



# Annual Impact Report

GREEN, SOCIAL AND SUSTAINABILITY LOANS  
AND CLIMATE ACTION LOANS FINANCED WITH  
SUSTAINABLE FINANCING BONDS

30 SEPTEMBER 2024



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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 2024. All proceeds are allocated against eligible GSS and CALs.

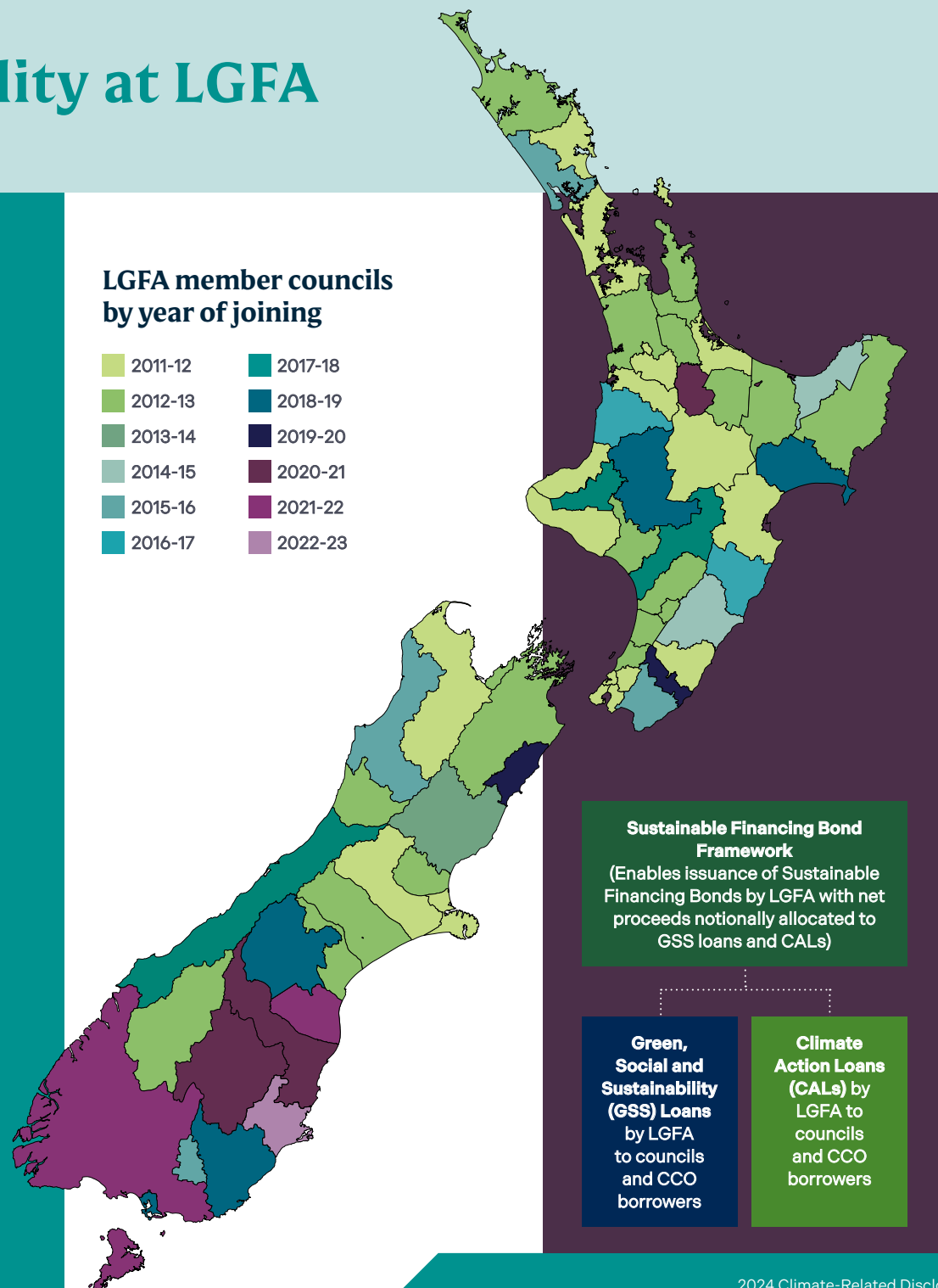
## We welcome your feedback

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 Lending launch
- Dec 2021** First GSS Loans approved
- Dec 2022** Climate Action Loans launch
- Mar 2023** Sustainable Financing Bond Framework established
- Mar 2023** First Climate Action Loans approved
- Apr 2023** Inaugural Sustainable Financing Bond issued
- Sep 2023** \$500 million added to 2030 Sustainable Financing Bond
- Oct 2023** Climate Action Loans surpass \$1 billion
- Apr 2024** Climate Action Loans surpass \$2 billion
- Jun 2024** Sustainable Loan Asset Pool surpasses \$3 billion

## LGFA member councils by year of joining





# 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 2024, 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.

LGFA lends to councils and CCOs and has 90% market share of the local government debt market and it is the sixth largest financial lending institution in New Zealand by assets after the five major banks.

Over the past five years LGFA has undertaken several innovative and successful initiatives including bespoke lending, short term lending, standby facilities, green, social and sustainable loans and lending to CCOs.

The financial position of LGFA is strong with assets of NZ\$23.5 billion and equity of NZ\$113.3 million at 30 June 2024. For the financial year to June 2024, interest income was NZ\$1,213 million and net operating profit was NZ\$10.1 million.

LGFA is the largest issuer of NZD securities after the New Zealand Government with NZ\$20 billion of NZD bonds on issue and A\$2.65 billion

of AUD bonds on issue. LGFA is an NZX listed issuer and its bonds comprise 34% of the market capitalisation of the NZX debt market. LGFA borrows via syndicated issuance or through monthly bond tenders and its annual issuance programme for the next three years is forecast to average NZ\$5.0 billion p.a. LGFA has NZ\$925 million of 3 month and 6-month Bills on issue and manages a liquid asset portfolio of NZ\$2.4 billion. LGFA recently commenced issuance of Euro Commercial Paper (ECP).

LGFA processes approximately 16,000 financial transactions p.a. with total gross cash flows of NZ\$83 billion.

Highlights for the past year include LGFA's debut issuance into the offshore markets. In July 2023 LGFA issued its inaugural AUD kangaroo bond with a A\$1 billion bond maturing in August 2028. This was followed in November 2023 by a A\$650 million bond maturing in November 2030 and subsequently a two-tranche issue in March 2024. The latest issuance included a A\$500 million bond maturing in September 2027 and a further A\$500 million maturing in March 2034.

LGFA issued its inaugural NZ\$1.1 billion May 2030 bond April 2023 of a new 2030 bond, the first issuance under our Sustainable Financing Bond Framework. This was followed by a NZ\$500 million increase in September 2030. As at 30 June 2024, the total outstanding in this maturity stood at NZ\$1.76 billion. The Sustainable Financing Bond issuance has been 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.

Our Climate Action Loan (CAL) lending product was launched in December 2022, this provides

a discounted loan margin for members who have an approved greenhouse gas emission reduction plan in place and are meeting their reduction targets. Over the past twelve months the amount allocated under this initiative has increased by NZ\$2.23 billion, with loans of NZ\$2.75 billion outstanding to seven councils as at 30 June 2024.

Over the year, members borrowed NZ\$82 million under our Green, Social and Sustainability (GSS) lending product launched in October 2021, taking outstanding of GSS Loans to NZ\$377 million to six members as at 30 June 2024.

The LGFA success has been recognized, with the firm being the recipient of the INFIZ Excellence in Treasury and received an unprecedented five KangaNews Awards (Debt Issuer of the Year, NZD Rates Bond, NZ Sustainability, NZ Issuer Offshore and NZ Innovative Debt Deals of the Year). Three of these awards related to LGFA's inaugural Sustainable Financing Bond outlined above.

In April 2024, the LGFA \$1.1bn Sustainable Financing Bond was named **"Sustainability Bond of the Year – Supranational"** at Environmental Finance's Sustainable Debt Awards 2024. These awards celebrate the leading green, social, sustainable and sustainability-linked bond and loan deals and recognise market innovations. LGFA takes great pride in having been recognised by the market for their thought-leadership, best practice and innovation, amongst its illustrious global peer group. One Sustainable Debt Awards judge described the structure as having "a significant positive impact for the underlying assets" and called it a "significant development for the APAC region".

