Climate Action Loans

Lending Programme Criteria

17 September 2025

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

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About this Document

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

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

Version 2.0

1. Introduction

1.1 Purpose of the Eligibility Criteria

New Zealand Local Government Funding Agency Limited (**LGFA**) recognises the risks inherent in climate change for both our country and our council and Council Controlled Organisation (**CCO**) members and wishes to support New Zealand's shift to a climate-resilient, low-carbon economy.

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

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

The **Eligibility Criteria** (set out in Section 3.2) sets out the basis upon which member Councils or CCOs (**Borrowers**) can access a CAL.

LGFA intends to review the Eligibility Criteria at least every two years and may update the Eligibility Criteria from time to time.

Certain capitalised terms used in this Criteria are defined in Appendix A.

1.2 Introduction to CALs

CALs are target-based incentive lending structures designed to incentivise Borrowers to reduce organisational Greenhouse Gas (GHG) emissions.

A CAL rewards a Borrower through a financial incentive if that Borrower has fulfilled the criteria set out in Section 3.2. This includes:

- Producing an annual assured **GHG Emissions Inventory** for its organisational emissions;
- Setting science-aligned targets for its organisational emission reduction targets (**ERTs**); and
- Approving an Emissions Reduction Plan (**ERP**) that sets out how those targets will be achieved.

CALs are targeted to all Borrowers, including those who may not have eligible projects to access Green and Social (**GS**) loans[1].

LGFA has issued, and may continue to issue, Sustainable Financing Bonds (**SFBs**) to help fund Borrowers and for LGFA's general corporate purposes (including to refinance LGFA's existing debt). As outlined in LGFA's Sustainable Financing Bond Framework (**Framework**), SFB net proceeds are intended to be notionally allocated to a pool of **Sustainable Loans** which may comprise either CALs, GS loans or both that meet the eligibility criteria in the Framework.

LGFA may issue other financial instruments in the future, and CALs may also be used to support those future financial instruments. Compliance with the Eligibility Criteria supports LGFA's compliance with its Framework and enables issuance of SFBs.

1.3 Local Government's role in emissions reduction

Limiting global warming to 1.5°C is considered essential to avoid the worst impacts of climate change.

Aotearoa New Zealand is already starting to experience higher temperatures, increased drought, infrequent and more intense rainfall events, larger storms and sea level rise, and these changes are expected to continue and increase in severity over the next 100 years. Climate change will impact New Zealand's communities, infrastructure, economy and natural environment. However, climate change also presents opportunities which

1 Where a Borrower has a specific project that meets LGFA's Green and Social Loans - Lending Programme Criteria they will be encouraged to apply for a GS loan.

include cleaner air and water, healthier communities, better ways to move around the country and healthier and more enjoyable places to live.

Aotearoa New Zealand's domestic target under the Climate Change Response (Zero Carbon) Amendment Act 2019 is to reach net zero long-life GHG emissions by 2050 and a 24-47% reduction in gross biogenic methane emissions by 2050 (compared to 2017 levels)[2].

New Zealand's Nationally Determined Contribution[3] is to reduce net GHG to 51-55% below gross 2005 levels by 2035.

Local government is fundamental to meeting New Zealand's 2050 targets, mitigating the impacts of climate change, and helping communities to adapt to climate change.

Councils are owners of buildings, ports, airports, transport systems and water networks and are best placed to engage with their communities to help with the significant behavioural shifts required to meet New Zealand's climate goals.

Councils have a range of different roles in reducing emissions from showing leadership through how they manage and maintain their buildings and facilities. Through regulation and planning functions, councils can enable the development of renewable energy and associated infrastructure. Councils are also key to enabling their communities to reduce their emissions by providing low carbon transport options and services such as resource recovery networks. It will also be essential for the local government sector to work in partnership with central government to align policies and deliver actions to meet New Zealand's 2050 targets.

