

New Zealand Local Government Funding Agency

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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

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
Green Buildings	<p>Investments in this category are intended to support the development and operation of low carbon, energy efficient or sustainably designed buildings.</p> <p>Buildings that meet a minimum rating in national, or internationally recognized green building standards, ratings or certifications including NABERSNZ, NZGBC Green Star, Homestar. This includes the acquisition, construction, retrofit and/or operation of new and existing buildings and includes the building types of office, industrial, retail, health, community facilities, other non-residential buildings and residential buildings.</p> <ul style="list-style-type: none"> - Existing buildings (i.e. buildings which are at least two years post build completion) that meet one of the following green building ratings: <ul style="list-style-type: none"> • For office buildings: Certified as obtaining, or verified as targeting, a minimum 4 Star NABERSNZ Energy Base Building rating or Energy Whole Building rating; or • For retail buildings (or other building types, as applicable): Certified as obtaining, or verified as targeting (a) a minimum 4 Star Green Star Performance rating or b) a Green Star Performance rating and a minimum score of 8/20 (base building) or 9/23 (whole building) within the GHG emissions credit section of the Green Star Performance rating. - New buildings or refurbishments that meet one of the following green building ratings: <ul style="list-style-type: none"> • For residential buildings: Certified as obtaining, or verified as targeting, a minimum 7 Star Homestar rating. A lower rating of 6 Star Homestar may be accepted for public housing where significant other GHG emissions criteria on waste or embodied carbon are achieved; or • For all other applicable building types: Certified as obtaining, or verified as targeting, a minimum NZGBC 5 Green Star Design and/or Built rating. 	<ul style="list-style-type: none"> - Green building rating, standards or certifications obtained or evidence that indicates the target rating will be achieved. - Estimate of the annual energy consumption per square meter of heated area. - Estimate of the annual energy and/or GHG emissions reduced/avoided in comparison with an equivalent building that complies with the applicable MBIE Building Code compliance regulations on technical requirements for building works (Section H1 Energy Efficiency) in kWh/tonnes of CO₂e. - Information on planned use of bio-based/renewable materials, materials with a high proportion of recycled content, low-carbon concrete, and other climate-friendly construction materials.
Climate Change Adaptation	<p>Investments in this category are intended to ensure local communities are adapting to climate change.</p> <p>Facilities and installations to manage urban runoff, floods, landslides, avalanches, rising sea</p>	<ul style="list-style-type: none"> - Qualitative targets/indicators relevant to the adaptation to climate change with a description of the weather-related and

	<p>levels, etc. This may include information support systems, such as climate observations and early warning systems. These can be classified into three areas:</p> <ul style="list-style-type: none"> - Surface runoff management – Measures to manage surface runoff that are not financed by wastewater charges. For example, opening streams, constructing flood bypasses, local surface runoff disposal measures through artificial swales, etc. (Documentation required – The need for the measure). - Protection against natural disasters – Protecting buildings, facilities, infrastructure, and cultural heritage sites against natural disasters such as floods, landslides, avalanches, and storm surges. (Documentation required – The need for the measure). - Warning systems and emergency preparedness – Warning systems and other emergency preparedness measures in areas with a risk of natural disasters such as floods, avalanches, landslides and storm surges. (Documentation required – The need for the measure). 	<p>climate-related problems that will be mitigated by the investment.</p>
Social and Affordable Housing	<ul style="list-style-type: none"> - 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. - Construction and provision of housing at significantly lower cost than market and/or that supports owners or tenants to overcome barriers to access housing. This may include progressive home ownership models/schemes to address financial barriers to home ownership, including rent-to-buy shared equity and papakāinga. Projects will often be in partnership with iwi, government entities or charitable organizations. Such schemes will provide financing to construct and provide housing or support owners or tenants which are below the median income of New Zealand. 	<ul style="list-style-type: none"> - Number of social and/or affordable housing dwellings provided or retrofitted. - Number of people housed with new and/or retrofitted social and/or affordable housing accommodation. - Modifications, number of new and/or upgraded facilities financed that include mobility, accessibility, intensive support housing considerations
Climate Action Loans	<p>To qualify for a CAL, the Borrowers must have the following:</p> <ul style="list-style-type: none"> i) Emission Reduction Plan (ERP) setting out Emissions Reduction Targets including: i) the borrower’s intended pathway to reduce its “Scope 1” and “Scope 2” Greenhouse Gas (GHG) 	<ul style="list-style-type: none"> - KPI: Absolute gross scope 1 and 2 GHG emissions (tCO₂e)

	<p>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 ii) annual 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).</p> <p>ii) Obtain 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.</p>	
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Issuer's Responsibility

LGFA is responsible for providing accurate information and documentation relating to the details of the funded projects, including description of projects, amounts allocated and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from LGFA's Sustainable Financing Bond. The work undertaken as part of this engagement included collection of documentation from LGFA and review of said documentation to assess conformance with the LGFA Sustainable Financing Bond Framework.

