌCHT is responsible for providing low-cost community housing in Christchurch where houses would be subsidised as per government regulations. The commercial lease agreement with Christchurch City Council (CCC) also requires ŌCHT to build at least 400 housing units to replace those lost in the Canterbury earthquakes and LGFA’s GSS Loan is to finance the build of these properties.</p> <p>Sustainalytics notes that ŌCHT is supported by the Ministry of Housing and Urban Development to provide homes for people listed in the Public Housing Register<sup>6</sup>.</p> <p>The Nominated Project is located in the Canterbury region.</p>	\$55,000,000

<sup>6</sup> 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>

### Appendix 3: Sustainalytics' Findings

<b>Eligibility Criteria</b>	<b>Procedure Performed</b>	<b>Factual Findings</b>	<b>Error or Exceptions Identified</b>
<b>Use of Proceeds Criteria</b>	Verification of the Nominated Projects to determine if they align with the "GSS Loans Eligibility Criteria" outlined in Section 4.2 of the Framework and Appendix 1.	All Nominated Projects reviewed (Appendix 2 Tables 1, 2 and 3) complied with the GSS Loans Eligibility Criteria.	None
<b>Project Evaluation and Selection Criteria</b>	Verification of the project evaluation and selection process undertaken for the Nominated Projects are consistent with the "Project Evaluation and Selection" outlined in Section 4.4 of the Framework.	LGFA has also confirmed to Sustainalytics that the "Project Evaluation and Selection" processes outlined in Section 4.4 of the Framework are consistent with the commitments outlined in the Framework.	None
<b>Management of Proceeds Criteria</b>	Verification of the processes undertaken by the LGFA to align the proceeds management with the requirements regarding "Management of Proceeds" outlined in Section 4.5 of the Framework.	LGFA has also confirmed to Sustainalytics that the processes undertaken by the LGFA to align the Nominated Projects with the requirements regarding "Management of Proceeds" are consistent with the commitments outlined in the Framework.	None

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