1.4 Examples of Borrowers who have CALs

Several councils already have CALs in place. Examples include:

- **Auckland Council Group –** In July 2020 the group adopted "Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan" which sets goals to halve regional GHG emissions by 2030 (against a 2016 base year) and achieve net zero GHG emissions by 2050. The council has confirmed its intention to take action to support achievement of these regional goals.
- **Wellington City Council Group –** The group has a target to reduce Scope 1 and 2 gross GHG emissions by 57% between FY21 and FY30 and is targeting net zero GHG emissions by 2050. In addition, the council has an engagement target for Scope 3 emissions, to ensure 2/3 of Scope 3 GHG emissions are from suppliers who have set science-based targets, by FY28.
- **Tauranga City Council –** Targeting to reduce its Scope 1 and 2 gross GHG emissions by 42.6% by 2030 (from FY19). Tauranga City Council has a net zero target by 2050 (from FY19).
- **Dunedin City Council –** Dunedin City Council's most recent Emissions Management and Reduction Plan includes ERT's through to FY31 to align with the city-wide Zero Carbon Plan. Dunedin City Council has committed to a 30% reduction in annual GHG emissions by FY27 and a 42% reduction in annual GHG emissions by 2031. Both targets have been set from FY19.
- **Hutt City Council –** Hutt City Council (**HCC**) has set an organsiational ERT, declared a climate emergency, and developed its Carbon Reduction and Resilience Plan 2021-31. HCC is committed to reducing its energy-related gross GHG emissions (gas and electricity) by 30% by 2024 (from FY17), 50% by 2030 and net zero by 2050.
- **Kapiti Coast District Council –** Kapiti Coast District Council has adopted a long-term aspirational target of net zero emissions by 2040 and a mid-term 'further reductions' target for category 1 and 2 emissions, to reduce these GHG emissions another 15.5% (from FY22) by 2032; this extra 15.5% is in addition to the 64 percent emissions reduction the council had already achieved in these categories between 2010 and 2022.
- **Greater Wellington Regional Council –** The council has adopted targets to achieve a reduction in its gross category 1 and 2 GHG emissions of 50% in FY30 (from FY19), and to be climate positive (have a rate of carbon removal greater than its gross GHG emissions) from FY45. It has also endorsed a target of reducing its total gross GHG emissions by 84% in FY40 from FY19.

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

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

2. Application Process

2.1 Application Form

All Borrowers are eligible to apply for a CAL from LGFA. However, in order to be eligible to apply for a CAL, the Borrower must first be approved by LGFA to enter into CALs.

The application process is started by the Borrower completing the CAL application form, which is available from the LGFA website. Supporting material must be provided to support the Borrower's application to enter into CALs.

2.2 Process for assessing and approving CALs

Applications will be subject to an assessment process based upon the **Eligibility Criteria** set out in Section 3.2.

Applications are assessed by LGFA's Management team, before being presented to the LGFA Sustainability Committee, with a final recommendation made by the Sustainability Committee to LGFA's Chief Executive for final approval.

The **Sustainability Committee** is a consultative body responsible for assisting the Chief Executive on all material matters in relation to sustainability within LGFA, including making recommendations to the Chief Executive on applications in relation to GS loans and CALs.

The application process may include a request for further information from the Borrower, and Borrowers are also offered the opportunity to discuss their application directly with LGFA.

Upon receipt of all relevant information from the Borrower, the process for assessing and reviewing the Borrower's application generally takes ten working days.

2.3 CAL confirmations

Successful applicants will be notified in writing. Where an application does not satisfy the Eligibility Criteria, the Borrower can continue to apply for funding under LGFA's standard financing terms subject to normal borrowing processes.

2.4 CAL financial incentive

Upon LGFA confirming that the Borrower is eligible to apply for CALs, LGFA will approve the associated financial incentive for any CALs made to the Borrower. LGFA retains the right to change the amount of a financial incentive that it offers for a CAL at any time. CALs can be declassified as outlined in Section 3.4.

2.5 Further CALs

Upon approval of the Borrower's eligibility to apply for a CAL, the Borrower can enter into CALs unless the Borrower's CALs are declassified as outlined in Section 3.4.

3. CAL Terms and Conditions

3.1 CALs are for general purpose funding

Unlike GS loans, the proceeds of the CAL are not required to be applied to a certain project and are instead able to be used for general purpose funding.