Another praised "the combination of ambitious targets, alignment with the Green Bond Principles, the Social Bond Principles, and the Sustainability Bond Guidelines, high performance in terms of market turnover, and innovative setup."

KANGANEWS  
AWARDS  
2023

NEW ZEALAND DOLLAR RATES BOND  
DEAL OF THE YEAR

**New Zealand Local Government  
Funding Agency**

**NZ\$1.1 BILLION 4.50% MAY 2030  
SUSTAINABLE FINANCING BOND**

ARRANGER: Westpac Banking Corporation New Zealand Branch

LEAD MANAGERS:

ANZ, BNZ, Commonwealth Bank of Australia,  
Westpac Banking Corporation New Zealand Branch

KANGANEWS  
AWARDS  
2023

NEW ZEALAND SUSTAINABILITY  
DEAL OF THE YEAR

**New Zealand Local Government  
Funding Agency**

**NZ\$1.1 BILLION 4.50% MAY 2030  
SUSTAINABLE FINANCING BOND**

ARRANGER: Westpac Banking Corporation New Zealand Branch

LEAD MANAGERS:

ANZ, BNZ, Commonwealth Bank of Australia,  
Westpac Banking Corporation New Zealand Branch

KANGANEWS  
AWARDS  
2023

NEW ZEALAND INNOVATIVE DEBT  
DEAL OF THE YEAR

**New Zealand Local Government  
Funding Agency**

**NZ\$1.1 BILLION 4.50% MAY 2030  
SUSTAINABLE FINANCING BOND**

ARRANGER: Westpac Banking Corporation New Zealand Branch

LEAD MANAGERS:

ANZ, BNZ, Commonwealth Bank of Australia,  
Westpac Banking Corporation New Zealand Branch



Sustainability bond of the year  
– supranational



## Summary Information

### Current Sustainable Finance Bond Framework:

LGFA Sustainable Financing Bond Framework dated 31 March 2023.

**Reporting period:** Financial year end to 30 June 2024. 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 2024.

**Next report scheduled:** September 2025.

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 21).



# Foreword

By Mark Butcher, Chief Executive, LGFA

During the past year, LGFA continued to focus on meeting the funding requirements for our local government sector, at the same time extending our suite of funding products and achieving a number of key milestones.

## Borrowing activity

LGFA issued an equivalent of NZ\$6.5 billion of bonds over the financial year (an increase of NZ\$3 billion over 2022-23). As at June 2024, our bonds on issue totalled NZ\$21.08 billion, comprising:

- NZ\$18.2 billion of NZD bonds across ten maturities between 2024 to 2037, and
- NZ\$2.9 billion of AUD bonds (A\$2.65 billion) across four maturities between 2027 and 2034.

The highlight for the year was the inaugural foreign currency issuance under our AUD Medium Term Note (MTN) and Euro Commercial Paper (ECP) Programmes. Issuing foreign currency securities assists our issuance strategy by diversifying our funding sources beyond the NZD market. As at 30 June, we had established a yield curve of four AUD bond maturities and issued US\$506 million under our ECP programme.

We would prefer to extend our yield curve beyond the existing 13 years (2037), but this remains difficult to implement until our council and CCO members borrow for longer tenors. The average term of our bond issuance during the year at 5.9 years was longer than the prior year of 5.5 years. This remains shorter than where we would like to be as a longer term of debt reduces our refinancing risk.

We continue to foster strong relationships with international investors. Offshore investors who have increased their holdings of our NZD bonds by NZ\$500 million over the year, totalling NZ\$6.7 billion at year end – an equivalent 37% of NZD bonds on issue. Combined with the A\$2.65 billion of AUD bonds, our offshore investor base now hold 45% of total LGFA bonds on issue.

While there was significant volatility in yields over the year, the change was muted with 2027 LGFA bond yields falling 39 basis points (bps) over the year (after trading a 124 bps range) and 2037 LGFA bond yields falling a mere 4 bps over the year (after trading a 146 bps range).

Over the year, the interest rate spread at which LGFA bonds trade, narrowed against New Zealand Government Bonds (NZGB) but widened over interest rate swaps. Our spreads to NZGB narrowed between 9 bps (2037 bond) and 23 bps (2029 bond) while spreads to swap moved between 'no change' (2026 bond) and 14 bps (2035 bond). This change was similar to the spread movements on other high-grade issuers where the additional supply of NZGBs has been the dominating influence on the domestic bond market.

## Lending to the sector

Over the past year, we added two new CCO members, Whanganui District Council Holdings, and Infrastructure Holdings, bringing total CCO membership to five. Our seventy-seven council members represent all councils, except for Chatham Islands District Council.

Long-dated lending over the year totalled a record NZ\$6.15 billion as members refinanced their 2024 loans and increased borrowing to finance infrastructure projects. Our lending over the year represented an estimated 90% of all council borrowing, a pleasing increase compared to the long-term average of 77%.

The average tenor of long-dated borrowing by members of 4.9 years over the year was shorter than last year's 5.2 years.

Short-dated lending for terms less than 12 months continues to be well supported by members. As at June 2024, there were NZ\$597 million of short-term loans outstanding to thirty-seven members, a 9% increase over the prior year of NZ\$555 million to thirty-seven members.

## Local Water Done Well Programme and Rate Payer Assistance Scheme

Central Government's Local Water Done Well Programme will have a significant impact on the local government sector. Over the year, LGFA worked with Central Government and our shareholders to help drive reforms and develop options for financing council and Water CCOs. Since the June 2024 balance date, the Minister of Local Government and LGFA have announced our intention to lend to Water CCOs and to contemplate providing more financing headroom to high growth councils.

In addition, LGFA continues to assist the local government sector-led initiative for developing a Ratepayer Assistance Scheme with the objective of providing financial relief options to ratepayers.



# LGFA Sustainability Strategy

**“LGFA seeks to continuously 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.

LGFA recognises the risks inherent in climate change for the local government sector and is committed to supporting New Zealand's shift to a low-carbon economy. 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 (see page 20) 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.

## Inaugural 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

## Sustainable Financing Bond issuance during the 2024 financial year

In September 2023, LGFA returned to the market with a NZ\$500 million syndicated increase to the 2030 Sustainable Financing Bond. Further tender increases were undertaken in March 2024 (NZ\$50 million), May 2024 (NZ\$50 million) and June 2024 (NZ\$60 million). This has resulted in the bond having a total outstanding amount of NZ\$1.76 billion as at 30 June 2024.



All NZD Bonds are listed on the NZX Debt Market.



# 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 (see 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:

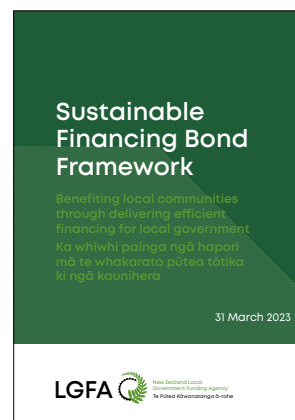
- the reporting and external review requirements under this Framework and the CAL Criteria and GSS Loan Criteria; and
- the notional allocation of the net proceeds of Sustainable Financing Bonds to the Sustainable Loan Asset Pool.

## Sustainable Financing Bond Framework

LGFA's Sustainable Financing Bond Framework (Framework)<sup>1</sup> 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.

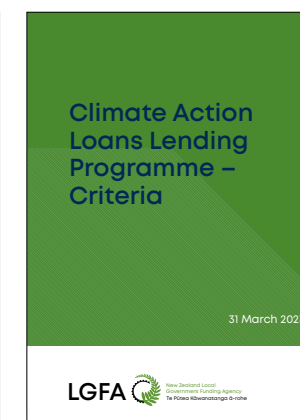
## LGFA's Criteria Documents for GSS Loans and CALs

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 Documents<sup>2</sup> will be revised annually in consultation with the Sustainability Committee.



1 The Framework is available on the LGFA website at [www.lgfa.co.nz/sustainability/sustainable-financing-bonds](http://www.lgfa.co.nz/sustainability/sustainable-financing-bonds)

2 The Criteria documents are available on our website at [www.lgfa.co.nz/sustainability/sustainable-lending](http://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 Sustainability 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.

