Climate Action Loans Programme – Criteria

31 March 2023

LGFA

New Zealand Local Government Funding Agency

Te Pūtea Kāwanatanga ā-rohe

Contents

About this Report

The LGFA Climate Action Loans Programme – Criteria document was developed to provide an overview to LGFA borrowers on how to access LGFA Climate Action Loans.

This document is available at **www.lgfa.co.nz**

1. Introduction

1.1 Purpose of this Criteria

New Zealand Local Government Funding Agency Limited (**LGFA**) recognises the risks inherent in climate change for both our country and our council and Council Controlled Organisation (**CCO**) members and wishes to support New Zealand's shift to a low-carbon economy. LGFA also recognises it has a role to play in New Zealand's contribution to meeting the United Nations' Sustainable Development Goals and helping its member councils and CCOs to build a stronger and more resilient society.

With this Climate Action Loans Programme – Criteria document (**Criteria**), LGFA is widening its sustainable finance options for council and CCO members and offering them the opportunity to apply for Climate Action Loans (**CALs**). Offering CALs will align to LGFA's aim of displaying leadership to the sector on sustainable lending and encourage member councils and CCOs to make progress on sustainability issues.

The CALs will be documented as debt securities under LGFA's Multi-issuer Deed; however, we refer to these debt securities as 'CALs' in this Criteria.

This Criteria sets out the basis on which member Councils or CCOs (**Borrowers**) can access a CAL. This Criteria will be reviewed regularly (and updated from time to time) by LGFA to ensure it meets market best practice and to reflect any changes in Central Government policy or targets.

1.2 Outline of CALs

CALs are target (or incentive) based lending structures designed to incentivise Borrowers to act on climate change and reduce greenhouse gas (**GHG**) emissions.

A CAL rewards a Borrower through a margin discount if that Borrower has adopted an Emissions Reduction Plan (**ERP**) (as outlined in **Section 3.2.1**) and the ERP sets out specific Emissions Reduction Targets (ERTs) (as outlined in **Section 3.2.2**).

Both the ERP and ERTs must include a Borrower's Scope 1 and Scope 2 GHG emissions (as detailed in **Section 3.2.2**) at member council or CCO level. CALs are targeted to all Borrowers, including those who may not have eligible projects to access Green, Social and Sustainable (**GSS**) loans[1].

LGFA may subsequently issue bonds that finance member councils and CCOs (including to refinance LGFA's existing debt) and may notionally allocate a pool of CALs to those bonds together with (if applicable) a pool of GSS loans to member councils and CCOs.

1.3 Borrower Requirements to Apply for CAL

In applying for CALs, Borrowers will be required to have in place an ERP (which can be part of a wider transition plan) and produce annually a verified GHG Emissions Inventory.

The ERP is to be a roadmap to achieve a Borrower's ERTs and progress towards a low-emissions, resilient and healthier region/district/city that is better connected to the environment and able to thrive in the face of ongoing change and disruption.

The ERP may be part of a Borrower's broader (climate change) strategy to address the challenges and opportunities presented by climate change by building resilience, working to mitigate the impacts of climate change, and facilitate adaptation planning.

1 Where a Borrower has a specific project that meets LGFA's Green, Social and Sustainability Lending Programme criteria they will be encouraged to apply for a GSS loan in one or more of LGFA's 9 green loan or 3 social loan categories.

1.4 New Zealand's Emission Reduction Goals

Limiting global warming to 1.5°C is considered best practice. New Zealand has a national target of reaching net zero long-life GHG emissions by 2050 and a 24-47% reduction in gross biogenic methane emissions by 2050 (compared to 2017 levels)[2]. New Zealand's Nationally Determined Contribution[3] is to reduce net greenhouse gas emissions to 50% below gross 2005 levels by 2030. This corresponds to 41% when managed using a multi-year GHG emissions budget starting from New Zealand's 2020 emissions target. Based on New Zealand's most recent greenhouse gas inventory, this budget provisionally equates to 571 Mt $CO2_e$ over the 2021-2030 period.