CALs are for long-term borrowing by Borrowers, with a minimum maturity term of three years.

CAL proceeds can be used to refinance existing borrowing (at maturity) or for new borrowing.

Borrowers can also apply for GS loans for eligible projects and receive LGFA's GS financial incentive for those loans. However, these GS loans would not qualify to be included as a CAL and would not receive an additional financial incentive.

3.2 Qualification requirements for Climate Action Loan (CAL)

3.2.1 Eligibility Criteria (at the outset of the CAL)

To qualify to apply for a CAL, Borrowers are required to provide LGFA the following evidence of emissions measurement and management:

- GHG Emissions Inventories:
  - A GHG Emissions Inventory (calculated using the GHG Protocol[4] or ISO 14064 Standard[5]) for both the current year and an established Base Year;
  - Third-party assurance reports of those inventories meeting the requirements outlined in Section 3.2.2;
  - A statement of intent to broaden the GHG Emissions Inventory to capture Scope 3 Emissions across the Borrower's full value chain within two years from when the Borrower is first approved by LGFA to enter into CALs (if Scope 3 Emissions are not already captured);
  - Where the Borrower is a council, the inventory boundary may include CCO emissions depending on the chosen consolidation method.
- Approved targets:
  - Science-aligned gross absolute short-term, medium-term and long-term ERTs for Scope 1 and 2 Emissions;
  - This should include a minimum reduction of 42% by 2030 (from 2020 levels) or an equivalent target achieving the long-term target of net zero by 2050 or sooner. A medium-term target may range from 2035-2040, as an example.
  - **Science-aligned** is defined as aiming to achieve net zero by 2050 or sooner and are 1.5°C aligned.
  - A statement of intent to adopt science-aligned Scope 3 ERT across the Borrower's full value chain within two years from when the Borrower is first approved by LGFA to enter into CALs (if Scope 3 Emissions are not already adopted). Scope 3 ERTs should include a short-term target out to 2030 and achieving the long-term target of net zero by 2050 or sooner.
  - It is anticipated that approval of the targets will be by council management, CCO management and/or Councillors.
- An approved ERP:
  - The ERP should articulate a plausible strategy to achieve the short-term (2030) ERTs (covering Scope 1 and 2 ERTs, and Scope 3 ERT once adopted), including tangible actions, anticipated costs (these can be qualitative), timeframes, and estimated emission reductions.

4 The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (2004 Edition) as amended from time to time.

5 International Organization for Standardization 14064-1:2018 "Greenhouse Gases" (Edition 2, 2018) as amended from time to time.

- A statement of intent to expand the ERP to include actions to reduce Scope 3 Emissions within one year from when the Scope 3 ERT is adopted.
- It is anticipated that approval of the ERP will be by council management, CCO management and/or Councillors. The ERP may be included in a transition plan or climate change strategy.

3.2.2 Ongoing Eligibility Criteria: Emissions inventory assurance requirements

The Borrower is required to obtain independent third-party assurance (by a credible provider) of its GHG Emissions Inventory for each Sustainability Reference Period to confirm reporting is in alignment with the GHG Protocol or ISO 14064 Standard. Certification from providers such as Toitū Envirocare is not required.

This third-party assurance report is to be provided to LGFA annually by 30 November.

LGFA requires this assurance engagement, at a minimum, be a limited assurance engagement and be completed by using the current and relevant assurance standard and expectations set by the External Reporting Board (XRB).

The external assurance provider should remain independent and not provide any other non-assurance services to the Borrower that might possibly create a self-review threat in relation to the GHG disclosures on which the assurance provider will express an assurance conclusion. This requirement aligns with the independence requirements set out in XRB's NZ SAE 1, Assurance Engagements over Greenhouse Gas Emissions Disclosures.