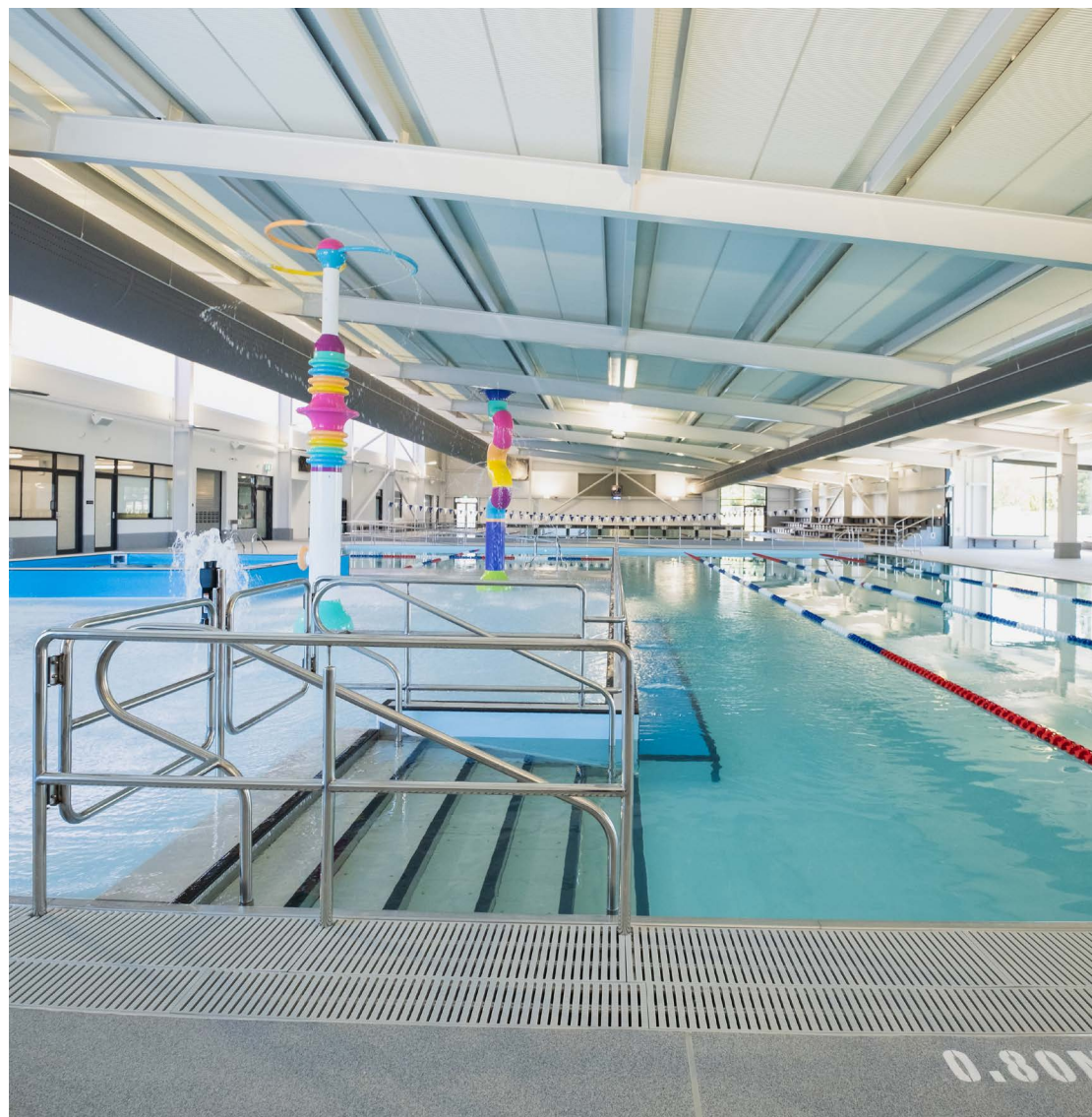
If the Surplus Sustainable Loan Assets amount is negative (and the Sustainable Loan Ratio is less than 1.0), it means that the amount of Sustainable Financing Bonds that have been issued is greater than the amount of Sustainable Loan Assets held. In this instance the net proceeds will be invested in 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 2024)

Sustainable Financing Bond (NZX ticker)	Sustainable Financing Bond (NZ\$ million)	Issue Date	Maturity Date
LGF170	1,100	17/04/23	15/05/30
LGF170	500	12/09/23	15/05/30
LGF170	50	11/03/24	15/05/30
LGF170	50	06/05/24	15/05/30
LGF170	60	04/06/24	15/05/30
<b>Total</b>	<b>1,760</b>		

	NZ\$ million
Total Value of GSS Loans*	377.2
Total Value of CALs*	2,746.7
<b>Total Value of Sustainable Loan Asset Pool*</b>	<b>3,123.9</b>
Total principal amount of Sustainable Financing Bonds on Issue	1,760
<b>Surplus Sustainable Loan Assets</b>	<b>1,363.9</b>
<b>Sustainable Loan Ratio (x)</b>	<b>1.77x</b>

\* 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 30th June 2024, LGFA had approved six GSS loans, across three different green project categories and one social project category, totalling NZ\$572.3 million approved of which NZ\$377.2 million had been advanced.

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 – Clean Water, Sewer, Transport
- 2: Access to Essential Services – Education, Healthcare
- 3: Affordable Housing

Over the 12-month period to 30 June 2024, LGFA approved a GSS Loan for Tauranga City Council.

## Kopurererua Valley Stream Realignment, Tauranga City Council Green Loan Category 9 (Terrestrial and Aquatic Biodiversity Conservation)

Tauranga City Council (TCC) will borrow up to NZ\$10.3 million to provide finance for the work to realign and restore the Kopurererua River, along with the creation of a new cycle path and a new wetland at the Kopurererua Valley Reserve, a 364-hectare inner city reserve in Tauranga.

In partnership with Ngāi Tamarāwaho and Bay of Plenty Regional Council, TCC will deliver the following benefits through this project:

- The realignment of the river channel, and the subsequent creation of a wetland will slow the flow of the water, improving water quality, assisting in flood control, and ultimately providing climate change resilience. Approximately 200,000 plants will be planted to restore the valley and assist with this resilience.
- The realignment of the river will recreate fish and bird habitats and help to restore the mauri that has been lost over time. It will restore the path followed by Taurikura as she swam out to Tauranga Moana, and finally landed at Karewa Island.
- Community access and connection to the reserve will significantly increase.





## Existing GSS projects and progress to date

In December 2021 the Wellington City Council (WCC) and the Greater Wellington Regional Council (GWRC) became the first local authorities in New Zealand to draw down under the programme. They have been followed by Hutt City Council (HCC) in June 2022, Whangarei District Council (WDC) in August 2022, Christchurch City Council (CCC) in November 2022 and, as outlined above, Tauranga City Council (TCC) in October 2023.