New Zealand's First Emissions Reduction Plan (NZ-ERP)[4] is an all-of-government plan involving many agencies, departments and ministries, and their ministers. The NZ-ERP outlines that coordination across central and local government, iwi/Māori, the business community, and civil society is imperative. To that end, the Government has established dedicated programme governance and management for the NZ-ERP, led by the Prime Minister.

The NZ-ERP outlines that local government is fundamental to meeting New Zealand's 2050 targets, mitigating the impacts of climate change, and helping communities to adapt to climate change.

> *"Councils play an important role in engaging with their communities to help with the significant behavioural shifts required to meet New Zealand's climate goals. Some councils have well-developed targets and emissions reductions plans in place and options for funding and financing. However, many do not have the capacity, capability, or funding to effectively plan for and implement the action required.*
>
> *Local government will need support and guidance from central government to build capacity and capability, understand their roles and responsibilities for emissions reduction and ensure they have the tools and resources needed for change, particularly in the first two emission budget periods. Central and local government will work in partnership, alongside Māori, to align policies and deliver actions to meet New Zealand's 2050 targets".*

The NZ-ERP also states that local government is uniquely placed to deliver nature-based solutions.

> *"Local councils are land and infrastructure owners, regulators, and agencies responsible for implementing both climate and other environmental policy 'on the ground'. This includes implementing the National Policy Statement for Freshwater Management 2020 and proposed National Policy Statement for Indigenous Biodiversity. Councils can prioritise nature-based solutions in the provision of infrastructure and influence the restoration and protection of indigenous vegetation and wetlands. For example, Greater Wellington Regional Council has made 'implementing nature-based solutions to climate change' a strategic priority in their long-term plan. Through its Low Carbon Acceleration Fund, Greater Wellington is restoring native forests, peatlands, and dunes on the Kāpiti Coast and in Kaitoke Regional Park to remove carbon from the atmosphere and realise wider social and environmental benefits".*

Local government and the private sector have a role to play in ensuring that New Zealand's planning system and investment in infrastructure support the transition to a low-emissions and climate-resilient society. Local government engages with local community and tangata whenua to help inform decisions it makes on land use, resource management, urban form, road and transport services, infrastructure funding and servicing, waste management, flood risk management and coastal management.

The NZ-ERP concludes that local government will need to switch to low-emissions fuels and technologies for council-owned buildings and public facilities and improve their energy efficiency.

> *"Councils also have an important role to play in enabling the development of renewable energy and associated infrastructure via their planning functions – including spatial planning functions under the reformed resource management system".*

2 Aotearoa New Zealand's First Emissions Reduction Plan, Te hau mārohi ki anamata, May 2022.

3 New Zealand submission under the Paris Agreement, New Zealand's First Nationally Determined Contribution updated 4 November 2021.

4 Aotearoa New Zealand's First Emissions Reduction Plan, Te hau mārohi ki anamata, May 2022.

New Zealand's First National Adaptation Plan[5] (NZ-NAP) states that central government will not bear every risk and cost of climate change, including climate change adaptation. Risk and cost will fall across different parts of society, including asset or property owners, their insurance companies, their banks, local government, and central government. Several actions to address these risks are already underway. The Government is reforming the resource management system, emergency management system and three waters services, and reviewing the future for local government. All these programmes of work aim to keep our systems fit for the future and responsive to the uncertainty of a changing climate.

Local government is at the centre of risk management planning and response because most hazard events occur at the local or regional scale. Climate change is felt locally, so local government will maintain its central role in helping communities to understand and respond together. Many communities and sectors are already collaborating to plan for a changing climate.