3.3 Ongoing qualification requirements (following approval of the Borrower's eligibility to enter into CALs)

3.3.1 Annual reporting

Within five months following each Sustainability Reference Period (i.e. by 30 November each year), the Borrower is to report to LGFA with the following information to support the **Annual Review** (see Section 3.3.4):

- A GHG Emissions Inventory (calculated using the GHG Protocol or ISO 14064 Standard) for the relevant **Sustainability Reference Period** as well as a third-party assurance report for the inventory meeting the requirements outlined in Section 3.2.2;
- Performance against the ERTs for the Sustainability Reference Period (i.e., cumulative % reduction against Base Year Performance);
- Confirmation as to whether the ERTs (as set out in the Borrower's ERP approved by LGFA) were achieved or not and/or whether they are on track to be achieved;
- Report on progress against the key actions outlined in the ERP; and
- Report on progress against any Borrower-specific conditions that were set as part of the Borrower's application.

At any time, the Borrower may be required to provide additional information that LGFA requires to undertake a review of (among other things) the CALs and the Borrower's compliance with the Eligibility Criteria.

3.3.2 Restatements

Future events, not directly related to a Borrower's sustainability performance, could result in the recalculation of GHG Emissions Inventories (including Base Year), and ERTs.

Future events may include, but are not limited to, mergers and acquisitions, divestitures, and disposal of assets, etc. Following such an event, to ensure the ERTs are still relevant to measure reductions against the Base Year Performance, LGFA acknowledges that the Base Year may be restated.

Any recalculations of the Base Year need to be verified by an independent third-party assurance provider (appointed in a manner consistent with Section 3.2.2). Any changes in the ERTs will need to be agreed with LGFA and reflected in the updated ERP (see Section 3.3.3).

3.3.3 Amendments to ERP

A Borrower must not, without LGFA's prior written consent, amend its ERP from that approved by LGFA. Where a Borrower proposes to amend its ERP, it must provide LGFA with any information LGFA may require (including the proposed ERP) to assist LGFA in considering the Borrower's request to amend the ERP.

In addition, LGFA may require a Borrower to amend its ERP following any review undertaken by LGFA of (among other things) the CALs and the Borrower's compliance with the Eligibility Criteria. If the Borrower determines not to amend the ERP following such notification from LGFA, the CALs can be declassified as outlined in Section 3.4.

3.3.4 Annual Review

LGFA will complete an annual review to confirm whether the Borrower:

(a) Continues to qualify and meet the Eligibility Criteria;

(b) Has achieved/is on track to achieve its ERTs and commitments (as set out within its original ERP approved by LGFA); and

(c) Confirm whether the Borrower has met Borrower-specific conditions for the CALs, where applicable.

3.4 Declassification of a CAL

A CAL can be declassified in the circumstances set out in this section. If a Borrower's CAL is declassified, all of that Borrower's CALs are also declassified.

3.4.1 Triggers for declassification

Declassification of a CAL will be triggered if the Borrower or LGFA determines that the Borrower or the CAL no longer satisfies the Eligibility Criteria. If a Borrower no longer satisfies the Eligibility Criteria, that means all of that Borrower's CALs also no longer satisfy the Eligibility Criteria.

The Borrower must promptly notify LGFA (in writing) if it or its CALs no longer satisfies the Eligibility Criteria.

LGFA can also determine (at its sole discretion) in an Annual Review or through other means, that the Borrower no longer satisfies the Eligibility Criteria and requires declassification.

In each of these circumstances, LGFA must confirm (in writing) to the Borrower that declassification has occurred or will occur and the effective date of the declassification.

3.4.2 Timing of declassification

If the Borrower or its CALs does not meet the Eligibility Criteria, the Borrower's CALs will be declassified on the effective date notified by LGFA (which may be immediately).

3.4.3 Consequences of declassification

In the event of declassification there is no financial penalty and the CAL financial incentive will continue to apply for the duration of that CAL. Where a declassification occurs, the CAL will be treated as a standard loan instead of a CAL, and the CAL financial incentive will not apply to any new loans.

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

The declassification will also mean:

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

(b) LGFA will name the Borrower on LGFA's website as a borrower which has had its CALs declassified because of noncompliance with the Eligibility Criteria; and

(c) the Borrower will be ineligible to apply for or enter into new CALs until LGFA is satisfied (in its sole discretion) that the Borrower and the declassified CALs again meets the Eligibility Criteria.

