

Annual Impact Report

Green, Social and
Sustainability Loans and
Climate Action Loans
Financed with Sustainable
Financing Bonds

30 September 2023



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

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About this Report

This report provides information about the allocation of proceeds from LGFA's Sustainable Financing Bond issuance as at 30 June 2023. All proceeds are allocated against eligible GSS and CALs.

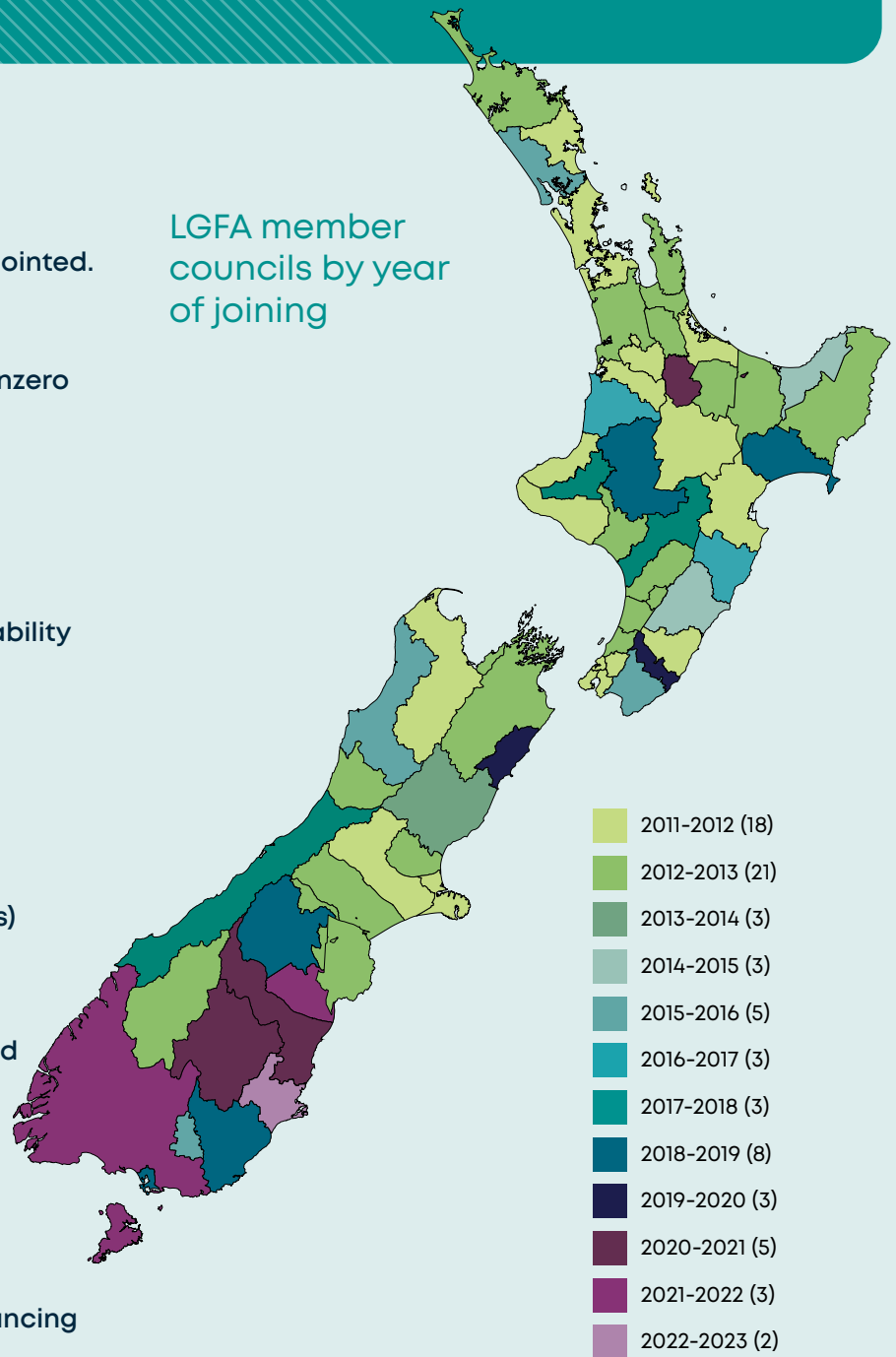
We welcome your feedback

As sustainable finance markets continue to evolve, so too will LGFA's approach as we respond to changing investor and market expectations. We strive for continuous improvement and welcome your feedback.

The evolution of sustainability at LGFA

- Apr 2021** Head of Sustainability appointed.
- Jun 2021** Toitū Envirocare net carbonzero certification.
- Sep 2021** Sustainability Committee established.
- Oct 2021** Green, Social and Sustainability (GSS) Lending Programme established.
- Dec 2021** First GSS Loans approved.
- Dec 2022** Climate Action Loans (CALs) Programme established.
- Mar 2023** Sustainable Financing Bond Framework established.
- Mar 2023** First CALs approved.
- Apr 2023** Inaugural Sustainable Financing Bond issued.

LGFA member councils by year of joining



Sustainable Financing Bond Framework
 (Enables issuance of Sustainable Financing Bonds by LGFA with net proceeds notionally allocated to GSS loans and CALs)

Green, Social and Sustainable (GSS) Loans by LGFA to councils and CCO borrowers

Climate Action Loans (CALs) by LGFA to councils and CCO borrowers

Executive Summary

New Zealand Local Government Funding Agency Limited (LGFA) is a Council Controlled Organisation (CCO) operating under the Local Government Act 2002. LGFA shareholders comprise the New Zealand Government with 20% of paid up capital and 30 New Zealand local authorities (Councils) with 80% of paid-up capital. LGFA governance structure comprises the LGFA Shareholders Council and the LGFA Board of Directors (Board).

