

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 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")¹, raising NZD 1,760 million as of 30 June 2024², 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")³; and
- ii. Climate Action Loans ("CALs") being target (or incentive) based⁴ 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")⁵.

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 2023.⁶ This is Sustainalytics' second annual review of allocation and reporting of the instruments issued under the Framework, following a previous review in September 2023.⁷

Evaluation Criteria

Sustainalytics evaluated the Nominated Expenditures and LGFA's reporting for FY2024⁸ 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.

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 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.

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

⁴ 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.

⁵ LGFA, "Climate Action Loans Programme – Criteria", at: https://www.lgfa.co.nz/sites/default/files/2023-07/LGFA_CAL_Programme_Criteria.pdf

⁶ 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))

⁷ 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

⁸ The reporting period is 1st July 2023 to 30th June 2024.

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> <p>1) Existing buildings (i.e. buildings which are at least two years post build completion) that meet one of the following green building ratings:</p> <ul style="list-style-type: none"> i. 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 ii. 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. <p>2) New buildings or refurbishments that meet one of the following green building ratings:</p> <ul style="list-style-type: none"> i. 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 ii. 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"> i. Green building rating, standards or certifications obtained or evidence that indicates the target rating will be achieved. ii. Estimate of the annual energy consumption per square meter of heated area. iii. 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. iv. 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	Investments in this category are intended to ensure local communities are adapting to climate change.	<ul style="list-style-type: none"> i. Qualitative targets/indicators relevant to the

	<p>Facilities and installations to manage urban runoff, floods, landslides, avalanches, rising sea 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"> i. 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). ii. 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). iii. 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>adaptation to climate change with a description of the weather-related and climate-related problems that will be mitigated by the investment.</p>
Terrestrial and Aquatic Biodiversity Conservation	<p>Investments in this category are intended to prevent loss or degradation of ocean biodiversity, coral reefs, mangrove forests, coastal wetlands, habitat loss and degradation, as well as preventing unsustainable harvesting of species, climate change and pollution. This may include investments to improve plant management strategies or management of invasive species. Further:</p> <ul style="list-style-type: none"> i. The project must seek to reduce the threat of either terrestrial or aquatic biodiversity degradation and have an explicitly formulated climate/environmental objective. ii. Tree species used for afforestation projects must be well-adapted to the site conditions and will include sustainable management plans certified by a credible certification agency (e.g. FSC or PEFC). iii. Investments will exclude the funding of any synthetic or chemical pesticides, herbicides, or weedicides. 	<ul style="list-style-type: none"> i. Qualitative indicators/targets in terms of environmental impact.
Social and Affordable Housing	<ul style="list-style-type: none"> i. Construction, maintenance, and operation of registered social housing facilities, including Community Housing Providers, and low-cost housing provided to tenants who are typically 	<ul style="list-style-type: none"> i. Number of social and/or affordable housing dwellings provided or retrofitted.

	<p>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.</p> <p>ii. 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.</p>	<p>ii. Number of people housed with new and/or retrofitted social and/or affordable housing accommodation.</p> <p>iii. Modifications, number of new and/or upgraded facilities financed that include mobility, accessibility, intensive support housing considerations</p>
Climate Action Loans	<p>To qualify for a CAL, the Borrowers must have the following:</p> <p>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) emissions in line with the science-based trajectory (i.e. to support limiting global warming to no greater than 1.5 degrees Celsius above preindustrial 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>	<p>i. Absolute gross scope 1 and 2 GHG emissions (tCO₂e)</p>

Issuer's Responsibility

LGFA is responsible for providing accurate information and documentation relating to the details of the Nominated Expenditures, including descriptions, amounts allocated and 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 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,⁹ 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 June 2025 (See Table 2: Detailed Findings).

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the Nominated Expenditures to determine if they are aligned with the eligibility criteria outlined in the Framework.	The Nominated Expenditures ¹⁰ comply with the Framework criteria.	None
Reporting Criteria	Verification of the Nominated Expenditures to determine if the impact was reported in line with the KPIs outlined in the Framework.	LGFA has communicated to Sustainalytics that the bond issuance process was completed in April 2023 and the reporting period ended in June 2023. Additionally, the Borrowers will provide LGFA with the project's impact data for FY2024 by 30 November 2024. This will delay the project's impact reporting by one year, with impact data to be released in LGFA's Annual Impact Report by September 2025.	Exception identified. Due to LGFA's reporting cycle, impact reporting will occur a year late and will be reported in June 2025.

⁹ Sustainalytics' limited assurance process includes reviewing documentation relating to details of nominated expenditures, as provided by the issuing entity, which is responsible for providing accurate information. These may include descriptions, estimated and realized costs, and reported impact. Sustainalytics has not conducted on-site visits.

¹⁰ Regarding the CALs, LGFA has communicated to Sustainalytics that the borrowers have met the following criteria: i) The borrower is committed to reducing its scope 1 and scope 2 GHG emissions in line with the 1.5°C SBTi scenario; ii) It has set annual GHG targets (for scope 1 and 2 GHG emissions) for short-term and medium-term periods to achieve its long-term goal of reaching net zero by 2050; iii) It will obtain verification of its GHG emissions inventory from a credible external third-party agency as outlined in the CAL Criteria, and a report will be provided to LGFA annually by 30 November.