3.5 Changes in Criteria

LGFA retains the right to change or reset this Criteria (e.g., where sustainable finance market standards or conventions change) and the terms of the CAL may change as a consequence. In these circumstances, the Borrower can opt to continue to hold CALs under the changed CAL Criteria and terms of the CAL or notify LGFA (in writing) that it wishes to declassify their CALs.

3.6 Changes in CAL financial incentive

LGFA retains the right to change the amount of a financial incentive that it offers for a CAL at any time, including the CAL financial incentive that applies to each CAL and declassified CAL.

3.7 LGFA's reporting on CALs

By entering into a CAL, the Borrower agrees to the information provided about the CAL (and any information derived from such information) being used in LGFA's reporting. This may include details of a Borrower's ERP, audited GHG Emissions Inventory, the size of the CAL, targets established in the ERP and/or CAL and the Borrower's achievement of its ERT's.

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

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

4. Criteria: Alignment to Sustainable Finance Market Principles

LGFA's approach to developing CALs has been undertaken with reference to the Sustainability-Linked Loan Principles[6], with some exceptions to suit the LGFA lending model for a CAL.

These are voluntary sustainable finance guidelines developed by the Loan Markets Association (LMA), Asia Pacific Loan Market Association (APLMA), and Loan Syndications & Trading Association (LSTA) to support the structuring of green, social and/or sustainability loans.

The four applicable components of these principles used to set the Criteria are:

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

6 LSTA – Sustainability –Linked Loan Principles (26 March 2025).

Contact us

If you require assistance, or have any questions or comments, please contact the LGFA's Sustainability team who will be able to assist you.

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Appendix A- Definitions

Base Year Performance: Means (x) tonnes of CO_2-e equivalent reported for the selected Base Year. The GHG Emissions Inventory is to include absolute gross emissions at the Base Year.

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

Net zero: Refers to a state when anthropogenic emissions of greenhouse gasses to the atmosphere are balanced by anthropogenic removals. Organizations are considered to have reached a state of net zero when they reduce their GHG emissions following science-based pathways, with any remaining GHG emissions attributable to that organization being fully neutralised, either within the value chain or through purchase of valid offset credits.

1.5 degrees Celsius aligned:

- A pathway of emissions of greenhouse gases and other climate forces that provides an approximately one-in-two (50%) to two-in-three chance (66%), given current knowledge of the climate response, of global warming either remaining below 1.5°C or returning to 1.5°C by around 2100 following an overshoot.
- Pathways giving at least 50% probability based on current knowledge of limiting global warming to below 1.5°C are classified as "no overshoot" while those limiting warming to below 1.6 degrees Celsius and returning to 1.5°C by 2100 are classified as 1.5°C "low-overshoot".

Scope 1, 2 and 3 Greenhouse Gas Emissions:

- Means total absolute gross GHG emissions (expressed in tonnes of CO_2-e equivalent) that are reported by the Borrower for the relevant Sustainability Reference Period. This will be measured based on the cumulative reduction (%) against Base Year Performance.
- Reporting will meet the definitions of emissions as defined by the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard or ISO14064 and ISO14064-1. This includes all scopes of emissions, including:
  - **Scope 1 Emissions;** being the direct emissions including fuel, natural gas, land use and refrigerants.
  - **Scope 2 Emissions;** being indirect emissions from energy (e.g., purchased electricity, heat, steam).
  - **Scope 3 Emissions;** being other indirect emissions which result because of the Borrower's activities but occur from sources not owned or controlled by the Borrower.