LGFA operates with the primary objective to optimise the terms and conditions of the debt funding it provides to participating borrowers. Participating councils and Council-controlled organisations are collectively referred to as LGFA members (Members). LGFA was incorporated as a limited liability company under the Companies Act 1993 on 1 December 2011, following the enactment of the Local Government Borrowing Act 2011. As at 30 June 2023, LGFA has been assigned AAA and AA+ local currency credit ratings respectively from S&P Global Ratings Australia Pty Limited and Fitch Australia Pty Limited.

The highlight for the year was the NZ\$1.1 billion issuance in April 2023 of a new 2030 bond, being the first issuance under our Sustainable Financing Bond Framework. The bond was well received by global and domestic investors who are looking for these types of sustainable finance investments for their portfolios. Our sustainable financing bond is backed by our sustainable asset pool comprising Green, Social and Sustainability Loans and Climate Action Loans to members.

In addition to the launch of our new Sustainable Financing Bond Framework, another significant sustainability initiative was the December 2022 launch of our Climate Action Loan (CAL) lending product which provides a discounted loan margin for members who have an approved greenhouse gas emission reduction plan in place and are meeting their reduction targets. This new initiative was well received by members, with loans of NZ\$521 million outstanding to three councils as at 30 June 2023.

Over the year, members borrowed NZ\$232 million under our Green, Social and Sustainability (GSS) lending product launched in October 2021, taking outstanding of GSS Loans to NZ\$295 million to five members as at 30 June 2023.

Summary Information

Current Sustainable Finance Bond Framework: LGFA Sustainable Financing Bond Framework dated 31 March 2023.

Reporting period: Financial year end to 30 June 2023. The LGFA Annual Impact Report summarises GSS projects and CALs from the start of each lending programme (October 2021 and December 2022).

Date of publication: 30 September 2023.

Next report scheduled: September 2024.

Reporting approach:

- the current value of the GSS Loans included within the Sustainable Loan Asset Pool, which is based on the principal amount of the relevant loan advanced to the Borrower;
- the current value of CALs included within the Sustainable Loan Asset Pool, which is based on the principal amount of the relevant loan advanced to the Borrower;
- the notional allocation of net proceeds from the Sustainable Financing Bonds against the GSS Loans and CALs included in the Sustainable Loan Asset Pool; and
- disclosure of any unallocated net proceeds from the Sustainable Financing Bonds.

External review: Sustainalytics has undertaken a review of this Annual Impact Report, including that: the Sustainable Loans in the Sustainable Loan Register meet the CAL Criteria and the GSS Loan Criteria and comply with the Framework; and the impact reporting metrics have been fairly and accurately represented. (see page 20).

Foreword

By Mark Butcher, Chief Executive, LGFA

During challenging market conditions of the past year, LGFA focused on meeting the funding requirements for our local government sector, at the same time extending our suite of innovative sustainable funding and lending products and achieving several key milestones.

Borrowing activity

Our bond issuance of NZ\$3.5 billion over the year was significantly higher than the historical average of NZ\$1.6 billion, with year-end outstandings totalling NZ\$17.8 billion (including NZ\$1.1 billion of treasury stock) across 11 bond maturities ranging from 2024 to 2037. The average term of issuance during the year at 5.5 years was shorter than the prior year of 6.2 years, reflecting the more challenging market conditions for issuance and closer matching to member borrowing.

As our issuance has grown it has been pleasing to see a corresponding rise in our offshore investor base who have increased their holdings over the last year by NZ\$1.8 billion to NZ\$6.2 billion, or an equivalent 37% of our total bonds on issue.

Market conditions during a period of monetary policy tightening contributed to a significant lift in yields over the year, with outright yields rising between 56 bps (2037 maturity) and 179 bps (2024 maturity).

Lending to the sector

Over the past year, we welcomed two new member councils with Dunedin City Council and Environment Southland joining as guarantors. Total council membership is now 77 out of the 78 councils in New Zealand. In addition, Dunedin City Treasury Limited and Westland Holdings Limited joined as CCO members, bringing the number of CCO members to three.

Long-dated lending to members over the year was a record NZ\$3.9 billion as members refinanced their April 2023 loans and increased their borrowing to finance infrastructure projects. Our estimated market share of total council borrowing of 93% for the year to 30 June 2023 was a historical high compared to the long-term average of 77%.

The average tenor of long-dated borrowing by members of 5.2 years over the 12-month period was shorter than the prior year's 6.2 years. Short-dated lending for terms less than 12 months continues to be well supported by members. At June 2023, there were NZ\$548 million of short-term loans outstanding to 37 members, a 14% increase over last year's NZ\$478 million outstanding to 31 members.

Climate-related events and the proposed Affordable Waters Reform Programme

Over the year, the local government sector dealt with significant climate-related events as well as the proposed Affordable Waters Reform Programme.

LGFA has been assisting Central Government and our council members as they work through the funding and financing implications for the proposed Affordable Waters Reform Programme. The transition date for the three waters related assets, debt, and revenue into the Water Services Entities (WSEs) has been extended to allow for WSEs to be established over the period from 1 July 2024 to 1 July 2026.

LGFA Sustainability Strategy

“LGFA seeks to improve sustainability outcomes within the organisation as well as assisting the local government sector in achieving their sustainability and climate change objectives”.

LGFA recognises it has a critical role in supporting its members to take action to achieve the greenhouse gas (GHG) emissions reduction and broader sustainability goals of New Zealand. By incentivising decarbonisation and directing capital towards the development of environmental and social assets, LGFA can assist members to do their part to accelerate the transition to an inclusive, resilient, and net zero GHG emissions society in New Zealand.

LGFA’s objectives include the primary objective of optimising the debt financing terms and conditions for our members. LGFA’s other objectives are to conduct our affairs in accordance with sound business practice, exhibit social and environmental responsibility by having regard to the interests of the community and to be a good employer.