### Tākina Wellington Convention and Exhibition Centre, Wellington City Council

#### Green Loan Category 2 (Green Buildings)

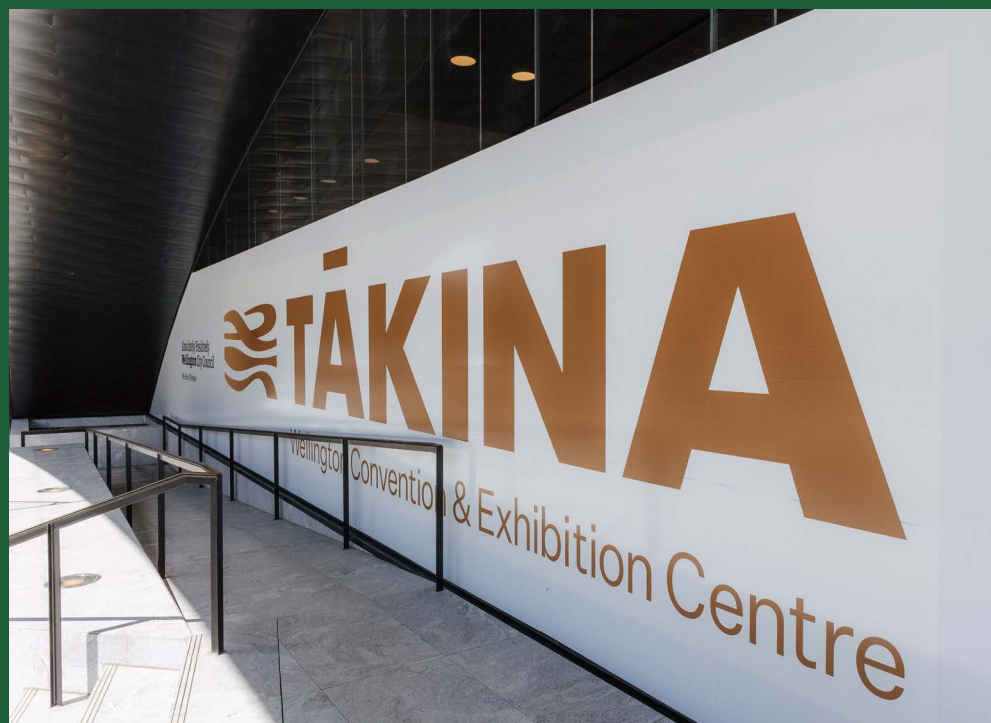
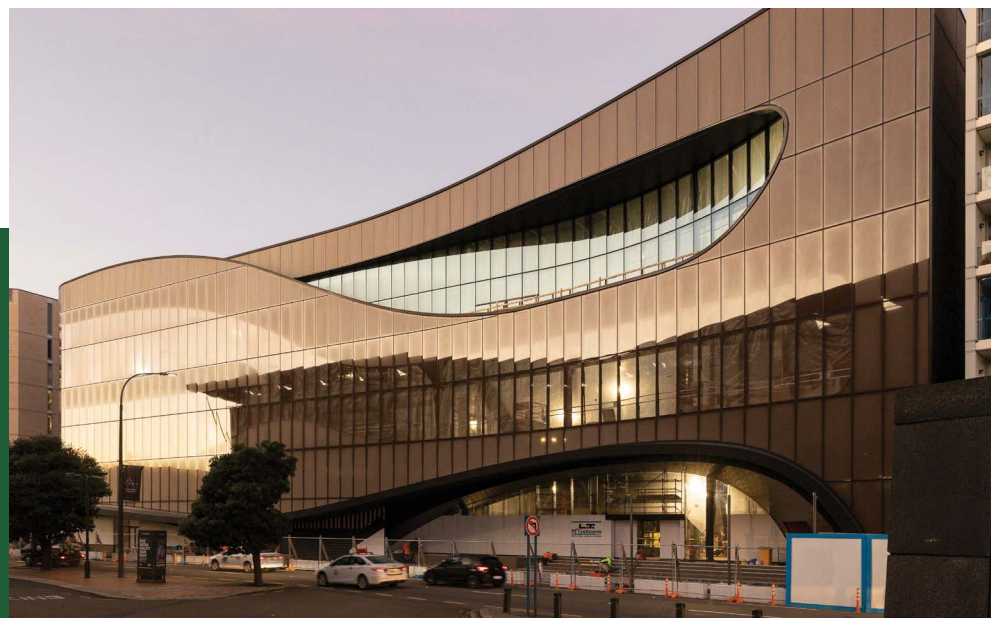
Wellington City Council (WCC) borrowed NZ\$180 million for the construction of Tākina, the Wellington Convention and Exhibition Centre; the Capital's largest infrastructure investment since the Wellington Regional Stadium two decades ago. Tākina offers a powerful combination of facilities across three floors and 18,000 sqm that is drawing visitors to Wellington to learn, meet and be inspired.

Opened in June 2023, Tākina has been awarded a 5-star certification by the New Zealand Green Building Council for a design that reduces energy use by 60% and carbon emissions by 66% when benchmarked against comparable new builds. The building's features include a rainwater harvesting system, smart air conditioning and enhanced thermal insulation.

Inaugural impact reporting data for the year ending 30 June 2024 will be provided by WCC by 30 November 2024

Tākina was successfully opened to the public in June 2023, which was slightly earlier than initially planned. The use of sustainable materials, initiatives to reduce energy and water use, and the inclusion of renewable energy capability make Tākina a landmark for Wellington's sustainable future. Sustainable features include:

- Enhanced thermal insulation and high-performance double glazing using SEFAR technology, for improved thermal comfort and energy efficiency;
- Rainwater harvesting system (30,000 litres) for toilet flushing and evaporative cooling to reduce water consumption by 30%;
- Adaptable and demand-controlled air conditioning system reducing energy use;
- Predominantly heat pump heating to reduce reliance on fossil fuels;
- Post-occupancy energy optimisation systems to monitor and fine tune energy usage;
- Future proofing to accommodate on-site renewable energy generation via solar array;
- The use of environmentally preferable materials for improved indoor air quality. Timber materials sourced from sustainable forestry; and
- Display screens communicating real-time building sustainability metrics such as water and energy consumption, as well as carbon emissions.





## Te Wai Takamori o Te Awa Kairangi, Greater Wellington Regional Council

### Green Loan Category 8 (Climate Change Adaptation)

Greater Wellington Regional Council (GWRC) will borrow up to NZ\$227 million to fund the Council's flood protection work on Te Wai Takamori o Te Awa Kairangi. This project involves upgrading the stopbanks on either side of Te Awa Kairangi / Hutt River as well as deepening and widening the river channel to protect Te Awa Kairangi ki Tai - Lower Hutt city centre from a one in 440 year flood event (which has a 0.2% chance of occurring in any year), at the same time enhancing the ecological health of the river.

Te Wai Takamori o Te Awa Kairangi programme of works is being delivered through a partnership between Greater Wellington, Hutt City Council and Waka Kotahi NZ Transport Agency, working together with Mana Whenua partners – Ngāti Toa Rangatira and Taranaki Whānui ki te Upoko o te Ika.

#### Progress Report for the year ending 30 June 2023

There were a number of major developments during the year ending 30 June 2023. The project reached another pivotal milestone as its procurement process neared completion allowing the programme to enter a detailed design and construction planning phase, ahead of the main construction works starting. This phase will include an opportunity to explore further innovations and value improvements through the design to potentially reduce costs and improve the outcomes we are targeting. It's also a chance to commence early works to ensure main works can start sooner.

In April 2023 after more than five years of extensive consultation, engagement, and consenting work by project partners on behalf of their local communities, AECOM-Fletcher were announced as the preferred alliance to deliver the programme. The devastation wrought by Cyclones Gabrielle and Hale demonstrates why the project is a priority for the regional council, to create flood defences capable of protecting thousands of homes and hundreds of businesses in and around the Lower Hutt CBD.

In June 2023 Mana Whenua gifted the name of Te Wai Takamori o Te Awa Kairangi – The Soothing Waters of Te Awa Kairangi to the Alliance. Work commenced to remove buildings in Pharazyn Street and shortly thereafter in Daly, Marsden and Mills Streets. These works will make room for the river by allowing stopbanks to be set further back from the river edge, and improve flood defences, as well as prepare the land as we work towards revitalising the Lower Hutt city centre.



## Naenae Pool and Fitness Centre, Hutt City Council

### Green Loan Category 2 (Green Buildings)

Hutt City Council (HCC) will borrow up to NZ\$41 million for the rebuild of the Naenae Pool and Fitness Centre. The new swimming pool 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 a 50m Olympic pool with 10 lanes and two moveable bulkheads so it can be used for different activities at the same time. A second leisure pool will have a shallow section for family fun, and a deep section with ramp access, seating and hydro jets for maximum accessibility.

#### Inaugural impact reporting data for the year ending 30 June 2025 will be provided by HCC by 30 November 2025

The following are the Education for Sustainable Development features included in the Naenae pool project:

- Highly insulated building fabric;
- High performance window glazing with low emissivity coating;
- Independent Commissioning Agent and 12-months building tuning;
- Climate Adaptation Plan;
- Electrical and water metering and BMS monitoring systems;
- High quality indoor environment with a focus on ventilation rates, acoustics, lighting and thermal comfort;
- High water quality due to pool water circulation rates and filtration;
- Energy efficient heating and cooling systems (air source heat pumps and chillers), demand-controlled ventilation, LED lighting, high efficiency fans;
- Water efficient design of pool and domestic water systems;
- Responsible and sustainable product selections, prioritising products with third-party accreditation (eco-labels);
- Improving ecological value of the site;
- Managing emissions from site including stormwater, light pollution, and refrigerants.