Councils have statutory responsibilities to avoid or mitigate natural hazards and to have regard to the effects of climate change when making certain decisions. They are also responsible for civil defence and emergency management and improving community resilience through public education and local planning. Their functions and duties relating to natural hazards include:

- land-use planning under the Resource Management Act 1991, including national direction;
- civil defence as outlined in the Civil Defence Emergency Management Act 2002 and civil defence emergency management (CDEM) group plans;
- asset management based on the Soil Conservation and Rivers Control Act 1941 and councils' long-term plans and infrastructure strategies under the Local Government Act 2002;
- building regulation based on the Building Act 2004; and
- disclosure of hazard information as required by the Local Government Official Information and Meetings Act 1987.

Councils also own assets, including infrastructure and forests, that are at risk from climate impacts. Investment by local government in improved resilience can reduce the costs of new and improved infrastructure, support communities to pay rates, and reduce the likelihood of high-cost interventions such as managed retreat. Many councils are already addressing the impacts, and proactively integrating climate risk into current and future planning.

1.5 Examples of Borrowers who have established ERTs

Several councils already have GHG Emissions Reduction Targets in place (some are aligned to ERPs) for their respective council operational emissions and examples of these have been set out below:

- **Auckland Council Group** – In July 2020 the Group adopted "Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan". The Group is targeting to reduce its Scope 1 and 2 gross GHG emissions 50% by 2030 (from 2017) and achieve net zero GHG emissions by 2050.
- **Wellington City Council Group** – The Group is targeting net zero emissions by 2050. In addition, the Council has set a target for the City to reduce gross production emissions 57% by 2030 (from 2020) and achieve net zero emissions by 2050. Through its Te Atakura – First to Zero Implementation Plan, Wellington City Council is committed to reducing the emissions it creates as an organization and is working on projects across the organisation to ensure it aligns with its net zero by 2050 goals. The biggest area of Wellington City Council's corporate emissions comes from its Council-owned facilities that Wellington City Council operates on behalf of the city, like the Southern Landfill and wastewater treatment plants. While these contribute about 8% of emissions to the city inventory, they make up over 80% of the Wellington City Council inventory.
- **Christchurch City Council** – The Christchurch district is targeting to reduce its Scope 1 and 2 gross emissions 50% by 2030 (from 2016/2017) and achieve net zero GHG emissions by 2045. However, Christchurch City Council has its own in-house Resource Efficiency and Greenhouse Gas Emission (REGGE) programme which measures where council emissions come from each year and takes steps to reduce them. CCOs are also working to reduce their emissions, and Christchurch City Council has directed them to work towards being net carbon neutral by 2030, in line with its own target.

5 Aotearoa New Zealand's First National Adaptation Plan, Urutau, ka taurikura: Kia tū pakari a Aotearoa i ngā huringa āhuarangi, August 2022.

- **Tauranga City Council** – Targeting to reduce its Scope 1 and 2 gross emissions 15% by 2024 (from 2018/2019). Tauranga City Council is looking to develop a Corporate Sustainability Plan. A Climate Action and Investment Plan is also being developed, relating to the Tauranga Community, and due for completion in CY23.
- **Dunedin City Council** – The Dunedin district is targeting to reduce its Scope 1 and 2 gross emissions 50% by 2030 from (2018/2019) and achieve net zero GHG emissions by 2030 (excluding methane), as well as a 24-47% reduction below 2017 biogenic methane emissions by 2050, including a 10% reduction below 2017 biogenic methane emissions by 2030. Alongside the District Plan, Dunedin City Council's most recent Emissions Management and Reduction Plan covers the period from 1 July 2010 to 30 June 2023. Dunedin City Council is committed to setting a Science Based Target consistent with global endeavours to limit warming to 1.5°C.
- **Hutt City Council** – Hutt City Council (HCC) has set an operational carbon target, declared a climate emergency, and developed its Interim Carbon Reduction and Resilience Plan 2021-31. HCC is targeting to reduce its Scope 1 and 2 gross GHG emissions 30% by 2024 (from 2017), 50% by 2030 and net zero by 2050. Lower Hutt district has also developed a Climate Action Pathway – Te Ara Whakamua o Te Awa Kairangi ki Tai.