The Local Government Act 2002 also places a legal imperative on councils adopting a “sustainability approach”. Consistent with this, LGFA’s Sustainability Policy recognises that all four well-beings – social, cultural, economic, and environmental - must be considered and integrated when thinking about sustainability.

An objective outlined in our Statement of Intent that has direct relevance to our sustainable lending is to:

“Exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which LGFA operates and by endeavouring to accommodate and encourage these when able to do so”.

LGFA is committed to following best practice in its focus and reporting of sustainability. From 2020, LGFA chose to prepare its annual report in accordance with the Global Reporting Initiative (GRI) Standards.

LGFA recognises the risks inherent in climate change for the local government sector and is committed to supporting New Zealand’s transition to a climate-resilient, low-carbon society. LGFA has five strategic priorities that encompass its objectives and guide the Board and management in determining LGFA’s strategy, objectives, and associated performance targets, including a priority relating to Environmental and Social Responsibility, whereby:

“LGFA recognises the risks inherent in climate change for councils and supports New Zealand’s shift to a low-carbon economy.”



Overview of Sustainable Financing Bond Issuance

In April 2023, LGFA issued a Sustainable Financing Bond, NZ\$1.1 billion of a 4.5% 15 May 2030 bond through a syndication process. This was LGFA's inaugural Sustainable Financing Bond and follows the release of LGFA's Sustainable Financing Bond Framework (**Framework**) on 31 March 2023.

LGFA's Framework was market leading, combining two sustainable loan programmes into the same '**Sustainable Loan Asset Pool**'. This includes the Green, Social and Sustainability Lending Programme and the Climate Action Loans Lending Programme. An amount equal to the proceeds of the Sustainable Financing Bonds is notionally allocated to the Sustainable Loan Asset Pool.

Sustainalytics provided a Second Party Opinion (page 18) that concluded the Framework, as based on the **proceeds-based pillars** of the general market standards for sustainable finance, is overall in alignment with the **impact and transparency principles**, which underpin the sustainable finance market; and any Sustainable Financing Bonds issued under the Framework will fund **overall impactful social and environmental** Sustainable Loan Asset Pools. Additionally, Sustainalytics concluded the GSS Loan Criteria aligns with the Green Loan Principles 2023 and the Social Loan Principles 2023, while the CAL Criteria is partially aligned with the intent of the Sustainability-Linked Loan Principles 2023.

In early April 2023, LGFA held a series of meetings with domestic and offshore investors to outline the Framework. LGFA launched its inaugural Sustainable Financing Bond issue on 11 April 2023 and closed the transaction on 12 April 2023 with thirty-three investors participating.

Sustainable Financing Bond terms

- **Framework:** New Zealand Local Government Funding Agency Sustainable Financing Bond
- **Issuer:** New Zealand Local Government Funding Agency
- **Issue Rating:** AAA/AA+ (S&P/Fitch)
- **Instrument:** Unsecured, unsubordinated fixed rate sustainable financing bonds.
- **Issue Date:** 12 April 2023
- **Maturity Date:** 15 May 2030
- **Issue amount:** NZ\$1.1 billion
- **Sustainability Coordinator:** Westpac New Zealand
- **Arranger:** Westpac Banking Corporation New Zealand Branch
- **Joint Lead Managers:** ANZ, BNZ, Commonwealth Bank of Australia, and Westpac Banking Corporation New Zealand Branch
- **Coupon:** 4.50%
- **NZX Code:** LGF170
- **NZX Instrument Type:** Sustainable Financing Bond

Sustainability Governance

LGFA's Board has ultimate oversight of LGFA's sustainability strategy, including the Sustainable Financing Bond Framework. Given the broad range of sustainability initiatives being undertaken by borrowers, the LGFA Sustainability Committee (page 10) was established to provide advice and recommendations to the LGFA Chief Executive (CE) and Board on sustainability issues.

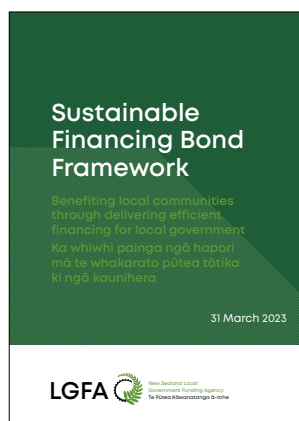
LGFA's management team assesses applications for GSS loans and CALs, followed by Sustainability Committee review for a recommendation to the CE as to whether to accept each application and provide the Sustainable Loan. If approved by the CE, these loans may be advanced and can be considered for inclusion within the Sustainable Loan Asset Pool.

Before the issue of a Sustainable Financing Bond, LGFA management will review and provide to the Board a recommendation regarding the Sustainable Loan Asset Pool.

LGFA management is also responsible for:

- the reporting and external review requirements under this Framework and the CAL Criteria and GSS Loan Criteria; and
- the notional allocation of the net proceeds of Sustainable Financing Bonds to the Sustainable Loan Asset Pool.

Sustainable Financing Bond Framework



LGFA's Sustainable Financing Bond Framework (Framework)¹ is the governing document for LGFA's Sustainable Financing Bond programme. It defines the type of projects, project categories and eligibility for CALs that can qualify for GSS loans and CALs (together **Sustainable Loans**). It also describes LGFA's procedures and processes for granting, evaluating on Sustainable Loans, which are the assets basis for Sustainable Financing Bonds, as well as how the funds raised are managed.