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

Whangārei District Council (WDC) has borrowed NZ\$59 million for Whangārei District's new civic building which has been designed to provide a welcoming, inclusive and easily accessible customer experience. The 8,000m<sup>2</sup> building opened in June 2023 and has been designed to be sustainable and to strongly reflect Whangārei's cultural identity and heritage.

Te Iwitihi is an extremely efficient, sustainability-focused, fully accessible building, designed for high functionality now and into the future, and earned the Supreme Award for projects costing over NZ\$10 million at the New Zealand Commercial Project Awards 2024.

**Inaugural impact reporting data for the year ending 30 June 2024 will be provided by WDC by 30 November 2024**

The new Civic Centre was opened to the public on the 19th of June 2023. The project set several sustainability targets, including a dedicated waste and recycling room, installing solar panels and incorporating water collection for flushing ground floor toilets. The building materials selected were climate-friendly where practicable, as advised by project managers and architects of the building.

The Civic Centre has 112 solar panels, generating up to 50.96kWp per hour of sunlight, and a BMS system to effectively monitor and manage utilities. There are water collection tanks which provide water for flushing the ground floor toilets.

Method bins are situated throughout the building to sort waste into various streams (landfill, paper, glass, mixed recycling and compost). These bins are located on every floor (except compost which is only on level 2 in the lunch area). The cleaners take this down to the waste and recycling room on the ground floor – which is securely accessible by our waste collectors. Compost is taken to a community compost facility, which ensures that it does not end up in landfill.

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

Christchurch City Council (CCC) will borrow up to NZ\$55 million to provide finance to Ōtautahi Community Housing Trust (ŌCHT). ŌCHT was formed in 2016 out of CCC's objective for a financially sustainable model for its social housing portfolio.

ŌCHT provides low-cost community housing, supported by a government subsidy, where possible. ŌCHT is the second largest Community Housing Provider in New Zealand and it manages approximately 2,300 units passed to it from CCC.

Part of ŌCHT's programme is to build at least 319 units to replace those lost due to the Canterbury earthquakes and the GSS Loan is to finance 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.

**Progress Report as at the year ending 30 June 2023. Inaugural impact reporting data for the year ending 30 June 2024 will be provided by CCC by 30 November 2024**

As at 30 June 2023, ŌCHT was still on track to deliver the targeted 319 new units; to date, with 270 units completed to NZGBC Homestar 6 or 7, equating to 410 bedrooms. Six new units were completed in FY23 and 35 units were under construction at year-end;

The project is focused on the use of sustainable materials:

- Just starting on this journey – eg. use of ECO Resene paints, GIB Eco, Pink Batts Eco label, Polyfloor (vinyl), etc.
- Embedded carbon was measured in the Glovers Rd development:
  - Achieved 35.9 tonnes of carbon storage through the increased use of timber;
  - Overall embedded carbon intensity was 256 kg co<sub>2</sub>/m<sup>2</sup> (benchmark: BRANZ presentation in Build Magazine issue 175 stated 315 kg co<sub>2</sub>/m<sup>2</sup> for a stand-alone 200m<sup>2</sup> house).





# 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 2024, LGFA had advanced NZ\$2,746.7 million of CALs to seven councils and CCOs.

## Auckland Council Approved for CALs in March 2023

In June 2019, Auckland Council (Council) declared a climate emergency, committing the Council to take the necessary action to manage and mitigate climate-related risks, while taking advantage of the opportunities created by climate change.

Te Tāruke-ā-Tāwhiri: Auckland’s Climate Plan, adopted by Auckland Council in 2020, sets out a pathway to achieve a 50% reduction in regional greenhouse gas (GHG) emissions by 2030 and net zero by 2050 from a FY16/17 base year. Auckland Council’s Long-Term Plan1 (LTP) sets similar targets for Auckland Council, halving direct GHG emissions (scope 1 & 2) from Auckland Council operations by 2030 and achieving net zero emissions by 2050.

## Hutt City Council Approved for CALs in March 2023

In 2018, HCC commenced work on its first organisational carbon footprint, and later that year, set a carbon target of net zero by no later than 2050. This was followed by Council declaring a climate emergency in June 2019.

In July 2021 the HCC Interim Carbon and Climate Resilience Plan 2021-2031 (ICCRP) was approved as companion document to the LTP 2021-31. This plan built on earlier work in the energy space, ie the Energy and Carbon Reduction Plan 2020-2024, which set targets for improving energy efficiency and reducing carbon emissions with the use of energy at Council facilities. The ICCRP sets out 21 concrete and measurable actions which include:

- Outline the journey to reduce HCC’s corporate emissions to net-zero by 2050.
- Help reduce Lower Hutt’s greenhouse gas emissions to net-zero by 2050 and halve emissions by 2030.







## Dunedin City Treasury Limited Approved for CALs in April 2023

In June 2019, Dunedin City Council (DCC) declared a climate and ecological emergency and set the ambitious goal for Dunedin city to be net carbon neutral by 2030, adopting a two-part 'Zero Carbon 2030' target, as follows:

- net zero emissions of all greenhouse gases other than biogenic methane by 2030; and
- 24% to 47% reduction below 2017 biogenic methane emissions by 2050, including 10% reduction below 2017 biogenic methane emissions by 2030.

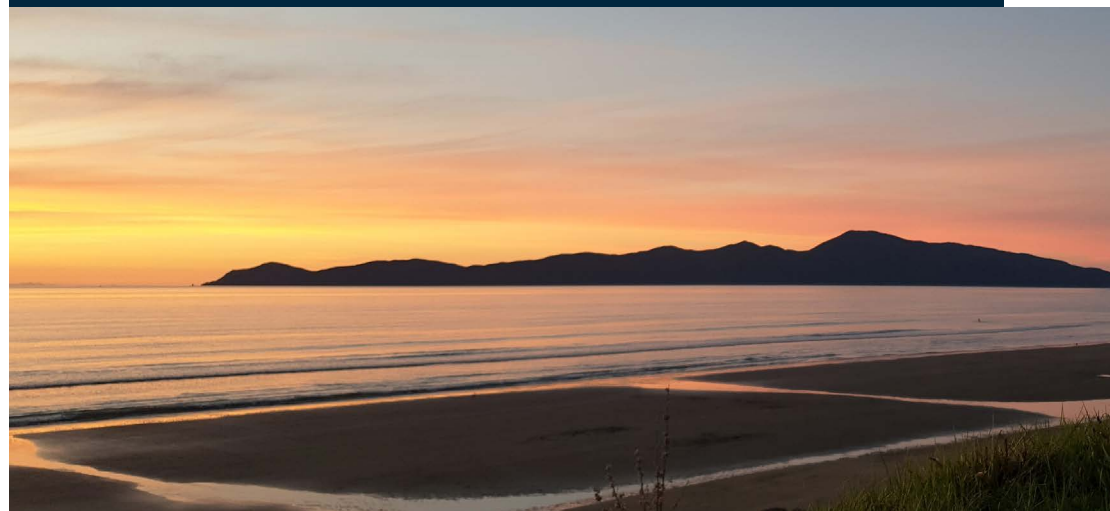
In February 2022 DCC adopted an Emissions Management and Reduction Plan setting out the goal for DCC and Dunedin City to be net carbon zero by 2030 and to increase its resilience to the effects of climate change. With regards to climate change adaptation, DCC's focus to date has been its South Dunedin Future programme, as South Dunedin is the most climate-exposed part of the city.



## Kapiti Coast District Council Approved for CALs in August 2023

Kapiti Coast District Council (KCDC) has been measuring its emissions since the 2009/10 year under the Toitū CarbonReduce Programme and has won multiple awards for leadership in environmental sustainability. In May 2019, the council declared a climate emergency.

Recently KCDC set a new aspirational long-term target for its organisational emissions of net zero emissions by 2040. KCDC also set a mid-term reduction target for its category 1 and 2 emissions of 15.5% by 2032. This is on top of the 70% emissions reductions already achieved in categories 1 and 2 emissions since 2010.