2. Application Process

All Borrowers are eligible to apply for a CAL from LGFA.

Applications for CALs will be subject to a separate assessment process based on the criteria set out in Section 3 in conjunction with the LGFA's standard borrowing process.

2.1 Application Form

The application process is started by the Borrower completing the CAL application form, which can be requested by contacting LGFA, or is available from the LGFA website at **www.lgfa.co.nz**.

Supporting material must be provided to support the application. This material must include:

- GHG Emissions Inventory to include, at a minimum, Scope 1 and 2 emissions (calculated using the GHG Protocol or ISO 14064 Standard) and an established Baseline Year;
- Evidence of a third-party audit to verify the GHG Emissions Inventory (including the Baseline Year inventory) against the GHG Protocol or ISO 14064 Standard, and a written commitment to complete this annually;
- Plans to broaden the GHG Emissions Inventory to capture Scope 3 emissions in the next two years (if not already captured);
- Commitment to a science-aligned absolute gross ERTs (short-term (<5 years), medium-term (<10 years), and longer-term (<20 years)) aimed at achieving net zero by 2050 or sooner and aligning with a 1.5 C target pathway, including a minimum reduction by 2030; and,
- A supporting ERP that includes tangible actions, anticipated costs (these can be qualitative), and timeframes to achieve the ERTs.

If you require assistance completing the form, please contact the LGFA Head of Sustainability who will be able to assist you.

2.2 Assessment and Confirmation of CAL Applications

Applications are assessed by LGFA's management team, before being presented to the LGFA Sustainability Committee, with a final recommendation made by the Sustainability Committee to the Chief Executive of LGFA for final approval. This may include a request for further information from the Borrower.

Successful CAL applicants will be notified in writing. Where an application does not satisfy the CAL Criteria, the Borrower can continue to borrow under LGFA's normal financing terms.

2.3 Declassification of a CAL

A CAL can be declassified in the circumstances set out in this section. Where a declassification occurs, the CAL will be treated as a standard loan rather than a CAL.

Declassification will be triggered if:

(a) the Borrower determines that the CAL no longer satisfies the CAL eligibility criteria. The Borrower must promptly notify LGFA (in writing) if the CAL no longer satisfies the CAL eligibility criteria; or

(b) the LGFA determines that the Borrower:

- is no longer able to meet the CAL eligibility criteria;
- has been unable to achieve the ERTs set in its ERP, or the GHG emissions have increased above the Baseline Year; or
- is unable to provide the required annual third-party audited GHG Emissions Inventory by 30 November (unless LGFA is satisfied there have been mitigating circumstances which do not impact the Borrower's ability to achieve their ERTs).

In each of these circumstances, LGFA may (if it considers it appropriate) undertake a review of the underlying conditions for declassification and must confirm (in writing) to the Borrower that declassification has occurred or will occur and the effective date of the declassification.

As noted above, a CAL will also be declassified if LGFA determines (at its sole discretion) that the CAL does not meet the CAL eligibility criteria. This could occur in any number of circumstances, including (without limitation) where a Borrower updates its ERP or chooses not to update its ERP (in either case) in manner which LGFA determines results in the CAL ceasing to satisfy the CAL eligibility criteria.

Declassification (or loss of 'CAL' label) will not trigger any event of default or review in respect of the CAL.

In the event of declassification of any existing CALs, the CAL margin discount will continue to apply for the duration of that CAL. However, the declassification will mean:

(a) LGFA will remove the Borrower's name from the list of CAL Borrowers on LGFA's website;

(b) LGFA will name the Borrower on LGFA's website as a borrower which has had its CAL declassified as a result noncompliance with the CAL criteria; and

(c) the Borrower will be ineligible to apply for new CALs until LGFA is satisfied (in its sole discretion) that the Borrower and the declassified CALs meet the CAL eligibility criteria.