Appendices

Appendix 1: Allocation and Reported Impact

Table 3: Summary of the Nominated Expenditures and Sustainable Loan Asset Pool

	NZD million
Total Allocation to Eligible GSS loans	377.2
Total Allocation to Eligible CALs	1,420.7
Total Allocation to Nominated Expenditures	1,797.9 ¹¹
Total Value of Sustainable Loan Asset Pool	3,123.9
Surplus Sustainable Loan Assets	1,363.9

Table 4: Allocation for Eligible GSS Loans as of 30 June 2024¹²

GSS Loans Category	Name of the Borrower	Name of the Project	Project Description	Amount Allocated (NZD million)
Green Buildings	Wellington City Council	Tākina, Wellington Convention Centre and Exhibition Centre	The centre opened in June 2023 and has been built to host international and local conferences. Tākina spans three floors and 18,000 m ² . The centre has achieved a 5 Star Green 'Custom Design Rating' 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.	180
	Hutt City Country	Naenae Pool and Fitness Centre	Hutt City Council (HCC) to build the Naenae Pool and Fitness Centre, which will be 65% larger and 53% more energy efficient than the previous facility. The centre will feature a 50m Olympic pool with 10 lanes and movable bulkheads, a leisure pool with family and accessibility features, and state-of-the-art energy and water efficiency systems. Impact reporting for the year ending June 2025 will be available by November 2025. Sustainable design elements include high insulation, energy-efficient heating, water conservation systems, and a Climate Adaptation Plan. The project is located in Te Awa Kairangi ki Tai, Lower Hutt. LGFA informed Sustainalytics that the fitness centre is designed to achieve Five-star Green Star Rating.	35
	Whangarei District Council	Te Iwitahi-Whāngarei Civic Centre ¹³	The building features 112 solar panels generating up to 50.96kWp, water collection for flushing ground-floor toilets, and a BMS system to manage utilities. Dedicated waste and recycling rooms, along with sorting bins on	59

¹¹ Sustainalytics notes that there is a marginal difference between the total allocation (NZD 1797.9 million) and the value of the sustainable financing bond (NZD 1760 million). LGFA communicated that the allocation to Nominated Expenditures is on an ongoing basis and the allocation amounts shared are a point in time representation as of 30 June 2024.

¹² LGFA has confirmed to Sustainalytics that all the use of proceeds categories of the GSS loans have met the eligibility criteria as per the Framework.

¹³ The Whāngarei Civic Centre has been renamed to Te Iwitahi-Whāngarei Civic Centre.

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			each floor, support sustainability efforts. LGFA informed Sustainalytics that the civic centre intends to have NABERSNZ certification.	
Climate Change Adaptation	Greater Wellington Regional Council	Te Wai Takamori o Te Awa Kairangi-RiverLink Project	The project includes upgrading stopbanks and deepening and widening the Te Awa Kairangi / Hutt River channel to protect Lower Hutt city centre from a one-in-440-year flood event (a 0.2% chance annually) while also improving the river's ecological health. This programme is a collaboration between Greater Wellington, Hutt City Council, and Waka Kotahi NZ Transport Agency, in partnership with Mana Whenua – Ngāti Toa Rangatira and Taranaki Whānui ki te Upoko o te Ika. LGFA has confirmed to Sustainalytics that they have a flood management plan in place to address the future impact of climate change on flood protection.	55
Biodiversity Conservation	Tauranga City Council	Kopurererua Valley Stream Realignment	Tauranga City Council (TCC) will restore the Kopurererua River, create a new cycle path, and develop a wetland in the 364-hectare Kopurererua Valley Reserve. In partnership with Ngāi Tamarāwaho and Bay of Plenty Regional Council, the project aims to improve water quality, enhance flood control, restore habitats, and increase community access. Approximately 200,000 plants will be added to boost resilience and restore the valley's cultural and ecological significance. LGFA informed Sustainalytics that they will not use any synthetic or chemical pesticides, herbicides or weedicides in the project.	6
Affordable Housing	Christchurch City Council	ŌCHT Social Housing	Ōtautahi Community Housing Trust (ŌCHT), manages 2,300 social housing units and aims to build 319 more to replace those lost in the Canterbury earthquakes. Supported by the Ministry of Housing and Urban Development, ŌCHT provides affordable housing for people on the Public Housing Register. As of June 2023, 270 units (410 bedrooms) have been completed, with 35 under construction. Sustainable features include eco-friendly materials and carbon storage through increased timber use. Sustainalytics notes that ŌCHT is supported by the Ministry of Housing and Urban Development to provide homes for people listed in the Public Housing Register. ¹⁴ The project is located in the Canterbury region. LGFA informed Sustainalytics that the project adopts the rent caps and affordability thresholds for social housing as it is a qualifying criteria for the housing subsidy,	42.2
Total				377.2

¹⁴ 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>

Table 5: Allocation for Eligible CALs as of 30 June 2024¹⁵

Climate Action Loans	Name of Borrower ¹⁶	Amount Allocated (NZD million)
	Auckland Council	900
	Dunedin City Treasury Limited	250
	Hutt City Council	170.7
	Kapiti Coast District Council	100
Total		1,420.7

¹⁵ LGFA tracks each council's progress towards meeting its short, medium, and long-term emissions reduction targets. In August 2024, LGFA requested that each council submit its FY2024 annual verified or assured emissions inventory by 30 November 2024. LGFA confirmed that all councils meet the eligibility criteria and additional conditions specified under the CAL lending programme.

¹⁶ LGFA has confirmed to Sustainalytics that for each CAL borrowing approval, the LGFA Sustainability Committee will review the verified reports and the emissions reduction plan for each council. Additionally, the LGFA Sustainability Committee will assess each Emissions Reduction Plan to ensure it meets the LGFA eligibility criteria, and the review process will be documented using a CAL approval template.

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