The Framework is informed by:

- International Capital Markets Association's (**ICMA**) Green Bond Principles (**GBP**), Social Bond Principles (**SBP**), and Sustainability Bond Guidelines (**SBG**); and
- Asia-Pacific Loan Market Association's (**APLMA**) Green Loan Principles (**GLP**), Social Loan Principles (**SLP**), and Sustainability-Linked Loan Principles (**SLLP**), (**together, the Market Standards**).
- The Framework follows the "proceeds-based" pillars of the Market Standards (particularly the GBP, the SBP and the SBG), and is underpinned by the GSS Loan Criteria and the CAL Criteria.

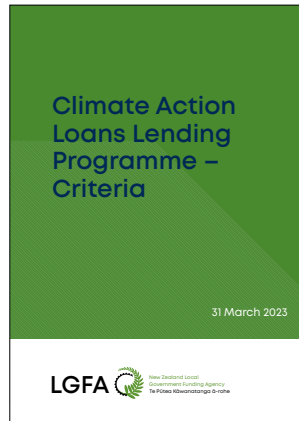
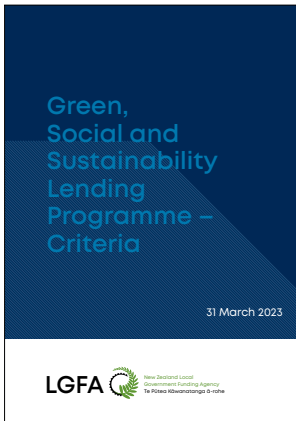
Important note: LGFA is not claiming direct alignment with the Market Standards. Any bonds that LGFA may choose to issue under the Framework will not be Green, Social or Sustainability Bonds*, and nor will they be Sustainability-Linked Bonds**.

* Given the nature of the Sustainable Loan Asset Pool, which comprises both GSS Loans and CALs together in the same pool, Sustainable Financing Bonds do not meet the "Use of proceeds" requirement under the GBP or the SBP.

** This is because the bonds will not include sustainability targets for LGFA or have variable coupons or redemptions.

1 The Framework is available on the LGFA website at www.lgfa.co.nz/sustainability/sustainable-financing-bonds

LGFA's Criteria Documents for GSS Loans and CALs



The Sustainable Financing Bond Framework is supplemented by LGFA's two Criteria documents for Sustainable Loans:

- Green, Social and Sustainability Lending Programme – Criteria dated 31 March 2023; and
- Climate Action Loans Programme Criteria dated 31 March 2023.

The Criteria documents define the thresholds that must be met for given types of applications to be classified as Sustainable Loans, as well as the type of documentation members need to submit to demonstrate that their application meets the criteria, including the relevant thresholds.

The Criteria Documents² will be revised annually in consultation with the Sustainability Committee.

2 The Criteria documents are available on our website at www.lgfa.co.nz/sustainability/sustainable-lending



LGFA's Sustainability Committee

LGFA established its Sustainability Committee to advise on sustainability issues including sustainable lending to borrowers.

The Sustainability Committee was established in 2021 to assist LGFA achieve its sustainability objectives in alignment with best practice.

The Sustainability Committee must have at least five members, of which three are LGFA staff and at least two are external appointees. The composition of the Sustainability Committee is reviewed annually by the Board to ensure an appropriate balance of expertise, skills, and experience.

The purpose of the Sustainability Committee is to advise the Chief Executive and Board on sustainability issues, including in relation to LGFA borrowing and lending activities. This includes providing input into the governance and oversight process of the GSS Lending Programme and the CAL Programme. The Sustainability Committee's key responsibilities include:

- making recommendations to the Chief Executive as to the introduction of new sustainability initiatives; and
- reviewing initiatives that meet LGFA's sustainability obligations (e.g. incorporating and updating sustainability into financial reporting).

The Sustainability Committee reviews applications for GSS Loans and CALs.

The Sustainability Committee is chaired by LGFA's Head of Sustainability and comprises three LGFA staff and four independent members. The Sustainability Committee comprises:

- LGFA Head of Sustainability;
- LGFA Chief Financial Officer;
- LGFA Senior Manager Credit and Client Relations; and
- Four independent members.

The four independent members each have deep climate and sustainability experience and were selected by LGFA to provide expert insights.



Alison Howard



Chris Thurston



David Woods



Erica Miles

Project Selection and Reporting Processes

“LGFA displaying leadership to the sector on sustainable lending and encouraging its members to make progress on sustainability issues.”

All members are eligible to apply for a GSS Loan or CAL and applications will be subject to a separate assessment process. The steps below summarise the process of applying for GSS Loan or CAL approval:

- **GSS Loan Category Selection.** LGFA will work with a council member to assist ascertain the right category in the Criteria and the correct type of project.
- **CAL qualification.** LGFA will work with the council member to confirm whether their Emissions Reduction Plan and Emissions inventory reporting meet the CAL eligibility criteria.
- **Council member submits the application form and documentation.** The council member completes an application form, there are specially designated application forms for each of the nine categories of green projects and one for the three categories of social projects. A separate application form is completed for CALs.
- **Council member attaches the required documentation.** The Criteria and the relevant application form specify the supporting documentation requirements. To qualify for a GSS Loan or CAL, an application must meet the criteria that apply to its type of sustainable loan.
- In addition, the application’s designated climate or environmental impact must be documented or described in more detail in separate attachments.
- **The application is assessed by LGFA.** Head of Sustainability prepares an information pack for review by the Sustainability Committee which includes the application form, application summary, and any supporting documentation. The Sustainability Committee may seek additional information from the council member either in writing or in person, before preparing their recommendation for the Chief Executive as to whether the application is in line with LGFA’s Criteria.
- **Conditions of approval** – The Chief Executive will confirm approval of the GSS Loan or CAL, which may be subject to certain conditions including the requirement for associated impacts of the application to be reported annually by the council member to LGFA.
- **List of outstanding GSS Loans and CALs** – All approved loans are tagged as either GSS loans or CALs in the LGFA loan management system and checked upon completion of the monthly Sustainable Financing Allocation Report before being uploaded to the LGFA website.
- **Annual Impact Reporting** – The environmental impact report presents GSS Loans and CALs currently financed and is published shortly after the LGFA annual report. The sustainable loan selection and reporting process and the reported allocation of sustainable loan proceeds is subject to annual review by Sustainalytics or another appropriately qualified external reviewer.