LGFA retains the right to change this Criteria (e.g., where sustainable finance market standards or conventions change) and the terms of the CAL may also change as a consequence. In these circumstances, the Borrower can opt to continue to hold a CAL under the revised Criteria and CAL terms or notify LGFA (in writing) that it wishes to declassify the CAL. In these circumstances, the declassification occurs on the effective date specified by LGFA and consequences of declassification set out in this section apply.

3. CAL Terms and Conditions

3.1 CALs are for general purpose funding

Unlike GSS loans, the proceeds of the CAL are not required to be applied to a certain project and are instead able to be used for general purpose funding. CALs are for long-term borrowing by Borrowers, with a minimum maturity term of three years. CAL proceeds can be used to refinance existing borrowing (at maturity) or for new borrowing.

Borrowers can also still apply for GSS loans for eligible projects and receive LGFA's GSS loan discount for those loans. However, these GSS loans would not qualify to be included as a CAL and would not receive the additional financial Incentive.

LGFA reserves the right to change or reset this Criteria (e.g., if Central Government policy/targets change, sustainable finance market standards or conventions change) and the terms of the CAL may also change as a consequence. The Borrower can opt to continue under the revised Criteria and CAL terms or have the CAL declassified (see section 2.2.3).

3.2 Qualification for Climate Action Loan

LGFA will follow the process outlined below to determine if a Borrower continues to qualify for a CAL (which are outlined in more detail below the process chart):

1. **Borrower submits an Emissions Reduction Plan (at the outset of the loan)**
2. **Borrower reports annual progress against the Emission Reduction Target**
3. **Annual Reporting and Verification**
4. **LGFA Annual Surveillance, with more detailed Review undertaken every three years**

1. ERP (at the outset of the loan)

Before entering a CAL, the Borrower is to provide an GHG Emissions Inventory and ERPs (which can be included in a transition plan) that sets out the Borrower's intended pathway to reduce its Scope 1 and Scope 2 GHG emissions in line with a science-based trajectory (i.e., to support limiting global warming to no greater than 1.5°C above pre-industrial levels and net zero by 2050).

The ERPs is to include annual targets (for Scope 1 and Scope 2 GHG emissions) covering short-term periods (for example to include years 1 up to year 5 of the CAL (e.g. 2023 to 2028) in line with their 2030 target), as well as a medium-term target (for example to include years 6 up to their 2030 target and beyond to year 10 of the CAL, e.g. 2030 to 2033), that ultimately support the Borrower to achieve its long-term goal of net zero by 2050 (or sooner) and an alignment of 1.5°C. See the example table which was been included for illustrative reporting purposes.

	Baseline (Scope 1 & 2)	Historical (Scope 1 & 2)			Short-Term Targets (Scope 1 & 2)		Medium-Term Targets	Long-Term Target
Year	2018/19	2019/20	2020/21	2021/22	2025	2028	2030	2050
Performance (tonnes $CO2_e$)	136,600	130,901	131,657	131,171	100,000	81,250	68,300	Net Zero
Change against Baseline (%)	N/A	(4.17%)	(3.62%)	(3.97%)	(27.45%)	(41.18%)	(50.0%)	(100%)

In the ERPs, the Borrower is required to provide a strategy to achieve the ERTs (e.g., key levers, decarbonisation projects, activities, costs, and timeframes) as well as the alignment and/or ambition of the ERTs against:

- **Baseline Performance:** An established baseline year for the GHG Emissions Inventory is required to be established.
- **Historical performance:** Where possible, comparison of the targeted 'short-term' emissions reductions against the Borrower's historical emissions performance.
- **Science:** Supporting the achievement of net-zero greenhouse gas emissions by 2050 under a 1.5°C alignment (including a 50% reduction in emissions by 2030). The 'short-term targets' may be established using a straight-line trajectory to achieve benchmark targets intervals of every three years. The Science-Based Targets initiative (SBTi) and/or credible third parties can provide guidance on suitable target setting approaches (if required).