Sustainalytics relied on the information and the facts presented by LGFA. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein 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 Bonds Review Committee to provide oversight of the review.

Conclusion

Based on the limited assurance procedures conducted,⁶ 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.

⁶ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the funded projects, including description of projects, their estimated and realized costs and impact, as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded through the Sustainable Loan Asset Pool to determine if projects aligned with the use of proceeds criteria outlined in the LGFA Sustainable Financing Bond Framework.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the projects funded with proceeds through the Sustainable Loan Asset Pool to determine if impact of projects was reported in line with the KPIs outlined in the LGFA Sustainable Financing Bond Framework.	LGFA has communicated to Sustainalytics that the bond issuance process was completed in April 2023 and the reporting period ended in June 2023. Since the projects financed or refinanced under the Framework are yet to be completed or have recently been completed, LGFA has communicated that the Borrowers would not be able to provide impact or target data in the current reporting cycle. However, LGFA is committed to report on impact in line with the Framework from the next reporting cycle.	Exception identified. Sustainalytics notes that the allocations are very recent and therefore, impacts could not be reported in the current reporting cycle.

Appendix

Appendix 1: Allocation and Reported Impact

In April 2023, LGFA issued a sustainable financing bond of NZD 1.1 billion, and an equal amount of the net of proceeds is notionally allocated to the sustainable loan pool assets.

	Amount Issued (in NZD million)
Total amount of GSS loans	294.5
Total amount of CALs	520.7
Total amount of Sustainable Loan Asset Pools	815.2
Surplus Sustainable Loan Assets	-284.8 ⁷

GSS Loans Category	Name of the Borrowers	Name of the Project	Project Description	Net Amount of GSS Loans Advanced (NZD million)
Green Buildings	Wellington City Council	Tākina, Wellington Convention Centre and Exhibition Centre (the 'Centre')	<p>The Centre opened in June 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. The Project is located at 50 Cable Street, Te Aro, Wellington.</p>	120
	Hutt City Council	Naenae Pool and Fitness Centre (the "Pool")	<p>Hutt City Council plans to build Naenae Pool and Fitness Centre aimed at reducing carbon emissions and target net-zero emissions by 2050.</p> <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</p>	35

⁷ The negative amount under surplus sustainable loan assets indicates that the amount of sustainable financing bonds that have been issued is greater than the amount of sustainable loan assets held. LGFA will ensure that the unallocated proceeds will be invested in line with the Framework pending notional allocation to GSS loans and CALs

			<p>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. The Project is located in Te Awa Kairangi ki Tai, Lower Hutt.</p>	
	Whangarei District Council	Whāngarei Civic Centre	Whangarei District Council plans to develop low-energy Whāngarei Civic Centre 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. The Project is located in the Whangārei District	59
Climate Change Adaptation	Greater Wellington Regional Council	River works and respective land purchase aspects of the RiverLink Project	Together with Mana Whenua partners Ngāti Toa Rangatira and Taranaki Whnui 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 Riverlink Project includes flood protection measures surrounding Te Awa Kairangi - Hutt River, which also includes Making Places Urban Development Plan and transportation improvements around Melling Bridge.	41
Social and Affordable Housing	Christchurch City Council	Ōtautahi Community Housing Trust (ŌCHT) Social Housing Project	<p>Christchurch City Council's Ōtautahi Community Housing Trust (ŌCHT) Social Housing project includes development of low-cost community housing where houses would be subsidised as per government regulations. ŌCHT is responsible for providing low-cost community housing in Christchurch. 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 the 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</p>	39.5

			homes for people listed in the Public Housing Register. ⁸ The Project is located in the Canterbury region.	
Net amount of GSS loans advanced by LGFA as of June 2023				294.5

Climate Action Loans	Name of the Borrower	Net Amount of CAL Advanced (NZD million)
	Auckland Council	300
	Dunedin City Treasury Limited	125
	Hutt City Council	95.7
Net amount of CALs advanced by LGFA as of June 2023		520.7

⁸ 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>

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