The net proceeds of the Sustainable Financing Bond will be notionally allocated to Sustainable Loans in accordance with the Framework.

LGFA Allocation Reporting

LGFA will notionally allocate an amount equal to the net proceeds of Sustainable Financing Bonds to GSS Loans and CALs within 24 months of the issue date of the relevant Sustainable Financing Bonds.

If the Surplus Sustainable Loan Assets amount is negative (and the Sustainable Loan Ratio is less than 1.0), it means that the amount of Sustainable Financing Bonds that have been issued is greater than the amount of Sustainable Loan Assets held. In this instance the net proceeds will be invested in line with the Framework pending notional allocation to GSS loans and CALs.

Sustainable Financing Bonds Summary and Sustainable Loan Asset Pool (as at 30 June 2023)

Sustainable Financing Bond (NZX ticker)	Sustainable Financing Bond (NZ\$ million)	Issue Date	Maturity Date
LGF170	1,100	17/04/23	15/05/30
Total	1,100		

	NZ\$ million
Total Value of GSS Loans*	294.5
Total Value of CALs*	520.7
Total Value of Sustainable Loan Asset Pool*	815.2
Total principal amount of Sustainable Financing Bonds on Issue	1,100
Surplus Sustainable Loan Assets	(284.8)
Sustainable Loan Ratio (x)	0.74x

* Based on principal amount advanced under the relevant GSS Loans or CALs (as applicable).

Sustainable Financing – Green, Social & Sustainability Loans (GSS)

LGFA Green, Social and Sustainability (GSS) lending programme

“A commitment to assist our members to finance projects that promote environmental and social wellbeing in New Zealand. LGFA acknowledges the importance of financing projects that promote environmental and social wellbeing in New Zealand, and which fund eligible green and/or social projects”.

To qualify as a GSS Loan, the loan must finance projects that meet one or more green or social loan categories. As at 30 June 2023, LGFA had advanced NZ\$294.5 million of GSS Loans.

Our GSS lending programme, launched in 2021, provides funding for our members across the following nine green project categories and three social project categories:

Green Loan Categories

- 1: Energy Efficiency
- 2: Green Buildings
- 3: Clean Transportation
- 4: Sustainable Water & Wastewater Management
- 5: Renewable Energy
- 6: Pollution Prevention & Control
- 7: Environmentally Sustainable Management of Living Natural Resources & Land Use
- 8: Climate Change Adaptation
- 9: Terrestrial & Aquatic Biodiversity Conservation

Social Loan Categories

- 1: Affordable Basic Infrastructure
- 2: Access to Essential Services
- 3: Affordable Housing

Over the 12-month period to 30 June 2023, LGFA approved GSS Loans for Hutt City Council, Whangārei District Council and Christchurch City Council.





Naenae Pool and Fitness Centre, Hutt City Council – Green Loan Category 2 (Green Buildings)

The rebuild of the existing Naenae Pool and Fitness Centre with a new swimming pool that will be 65% bigger than the old pool and will be much more energy efficient with up to 53% reduction on energy use. Due to open in July 2024, the Naenae Pool and Fitness Centre will have the following sustainability design features:

- A building that is resilient to the impacts of a changing climate and natural disasters;
- High quality indoor air quality and high standards of acoustic, lighting, visual and thermal comfort;
- EV parks with charging points and secure bicycle stands;
- Ground-water source heat pumps;
- High efficiency heat recovery air-handling units providing dehumidification and air conditioning; and
- High efficiency window and glazing suites.

Hutt City Council Chief Executive Jo Miller said “caring for and protecting the environment was one of the six key priorities in the Council’s 10-year-plan. A key driver across the Naenae Pool and Fitness Centre planning was sustainability, not just during the life of the project build but also for the future operation of the facility.

Being part of the LGFA GSS funding programme recognises all the work the team has put in to deliver a greener facility with the additional benefit of cost savings across the life of the loan. This is a win-win situation for our ratepayers who get a state-of-the-art pool and fitness centre with savings because of our determination to build greener. We continue to improve the infrastructure across the city which was a main element of feedback on our 10-year-plan while being financial prudent and finding savings where we can – this all supports building a better place to live for Hutt residents.”



Whangārei Civic Centre, Whangārei District Council – Green Loan Category 2 (Green Buildings)

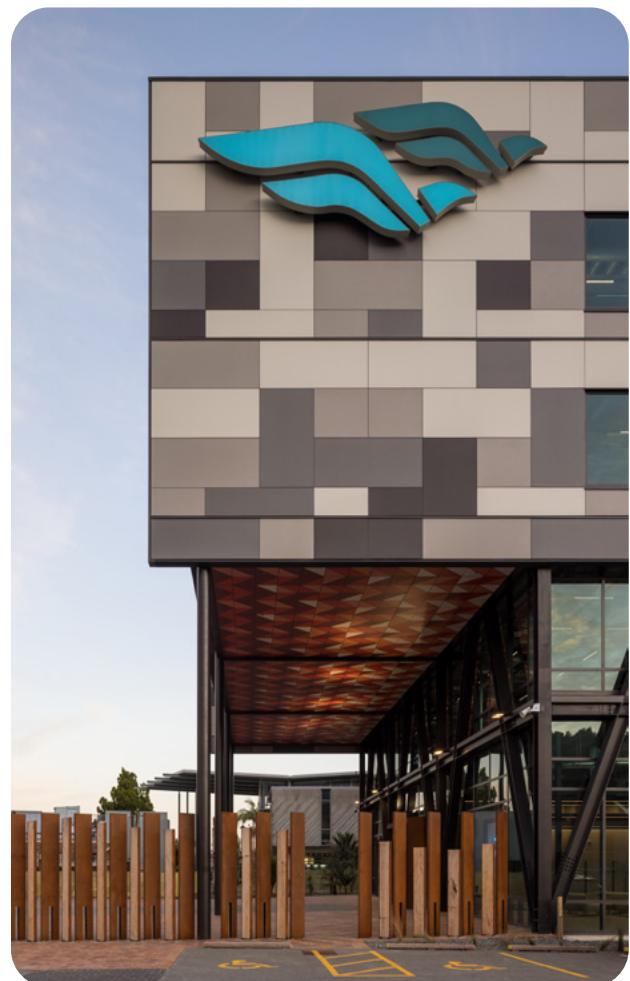
Whangārei District's new civic building has been designed to provide a welcoming, inclusive, and easily accessible customer experience. The building has also been designed to be sustainable and to strongly reflect Whangārei's cultural identity and heritage. The building will be a central hub for local government-related activities, including:

- Democratic processes;
- Customer services;
- Administrative functions;
- Council staff; and
- Northland Transport Alliance staff.

In addition to the sustainable aspect of the building, a solar array system was designed to specifically meet Whangārei District Council's requirements.

The building also has several innovative aspects including a Green wall / Fire Stairs. The fire escape stairs on each side of the building have a 4-storey green wall utilising an endangered species from the Three Kings Islands, with the plants irrigated via rainwater harvesting from the roof.

Cultural connections – The building and surrounding landscape incorporates a very strong cultural narrative, with a Roopu Kaumatua group representing local hapū involved throughout the design process. As well as influencing design themes, this input has led to specific construction features that support tikanga Maori, such as the siting of ablution, cooking and eating spaces throughout the building; as well as the choice of materials used.





Ōtautahi Community Housing Trust Affordable Housing Project, Christchurch City Council – Social Loan Category 3 (Affordable Housing)

The Ōtautahi Community Housing Trust (ŌCHT) is the second largest Community Housing Provider in New Zealand. ŌCHT is a charitable trust offering affordable homes and building sustainable communities across greater Ōtautahi. ŌCHT's objective is to deliver a tenant-centric service and a financially sustainable portfolio. In doing so, it wants to improve and grow community housing in Christchurch. It is a Charitable Trust, so surpluses are reinvested into community housing.

ŌCHT was formed in 2016 out of Christchurch City Council's (CCC's) wish for a financially sustainable model for its social housing portfolio. CCC passed the management of about 2,300 units across to the ŌCHT.

Part of ŌCHT's programme is to build at least 400 units to replace those lost due to the Canterbury earthquakes and the GSS Loan provided by LGFA financed the build of these properties. The Ministry of Housing and Urban Development supports the development and ŌCHT is contracted to provide homes for people on the Public Housing Register.



Sustainable Financing – Climate Action Loans (CALs)

LGFA Climate Action Loan (CAL) lending programme

“A commitment to incentivise our members to act on climate change and reduce greenhouse gas emissions”.

To qualify for a CAL, a borrower must have the following:

- Emission Reduction Plan (ERP) setting out Emissions Reduction Targets including:
 - The borrower’s intended pathway to reduce its “Scope 1” and “Scope 2” Greenhouse Gas (GHG) emissions in line with the science-based trajectory (i.e. to support limiting global warming to no greater than 1.5 degrees Celsius above pre-industrial levels and net zero by 2050); and
 - GHG targets (for Scope 1 and 2 GHG emissions) covering short-term periods and medium-term targets that ultimately support the borrower to achieve its long-term goal of net zero by 2050 (or sooner) and an alignment to the science-based trajectory).
- Borrowers must obtain independent external verification (by a credible provider) of their GHG emissions inventory to verify its report is in alignment with the guidelines outlined in the CAL criteria and that must be provided to LGFA annually by 30 November.

Our CAL lending programme, launched in December 2022, rewards a borrower through a lending margin discount if they have adopted an Emission Reduction Plan setting out specific Emissions Reduction Targets for their operational greenhouse gas emissions at member council or CCO level. CALs are available for all members, including those who may not have eligible projects to access GSS loans.

As at 30 June 2023, LGFA had advanced NZ\$520.7 million of CALs to three councils and CCOs.



Independent Second-Party Opinion on the Framework

“LGFA recognises the heightened transparency that independent external reviews of sustainable finance structures can provide and obtained an external review on the Sustainable Financing Framework.”

Second-Party Opinion LGFA Sustainable Financing Bond Framework



Evaluation Summary

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”) (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.

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

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



Sustainalytics reviewed the Framework and prepared a Second Party Opinion (**SPO**)³. In the SPO, Sustainalytics sets out a detailed analysis and concludes that:

- the components of the Framework are **credible**;
- the Framework is expected to **advance LGFA's and New Zealand's sustainability objectives** and generate positive environmental and social impact;
- the Framework, as based on the **proceeds-based pillars** of the general market standards for sustainable finance, is overall in alignment with the **impact and transparency** principles, which underpin the sustainable finance market; and
- any Sustainable Financing Bonds issued under the Framework will fund **overall impactful social and environmental** Sustainable Loan pools of GSS Loans and CALs.

The scope of the external review also included assessing the GSS Loan Lending Programme - Criteria in accordance with the Market Standards and market practice. In its SPO, Sustainalytics concluded that:

- the GSS Loan Criteria is **credible and impactful**;
- the GSS Loan Criteria **aligns** with the Green Loan Principles 2023, and the Social Loan Principles 2023;
- the eligible categories for the use of proceeds **align** with those recognised by the Green Loan Principles 2023, and the Social Loan Principles 2023;
- the 18-month look-back period for existing projects is **in line with market practice**; and
- the eligible categories that will **deliver overall positive environmental and social impacts**.