Optional Criteria – For those Borrowers obtaining Toitū Envirocare carbonreduce certification or GHG certification from another recognised counterparty – provide such certification to LGFA where possible.

2. ERTs & Performance

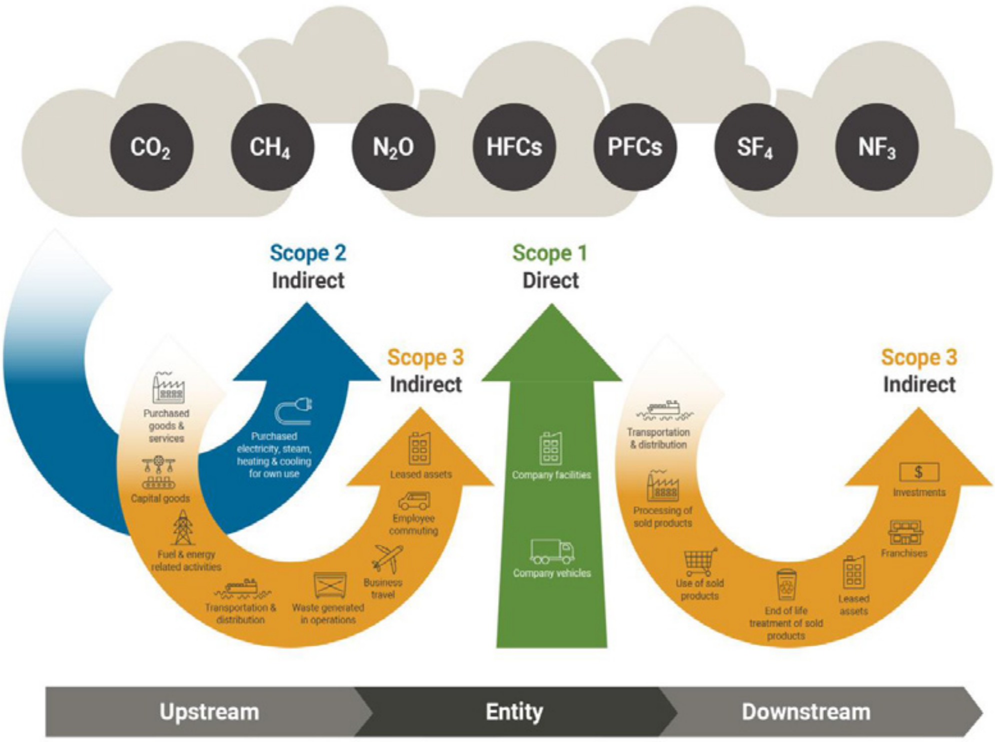
The ERTs should be reported as a metric based on the reduction in a Borrower's Scope 1, and 2 GHG Emissions reported for each Sustainability Reference Period against Baseline Performance. LGFA will provide up to 24 months flexibility around additional Scope 3 reporting to Borrower's not already recording and reporting their Scope 3 emissions at the time of applying for their initial CAL.

The relevant definitions (*as capitalised above*) and reporting references to be followed include:

Baseline Performance: Means (x) tonnes of $CO2_e$ equivalent reported for the selected Baseline Year. The GHG Emissions Inventory is to include absolute gross emissions at the Baseline Year.

Baseline Year: Means a 12-month reference point in the past with which current emissions can be compared. This Baseline Year must be specified in the Borrower's ERP.