## Wellington City Council Approved for CALs in February 2024

In June 2019, WCC declared a climate and ecological emergency and Te Atakura – First to Zero (emissions) blueprint was adopted, setting Wellington's ambition to become a net zero carbon capital by 2050. WCC has been measuring its emissions since 2014 and, over the years, it has continued to improve the way it captures information. From mid-2021, WCC started measuring supply chain emissions.

In November 2023, WCC set a science-based target to reduce their Scope 1 & 2 emissions by 57% between 2021 and 2030, and a separate target that two-thirds of their supplier emissions will have adopted science-based targets by 2030. On 13th November 2023 they adopted an Organisational Emissions Reduction Plan setting out the projects they need to deliver in order to meet those targets.



## Tauranga City Council

### Approved for CALs in March 2024

Tauranga City Council (TCC) has accelerated its efforts over the last few years to reduce its operational emissions. TCC started measuring its emissions in 2018 and has since then achieved a 27% reduction of Scope 1 and 2 emissions (including CCOs and wastewater treatment). In 2023, TCC committed to a goal to reach net zero by 2050 in its operational emissions and developed an Emissions Reduction Plan.

The Emissions Reduction Plan dated February 2024 includes targets aligned with a science-based pathway, supported by 15 projects to reduce Scope 1 and 2 emissions across council operations. A science-based target means that TCC will need to reduce its emissions by 46.2% by 2030 and 90% by 2040 from 2019 baseline. This covers emissions from electricity consumption and combustion of fossil fuels within council operations (Scope 1 and 2).

## Greater Wellington Regional Council

### Approved for CALs in June 2024

In August 2019, GWRC declared a climate emergency and has since developed a programme of climate action relating to corporate operations and regional outcomes.

GWRC's Executive Leadership Team signed off its Organisational Emissions Management and Reduction Plan in May 2024, which includes targets for its organisational GHG emissions, previously approved by Councillors. Each target is relative to the Council's base year period of FY18/19. These include:

- GWRC has committed to achieve a net reduction in its total emissions (all Scopes/ Categories) of 40% in FY2024/25;
- To be 'carbon neutral' (net-zero total emissions) from FY2029/30;
- To be 'climate positive' (net emissions reduced by more than 100% from FY2034/35);
- Achieve a 25% reduction in gross Scope 1 & 2 (Category 1 & 2) GHG emissions in FY2024/25;
- Achieve a 50% reduction in gross Scope 1 & 2 (Category 1 & 2) GHG emissions in FY2029/30;
- Achieve a 65% reduction in gross Scope 1 & 2 (Category 1 & 2) GHG emissions in FY34/35.





# 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

Second-Party Opinion

Reviewed by: MORNINGSTAR | SUSTAINALYTICS


Evaluation Summary

Sustainable Financing Bond Framework

Evaluation Date March 29, 2023

Issuer/Originator Wellington, New Zealand

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



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.<sup>2</sup> 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).<sup>3</sup> 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.

Sustainalytics reviewed the Framework and prepared a Second Party Opinion (SPO)<sup>3</sup>. 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 2023<sup>4</sup>;
- 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 Nominated Expenditures do not conform with the use of proceeds criteria and reporting commitments in the Framework. Sustainalytics further notes that LGFA has communicated that it will comply with the reporting commitments in the Framework starting from September 2025.”**

## New Zealand Local Government Funding Agency

**Type of Engagement:** Annual Review

**Date:** 26 September 2024

**Engagement Team:**

Akshay Chandrakapure, [akshay.chandrakapure@morningstar.com](mailto:akshay.chandrakapure@morningstar.com)

Vipula Pandita, [vipula.pandita@morningstar.com](mailto:vipula.pandita@morningstar.com)

### Introduction

The New Zealand Local Government Funding Agency Limited (“LGFA” or the “Issuer”) is a council-controlled organisation (“CCO”) headquartered in Wellington that operates under New Zealand’s Local Government Act 2002. LGFA is a funding agency that raises debt for on-lending to councils and CCOs in New Zealand.

In April 2023, LGFA issued a sustainable financing bond under the Sustainable Financing Bond Framework (“the Framework”)<sup>1</sup>, raising NZD 1,760 million as of 30 June 2024<sup>2</sup>, to finance funding to its member councils and CCOs (“the Borrowers”). The net proceeds were offered as loans to Borrowers, which were notionally allocated to a pool of sustainable loans (“Sustainable Loan Asset Pool”) that includes:

- i. Green, social and sustainability loans (“GSS Loans”) being ‘use of proceeds’ loans that are intended to finance GSS projects assets and activities that are eligible under the green and social project categories (in Section 4.2.1 and Section 4.2.2 of the Framework and the LGFA GSS Lending Programme - criteria (“GSS Loans Criteria”)<sup>3</sup>; and
- ii. Climate Action Loans (“CALs”) being target (or incentive) based<sup>4</sup> to incentivise Borrowers to reduce their greenhouse gas emissions, which are eligible under section 4.3 of the Framework and the LGFA Climate Action Loan Lending Programme- criteria (“CAL Criteria”).<sup>5</sup>

In September 2024, LGFA engaged Sustainalytics to review the Sustainable Loan Asset Pool financed with proceeds from the 2023 sustainable financing bond (the “Nominated Expenditures”) and provide an assessment as to whether they met the eligibility criteria and the reporting commitments outlined in the Framework. Sustainalytics provided a Second-Party Opinion on the Framework in March 2023.<sup>6</sup> This is Sustainalytics’ second annual review of allocation and reporting of the instruments issued under the Framework, following a previous review in September 2023.<sup>7</sup>

### Evaluation Criteria

Sustainalytics evaluated the Nominated Expenditures and LGFA’s reporting for FY2024<sup>8</sup> based on whether they:

1. Meet the eligibility criteria defined in the Framework;
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

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

<sup>2</sup> LGFA issued NZD 1,100 million in April 2023, NZD 500 million in September 2023, NZD 50 million in April 2024, NZD 50 million in May 2024 and NZD 60 million on June 2024, totaling NZD 1,760 million as of June 2024.

<sup>3</sup> LGFA, “Green, Social & Sustainability Loans”, at: <https://www.lgfa.co.nz/sustainability/sustainable-lending/green-social-sustainability-loans>

<sup>4</sup> CALs are sustainability-linked loans in nature and structure. LGFA defined a standard KPI and SPT to be used by the Borrowers to incentivize Borrowers to reduce their scope 1 and 2 GHG emissions through the adoption of an emissions reduction plan and 1.5°C aligned science-based GHG emissions reduction targets. Failure to achieve the SPT results in declassification from the CAL Programme, rendering the Borrower ineligible to apply for new CALs until LGFA is satisfied (in its sole discretion) that the Borrower and the declassified CAL meet the CAL Criteria.

<sup>5</sup> LGFA, “Climate Action Loans Programme – Criteria”, at: [https://www.lgfa.co.nz/sites/default/files/2023-07/LGFA\\_CAL\\_Programme\\_Criteria.pdf](https://www.lgfa.co.nz/sites/default/files/2023-07/LGFA_CAL_Programme_Criteria.pdf)

<sup>6</sup> Sustainalytics, “Second-Party Opinion, LGFA Sustainable Financing Bond Framework”, (2023), at: [https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/the-new-zealand-local-government-funding-agency-limited-\(lgfa\)/lgfa-sustainable-financing-bond-framework-second-party-opinion/lgfa-sustainable-financing-bond-framework-second-party-opinion-\(2023\)](https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/the-new-zealand-local-government-funding-agency-limited-(lgfa)/lgfa-sustainable-financing-bond-framework-second-party-opinion/lgfa-sustainable-financing-bond-framework-second-party-opinion-(2023))

<sup>7</sup> Sustainalytics, “Annual Review, New Zealand Local Government Funding Agency”, (2023), at: [https://www.lgfa.co.nz/sites/default/files/2023-11/New%20Zealand%20Local%20Government%20Funding%20Agency\\_Annual%20Review%20%282023%29.pdf](https://www.lgfa.co.nz/sites/default/files/2023-11/New%20Zealand%20Local%20Government%20Funding%20Agency_Annual%20Review%20%282023%29.pdf)

<sup>8</sup> The reporting period is 1<sup>st</sup> July 2023 to 30<sup>th</sup> June 2024.