The scope of the external review also included assessing the CAL Lending Programme - Criteria in accordance with the Market Standards and market practice. In its SPO, Sustainalytics concluded that:


- the CAL Criteria is **partially aligned** with the intent of the Sustainability-Linked Loan Principles 2023⁴;
- the KPI and SPT to be used by the borrowers are **expected to be in line with the SLLP**;
- the requirement of CAL borrowers to annually verify or assure the SPT for the KPI, is in line with the SLLP on verification;
- the strength of the KPI ("*absolute gross Scope 1 and Scope 2 GHG emissions*") for the CALs as it relates to councils and CCOs is "**Strong**" and "**Adequate**" respectively; and
- the SPT in the CALs ("*reduction in absolute gross Scope 1 and Scope 2 GHG emissions in line with a 1.5°C science-based scenario*") is "**Highly Ambitious**".

3 A copy of the SPO is available on LGFA's website at: [LGFA_Sustainable_Financing_Bond_Framework_Second-Party_Opinion.pdf](#)

4 Sustainalytics considers the CAL (pricing and margin adjustment) characteristics set out in the CAL Criteria are technically not aligned with the SLLP's loan characteristics component as a penalty cannot be linked within the same CAL term due to existing accounting standards.

Sustainalytics – External Review of Annual Impact Report

“Based on the limited assurance procedures conducted, nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed projects do not conform with the use of proceeds criteria in the LGFA Sustainable Financing Bond Framework. Sustainalytics further notes that LGFA is committed to conform with the reporting criteria in the Framework from the next reporting cycle.”



New Zealand Local Government Funding Agency

Type of Engagement: Annual Review
Date: 26 September 2023
Engagement Team:
Mousumi Bej, mousumi.bej@morningstar.com
Poonam Tarekar, poonam.tarekar@morningstar.com

Introduction

The New Zealand Local Government Funding Agency Limited (“LGFA”, or the “Issuer”) 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 of New Zealand. In April 2023, LGFA issued sustainable financing bonds based on the Sustainable Financing Bond Framework¹ (the “Framework”), to finance and/or refinance funding to its member councils and council-controlled organizations (the “Borrowers”) and the net proceeds of the sustainable financing bonds are notionally allocated to a pool of sustainable loans (“Sustainable Loan Asset Pool”) 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 - Criteria² (“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 - Criteria (“CAL Criteria”).^{3,4}

In September 2023, LGFA engaged Sustainalytics to review the projects financed/refinanced under the Framework and provide an assessment as to whether the project met the use of proceeds criteria and the reporting commitments outlined in the Framework. Sustainalytics provided a Second-Party Opinion on the Framework in March 2023.⁵

Evaluation Criteria

Sustainalytics evaluated the projects to which LGFA has notionally allocated an amount equal to (or a part thereof) the net proceeds of the sustainable financing bonds to finance GSS loans and CALs, based on whether the projects:

1. Met the use of proceeds and eligibility criteria defined in the LGFA Sustainable Financing Bond Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the LGFA Sustainable Financing Bond Framework.

¹ LGFA, “Sustainable Financing Bond Framework”, at: https://www.lgfa.co.nz/sites/default/files/2023-03/LGFA_Sustainable_Financing_Bond_Framework.pdf
² LGFA, “Green, Social & Sustainability Loans”, at: <https://www.lgfa.co.nz/sustainability/sustainable-lending/green-social-sustainability-loans>
³ Under the CAL criteria, 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. The scope of this Annual Review only includes allocation of the CALs and does not include assessment of Borrower level reporting of data.
⁴ LGFA, “Climate Action Loans Programme – Criteria”, at: https://www.lgfa.co.nz/sites/default/files/2023-07/LGFA_CAL_Programme_Criteria.pdf
⁵ 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

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Appendix I – Value of Eligible GSS Loan Assets (as at 30 June 2023)

Sustainable Loans – Green, Social and Sustainability (GSS) Loans

GSS Category	Borrower	Date Sustainable Loan Approved*	Project Description	Sustainable Loan Type	Approved Amount for Project* (NZ\$ million)	Principal Amount Advanced to date (NZ\$ million)	Allocation to Sustainable Loan Asset Pool under Framework (NZ\$ million)
Green Buildings	Wellington City Council	14 October 2021	Takina, Wellington Convention and Exhibition Centre	Green Loan	180	120	120
Green Buildings	Hutt City Council	28 June 2022	Naenae Pool and Fitness Centre	Green Loan	41	35	35
Green Buildings	Whangarei District Council	19 August 2022	Whāngarei Civic Centre	Green Loan	59	59	59
Total Green Buildings Loans					280	214	214
Climate Change Adaptation	Greater Wellington Regional Council	2 December 2021	RiverLink Project	Green Loan	227	41	41
Total Climate Change Adaptation Loans					227	41	41
Affordable Housing	Christchurch City Council	17 November 2022	OCHT Social Housing	Social Loan	55	39.5	39.5
Total Social Loans					55	39.5	39.5
Total	5 Borrowers				562	294.5	294.5

* Where a GSS Loan is approved, LGFA is not committed to provide those funds. Rather, LGFA has indicated to the relevant borrower that, subject to satisfaction of conditions precedent, LGFA intends to advance the relevant amount as GSS Loan(s) when the borrower makes a request under LGFA's Multi-Issuer Deed.