- **Net zero:** Refers to a state when anthropogenic emissions of greenhouse gasses to the atmosphere are balanced by anthropogenic removals. Organizations are considered to have reached a state of net zero when they reduce their GHG emissions following science-based pathways, with any remaining GHG emissions attributable to that organization being fully neutralised, either within the value chain or through purchase of valid offset credits.
- **1.5 degrees Celsius aligned:**
    - A pathway of emissions of greenhouse gases and other climate forces that provides an approximately one-in-two (50%) to two-in-three chance (66%), given current knowledge of the climate response, of global warming either remaining below 1.5°C or returning to 1.5°C by around 2100 following an overshoot.
    - Pathways giving at least 50% probability based on current knowledge of limiting global warming to below 1.5°C are classified as "no overshoot" while those limiting warming to below 1.6 degrees Celsius and returning to 1.5°C by 2100 are classified as 1.5°C "low-overshoot".
- **Scope 1, 2 and 3 Greenhouse Gas Emissions:**
    - Means total absolute gross GHG emissions (expressed in tonnes of $CO2_e$ equivalent) that are reported by the Borrower for the relevant Sustainability Reference Period. This will be measured based on the cumulative reduction (%) against Baseline Performance.
    - Reporting will meet the definitions of emissions as defined by the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard or ISO14064 and ISO14064-1. This includes all scopes of emissions, including:
        - **Scope 1 Emissions;** being the direct emissions including fuel, natural gas, land use and refrigerants.
        - **Scope 2 Emissions;** being indirect emissions from energy (e.g., purchased electricity, heat, steam).
        - **Scope 3 Emissions;** being other indirect emissions which result because of the Borrower's activities but occur from sources not owned or controlled by the Borrower.



- **Science Based Targets Initiatives (SBTi) Offsets Methodology:** The SBTi requires that companies set targets based on emission reductions through direct action within their own boundaries or their value chains. Offsets are only considered to be an option for companies wanting to finance additional emission reductions beyond their science-based target or net-zero target.
- **Sustainability Reference Period:** The preceding 12-month period of each year during which the ERTsare measured (e.g., 1 July to 30 June). To be proposed by each Borrower (usually in alignment with the relevant financial reporting period) and agreed with LGFA.
- **Value chain:** Climate-related risks and opportunities relate to activities, interactions, and relationships and to the use of resources along an entity's value chain. When considering its exposure to climate-related risks and opportunities, an entity must consider the exposure of its value chain as well. Investments that an entity has in other entities, for example, associates and joint ventures, are also considered to be part of an entity's value chain.

3. Annual Reporting and Verification (following execution of the CAL)

Within five months following each Sustainability Reference Period, the Borrower is to report to LGFA with the following information:

- Verified gross GHG emissions performance for the Sustainability Reference Period (i.e., in tonnes of $CO2_e$);
- Performance against the ERTs for the Sustainability Reference Period (i.e., cumulative % reduction against Baseline Performance);
- Confirmation as to whether the ERTs (as set out in ERP approved by LGFA at the outset of the CAL) were achieved or not; and
- Summary of progress against the ERP. This may include (i) status of achievement of/towards short- and medium-term Target(s), (ii) key events which may/did prevent achievement of short-term targets, (iii) and any key changes to the actions to be taken to achieve the ERTs.

The Borrower is required to obtain external verification (by a credible provider) of its GHG Emissions Inventory to verify reporting in alignment with the GHG Protocol or ISO14064. Examples of credible verification providers include (but is not limited to) Toitū Envirocare, EKOS, EY, PWC, Deloitte and KPMG. This is to be provided to LGFA annually by 30 November.

Future events, not directly related to a Borrower's sustainability performance, could result in the recalculation of the ERTs, including with respect to the Baseline Performance. Future events may include but are not limited to mergers and acquisitions, divestitures, and disposal of assets, etc. Following such an event, to ensure the ERTs is still relevant to measure reductions against the Baseline Performance, the future calculation methodology for the ERTs may also be revised, resulting in a revised Baseline Performance. Any recalculations, revision to the Baseline Performance and/or changes in the ERTs will need to be agreed with LGFA and updated in ERP (and ideally verified by a credible verification provider).