# Appendix I – Value of Eligible GSS Loan Assets (as at 30 June 2024)

## 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	Tākina, Wellington Convention and Exhibition Centre	Green Loan	180	180	180
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
<b>Total Green Buildings Loans</b>					<b>280</b>	<b>274</b>	<b>274</b>
Climate Change Adaptation	Greater Wellington Regional Council	2 December 2021	RiverLink Project	Green Loan	227	55	55
<b>Total Climate Change Adaptation Loans</b>					<b>227</b>	<b>55</b>	<b>55</b>
Biodiversity Conservation	Tauranga City Council	10 October 2023	Kopurererua Valley Stream Realignment	Green Loan	10.3	6	6
<b>Total Biodiversity Conservation Loans</b>					<b>10.3</b>	<b>6</b>	<b>6</b>
Affordable Housing	Christchurch City Council	17 November 2022	OCHT Social Housing	Social Loan	55	42.2	42.2
<b>Total Social Loans</b>					<b>55</b>	<b>42.2</b>	<b>42.2</b>
<b>Total</b>	<b>5 Borrowers</b>				<b>572</b>	<b>377.2</b>	<b>377.2</b>

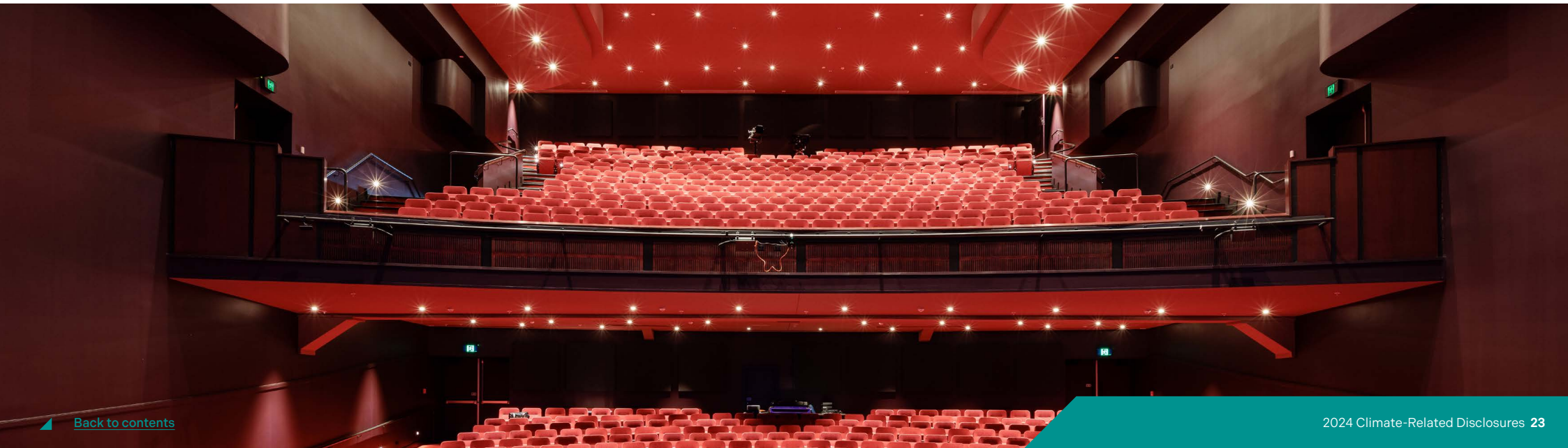
\* Where a GSS Loan is approved, LGFA is not committed to provide those funds. Rather, LGFA has indicated to the relevant borrower that, subject to satisfaction of conditions precedent, LGFA intends to advance the relevant amount as GSS Loan(s) when the borrower makes a request under LGFA's Multi-Issuer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



# Appendix II – Value of Eligible CAL Assets (as at 30 June 2024)

## 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 2028 to April 2033	1,100	1,100
Dunedin City Treasury Limited	February 2030 to April 2033	270	270
Greater Wellington Regional Council	August 2026 to August 2033	297	297
Hutt City Council	October 2026 to July 2031	255.7	255.7
Kapiti Coast District Council	May 2026 to October 2030	145	145
Tauranga City Council	April 2027 to May 2031	269	269
Wellington City Council	July 2027 to May 2031	410	410
<b>Total</b>		<b>2,746.7</b>	<b>2,746.7</b>





# Appendix III – Sustainalytics – Pre-Issuance Review

## 31 March 2023

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 review<sup>5</sup>.

### 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](mailto:mahesh.krishnamoorthy@sustainalytics.com)

**Engagement Team:** Mahesh Krishnamoorthy, [mahesh.krishnamoorthy@sustainalytics.com](mailto:mahesh.krishnamoorthy@sustainalytics.com)

Maliha Taj, [maliha.taj@sustainalytics.com](mailto:maliha.taj@sustainalytics.com)

#### Introduction

In March 2023, the New Zealand Local Government Funding Agency Limited ("LGFA") developed a Sustainable Financing Bond Framework ("Framework")<sup>1</sup> and Sustainalytics provided a Second Party Opinion<sup>2</sup> over the Framework. Under the Framework, LGFA intends to issue sustainable financing bonds to finance and/or refinance funding it provides to its member councils and council controlled organizations (the "Borrowers") and the net proceeds of those sustainable financing bonds will be notionally allocated to a pool of sustainable loans offered to the Borrowers comprising:

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

The Framework defines eligible GSS projects in the following categories: Energy Efficiency, Green Buildings, Clean Transportation, Sustainable Water and Wastewater Management, Renewable Energy, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use, Climate Change Adaptation, Terrestrial and Aquatic Biodiversity Conservation, Affordable Basic Infrastructure, Access to Essential Services, and Social and Affordable Housing.

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

#### Evaluation Criteria

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

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

The Nominated Projects are summarized in Appendix 2.

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

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

<sup>5</sup> 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_Framework_Pre-Issuance_Review.pdf) ([lgfa.co.nz](https://www.lgfa.co.nz))

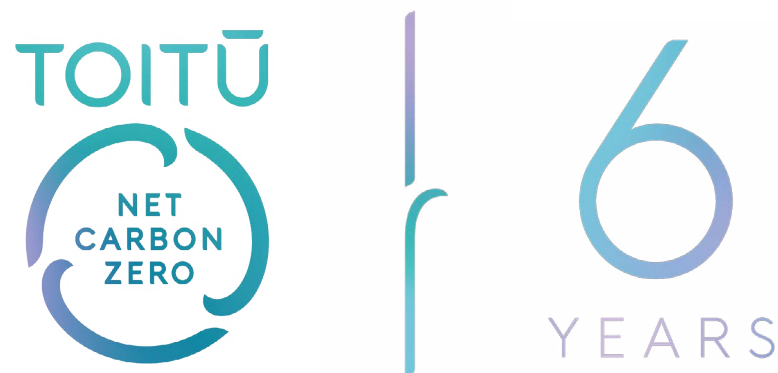
# Appendix IV – Toitū Envirocare Certification

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 the annual audit requirements of its 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 2024 were 43.06 tCO<sub>2</sub>e, which is 20% lower than the previous year's total of 53.56 tCO<sub>2</sub>e and 69% lower than the base year total of 137.93 tCO<sub>2</sub>e. A reduction in emissions intensity of 0.28 CO<sub>2</sub>e/\$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.



This is to certify that

**New Zealand Local Government Funding Agency Limited**

is Toitū net carbonzero organisation certified.

Toitū net carbonzero certified means measuring emissions to ISO 14064-1:2018 and Toitū requirements; managing and reducing against Toitū requirements; and compensating remaining emissions following Toitū requirements and covering a minimum of the total Toitū boundary.

Verified 69% reduction in absolute emissions (tCO<sub>2</sub>e) against base year (2018-19).

A handwritten signature in black ink, appearing to read 'Ana Tatana'.

Ana Tatana—Certifier

**TOITŪ**  
ENVIRO CARE

Date issued: 3 September 2024 | 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 for all categories  
Certification Year Auditor: Toitū Envirocare | Certification Year Assurer: Toitū Envirocare

Please refer to the annual statement on [www.toitu.co.nz](http://www.toitu.co.nz) for further details.  
Toitū net carbonzero is an annual certification programme and this certificate only remains valid with an annual surveillance audit.