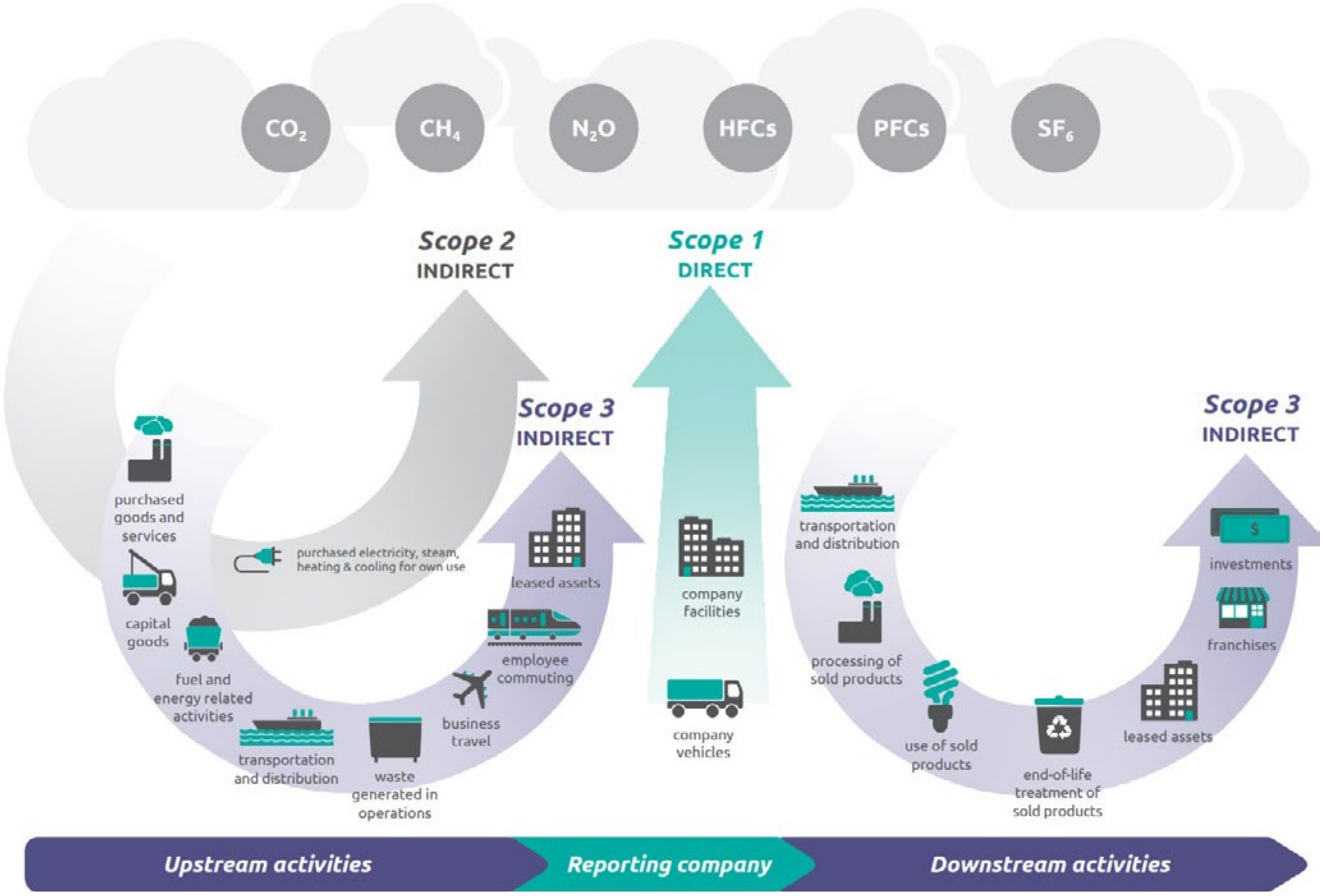

Figure 1: Overview of GHG Protocol scopes and emissions across the value chain[7]

Sustainability Reference Period: The preceding 12-month period of each year during which the ERTs are measured, being 1 July to 30 June or such other period agreed with LGFA.

Value chain: Climate-related risks and opportunities relate to activities, interactions, and relationships and to the use of resources along an entity's value chain. When considering its exposure to climate-related risks and opportunities, an entity must consider the exposure of its value chain as well. Investments that an entity has in other entities, for example, associates and joint ventures, are also considered to be part of an entity's value chain.

7 Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011 Edition) and as may be updated from time to time.