Appendix II – Value of Eligible CAL Assets (as at 30 June 2023)

Sustainable Loans – Climate Action Loans (CALs)

Borrower	Maturity Date Range of CALs	Principal Amount Advanced to date (NZ\$ million)	Allocated to Sustainable Loan Asset Pool under Framework (NZ\$ million)
Auckland Council	May 2030 to May 2031	300	300
Dunedin City Treasury Limited	February 2030 to May 2031	125	125
Hutt City Council	October 2026 to April 2029	95.7	95.7
Total		520.7	520.7



Appendix III – Sustainalytics – Pre-Issuance Review 31 March 2023

New Zealand Local Government Funding Agency

Type of Engagement: Sustainable Financing Bond Pre-Issuance Review
Date: 31 March 2023

Engagement Leader: Mahesh Krishnamoorthy, mahesh.krishnamoorthy@sustainalytics.com
Engagement Team: Mahesh Krishnamoorthy, mahesh.krishnamoorthy@sustainalytics.com
Maliha Taj, maliha.taj@sustainalytics.com

Introduction

In March 2023, the New Zealand Local Government Funding Agency Limited ("LGFA") developed a Sustainable Financing Bond Framework ("Framework")¹ and Sustainalytics provided a Second Party Opinion² 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.

¹ LGFA, "Sustainable Financing Bond Framework", at :
https://www.lgfa.co.nz/sites/default/files/2023-03/LGFA_Sustainable_Financing_Bond_Framework.pdf

² 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

In March 2023, LGFA engaged Sustainalytics to review the projects (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. No CALs had been approved by LGFA at the time of this review and were therefore not part of the scope of Sustainalytics review⁵.

5 A copy of the Pre-Issuance review is available on LGFA's website at: [Sustainable_Financing_Bond_Pre-Issuance_Review.pdf](https://www.lgfa.co.nz/sites/default/files/2023-03/LGFA_Sustainable_Financing_Bond_Pre-Issuance_Review.pdf) ([lgfa.co.nz](https://www.lgfa.co.nz))


Appendix IV – Toitū Envirocare Certification

LGFA obtained certification as a Toitū net carbonzero organisation. Toitū's net carbon neutral certification is supported by scientific research and international best practice. By partnering with Toitū Envirocare, LGFA has been able to accurately measure our GHG emissions and put in place strategies to manage, reduce, and offset impacts in accordance with ISO 14064- 1:2006. Where LGFA is unable to eliminate future GHG emissions, these will be offset through the purchase of high-impact carbon credits.




LGFA is committed to reducing GHG emissions over time. The first target is to cut per employee GHG emissions by 30% by 2030, compared with a 2018/19 base year.

LGFA successfully completed its fifth year of reporting under the Toitū net carbonzero programme after successfully completing the annual audit requirements of its Toitū net carbonzero certification. The total emissions the year ending 30 June 2023 were 53.56 tCO₂e, which is 61% lower than the base year total of 137.93 tCO₂e. A reduction in emissions intensity of 0.22 CO₂e/\$M has been achieved (based upon a 5-year rolling average).

While these changes are important, LGFA acknowledges that our Scope 1 and 2 GHG emissions are very low and that most of our climate change impacts relate to those Scope 3 GHG emissions that we finance through our loans to members to build assets and infrastructure. Therefore, we have developed a sustainable loan programme to encourage and support members to develop and implement GHG emissions reductions targets and plans.



**Toitū net carbonzero organisation certified:
New Zealand Local Government Funding Agency Limited**

 <p>Measured emissions to ISO 14064-1:2018 and Toitū requirements</p> <p>ACHIEVEMENT CLAIMS Measure period: 31/07/2022 to 30/06/2023 Toitū boundary, category 1: 0.00 tCO₂e Toitū boundary, category 2: 3.04 tCO₂e Toitū boundary, category 3-6: 50.47 tCO₂e Toitū boundary, total: 53.52 tCO₂e Additional emissions, category 3-6: 0.05 tCO₂e All measured emissions: 53.57 tCO₂e</p>	 <p>Managing and reducing against Toitū requirements</p> <p>ACHIEVEMENT CLAIMS Toitū boundary cat 1 and 2: +0.61 tCO₂e against base year Toitū boundary, total: -0.21 tCO₂e/\$M based on a 5-year rolling average</p> <p>COMMITMENT CLAIMS Cut per person GHG emissions by 30% by 2030, relative to base year</p>	 <p>Compensated remaining emissions following Toitū requirements and covering minimum of total Toitū boundary</p> <p>ACHIEVEMENT CLAIMS Removal credits: 54 (35 from batch #0466, PFSI Remuera, Kaikoura and 19 from batch #0421, PFSI Waipuna Bush)</p>
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Date issued: 23 August 2023 | Valid until: 11 October 2025 | Certificate Number: 2022282J | Certification Status: Certified organisation
Company Address: Level 8, City Chambers, 142 Featherston Street, Wellington, 6011, New Zealand | Level of Assurance: Reasonable
This is a summary of the annual work to achieve Toitū net carbonzero certification. Additional details of this carbon inventory and associated verification, reductions and offsets are available on request from the certified Organisation.

Contacts



Mark Butcher
CHIEF EXECUTIVE

+64 (04) 974 6744
mark.butcher@lgfa.co.nz



Andrew Michl
**SENIOR MANAGER,
CREDIT & CLIENT
RELATIONS**

+64 (04) 974 6743
andrew.michl@lgfa.co.nz



Sumitha Kaluarachi
**MANAGER, TREASURY
AND EXTERNAL
RELATIONSHIPS**

+64 (09) 218 7906
sumitha.kaluarachi@
lgfa.co.nz



Nick Howell
**HEAD OF
SUSTAINABILITY**

+64 (27) 228 3116
nick.howell@lgfa.co.nz

Postal address

P.O. Box 5704, Lambton Quay
Wellington 6145

Street Address – Wellington

Level 8
City Chambers
142 Featherston Street
Wellington 6011
(entrance on Johnston Street)

Street Address – Auckland

Level 5
Walker Wayland Centre
53 Fort Street
Auckland 1010





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