[WWW.JAS-ANZ.ORG/REGISTER](http://WWW.JAS-ANZ.ORG/REGISTER)  
Certified by Enviro-Mark Solutions Limited  
(trading as Toitū Envirocare)



# Appendix V – Climate-Related Disclosure Framework and Greenhouse Gas Emissions

## Climate-Related Disclosure Framework

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 makes it mandatory for climate reporting entities to produce climate statements according to disclosure standards in the Aotearoa New Zealand Climate Standards issued by the External Reporting Board in December 2022.

LGFA is a designated Climate Reporting Entity as it is a listed issuer of quoted debt securities with a combined face value of quoted debt exceeding NZ\$60 million.

Climate Reporting Entities are required to make annual disclosures covering governance arrangements, risk management, strategies and metrics and targets for mitigating and adapting to climate change impacts.

The mandatory reporting regime took effect for accounting periods that start on or after the 1 January 2023 and LGFA has completed our inaugural disclosures for the year ended 30 June 2024.

LGFA Climate-related disclosures for the year ended 30 June 2024



## Greenhouse Gas Emissions

### Operational emissions

Scope 1 and 2 emissions and Scope 3 emissions (excluding financed emissions) are measured in accordance with ISO 14064-1 2018 and IPCC AR5. In addition, Ministry for the Environment. Measuring emissions: A guide for organisations: 2024 detailed guide.

Scope 1 and 2 emissions and Scope 3 emissions related to travel have been subject to an assurance audit by Toitū.

EMISSIONS (tCO <sub>2</sub> e)	2023/24	2022/23	2021/22	2020/21	2019/20	BASE YEAR 2018/19
Scope 1: Operational	--	--	--	--	--	--
Scope 2: Operational	3	3	3	3	3	2
Scope 3: Operational	41	50	40	28	65	135
<b>Total operational</b>	<b>43</b>	<b>53</b>	<b>43</b>	<b>31</b>	<b>68</b>	<b>137</b>
GHG emissions intensity (per employee)	2.7	3.6	2.9	2.1	5.2	10.6

LGFA uses the operational control approach for calculating GHG emissions.

Scope 3 operational GHG includes category 3 (energy), category 5 (waste) and category 6 (business travel). All other categories have been excluded as they are either not material or non-applicable to LGFA operations.

LGFA uses information from suppliers (e.g. invoices, statements or activity reports) to calculate GHG emissions, or estimates where supplier information is not available (i.e. waste to landfill). Use of supplier-sourced invoices and statements results in low uncertainty. Where estimates are used, i.e. waste to landfill, the associated emission factors are not material.

### Financed emissions

For our first year of reporting, LGFA has elected to use NZCS 2 adoption provision 4 (Scope 3 GHG emissions) and Adoption provision 5 (Comparatives for Scope 3 GHG emissions) in relation to our Scope 3, category 15 Financed emissions.

As at the date of this report, our development project for measuring and reporting our financed emissions remains a work in progress.

# Appendix VI – Post Balance Date Allocation Reporting

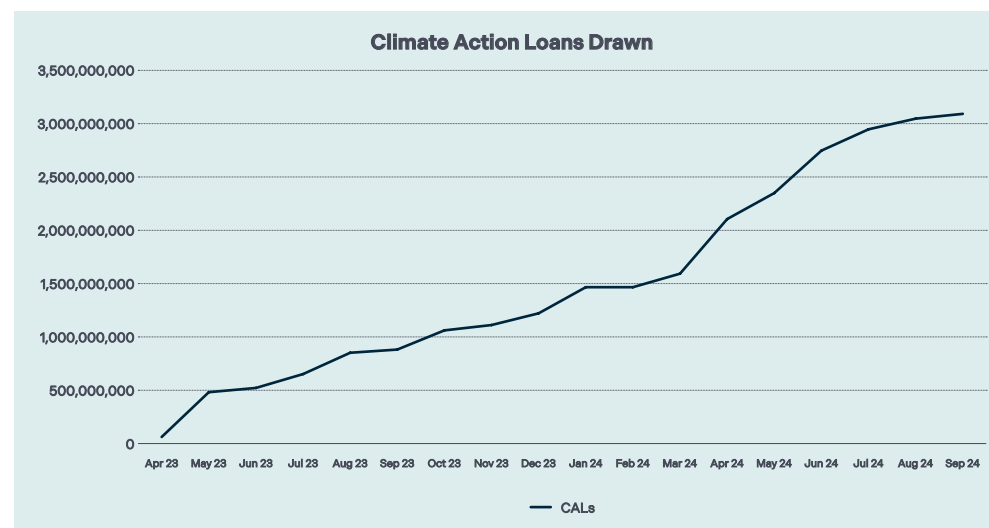
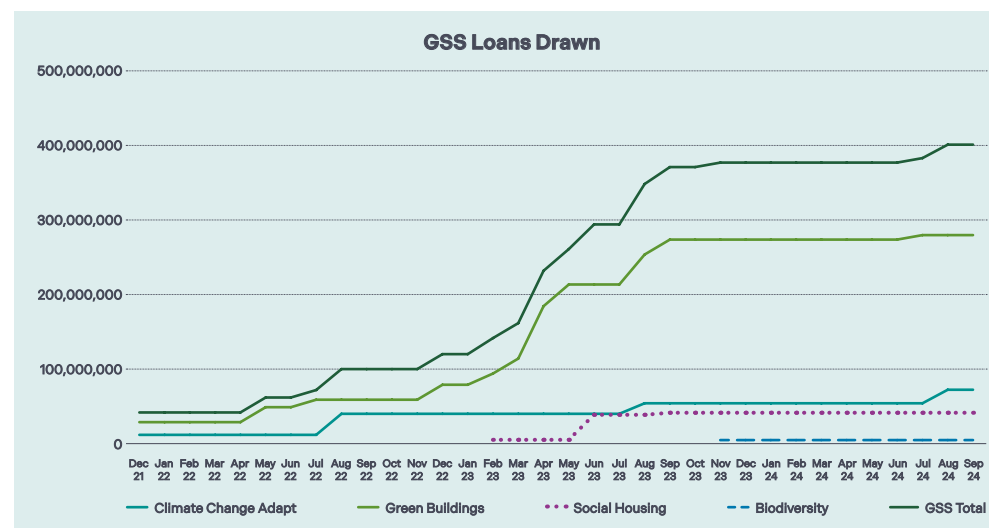
In the period from 1<sup>st</sup> July 2024 and 30 September 2024 LGFA has issued a further NZ\$150 million (NZ\$70 million on 8<sup>th</sup> July 2024 and NZ\$80 million on 14<sup>th</sup> August 2024 and NZ\$150 million on 9<sup>th</sup> September 2024, taking the total outstanding to NZ\$2,060 million.

## Sustainable Financing Bonds Summary and Sustainable Loan Asset Pool Allocation Report (as at 30 September 2024)

	NZ\$ million
<b>Total Value of GSS Loans*</b>	<b>401.2</b>
<b>Total Value of CALs*</b>	<b>3,091.7</b>
<b>Total Value of Sustainable Loan Asset Pool*</b>	<b>3,492.9</b>
<b>Total principal amount of Sustainable Financing Bonds on Issue</b>	<b>2,060.0</b>
<b>Surplus Sustainable Loan Assets</b>	<b>1,432.9</b>
<b>Sustainable Loan Ratio (x)</b>	<b>1.70x</b>

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

## Growth of GSS and CAL Asset Pools





# 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 11  
City Chambers  
142 Featherston Street  
Wellington 6011  
(entrance on Johnston  
Street)

**Street Address –  
Auckland**  
Level 7  
The Shortland Centre  
55 Shortland Street  
Auckland 1010



## **Auckland**

Level 7, The Shortland Centre,  
55 Shortland Street

**Phone** +64 4 974 6530

## **Wellington**

Level 11, City Chambers,  
142 Featherston Street  
PO Box 5704, Lambton Quay, Wellington 6145

**[www.lgfa.co.nz](http://www.lgfa.co.nz)**



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