3.3 Continued Qualification for Climate Action Loan

CAL Annual Surveillance. An annual surveillance review will be undertaken by LGFA to confirm the Borrower is on track to achieve the ERTs (as set out within the original ERP) and review the verified GHG emissions performance to confirm a reduction on the previous year's performance has been achieved.

Three-Yearly Review. LGFA will undertake a more detailed review every three years to confirm the Borrower remains within its ERP and whether the ERP needs to be revised. Where the ERTs have not been achieved, LGFA will undertake a more thorough review which may result in declassification of a Borrower's outstanding CALs and suspension from applying for new CALs (see section 2.2.3).

The three-year review will also include a review of the Borrower's Scope 3 Emissions Inventory and plans to reduce Scope 3 emissions.

On a case-by-case basis, the Borrower may refresh the ERP. This may be required if there is a material change in the underlying asset/activity base of the Borrower which results in the ERTs no longer being relevant, ambitious and/or achievable. Similarly, a refresh may be supported if the Borrower and LGFA determine the original ERP to be neither achievable nor ambitious after five years of CAL reporting (as necessary and at the discretion of LGFA).

3.4 CAL Financial Incentive

Upon completion of the assessment and confirmation of the Borrower's CAL Application LGFA will approve the CAL, together with the associated financial incentive (currently a margin discount of 0.02%). The following conditions apply:

- If a Borrower does not meet its ERTsin a particular year ending 30 June, then the CAL will be declassified no later than the following 30 December. (Refer to section 2.3 above regarding declassification of a CAL).
- There is no financial penalty proposed if the Borrower does not meet its ERT/s for any year.
- In the event of declassification of any existing CALs, the CAL margin discount will continue to apply, however, the Borrower will be ineligible to apply for new CALs until LGFA is satisfied (in its sole discretion) that the Borrower and the declassified CALs meet the CAL eligibility criteria.

3.5 Reporting on CALs

By entering into a CAL, the Borrower agrees to the information provided about the CAL being used in LGFA's reporting. This may include details of a Borrower's ERP, audited greenhouse gas inventory, the size of the CAL, targets established in the ERP and/or CAL and the Borrower's achievement of its ERP and/or CAL targets.

In the event of declassification, the Borrower must not make any further announcement, disclosure or communication that refers to the LGFA loan as a CAL.

By entering into a CAL, the Borrower will allow LGFA to publish details of any CAL, changes in the amount of CALs outstanding and any declassification of CALs.

4. CAL Alignment to Sustainability-Linked Loan Principles

LGFA's approach to approving CALs will be undertaken with reference to the Sustainability-Linked Loan Principles[6].

The Sustainability-Linked Loan Principles are voluntary sustainable finance guidelines developed by the Loan Markets Association, Asia Pacific Loan Market Association, and Loan Syndications & Trading Association to support the structuring of Sustainability-Linked Loans.

LGFA's CAL lending programme is based upon of the Sustainability-Linked Loan Principles which have been integrated within this Criteria document. The four applicable components are:

- Selection of predefined key performance indicators;
- Calibration of predefined sustainability performance targets;
- Reporting; and,
- Verification.

5. Contacts

If you have any questions or comments on this Criteria, we ask that you contact LGFA's Head of Sustainability:

Nick Howell
Ph: +64 21 227 3738
Email: nick.howell@lgfa.co.nz

6 Sustainability Linked Loan Principles (SLLP) – LSTA

New Zealand Local
Government Funding Agency
Te Pūtea Kāwanatanga ā-rohe

Auckland Level 5, Walker Wayland Centre, 53 Fort Street
Wellington Level 8, City Chambers, 142 Featherston Street
PO Box 5704, Lambton Quay, Wellington 6145
PH +64 4 974 6530 **www.lgfa.co.nz**