

NEW ZEALAND LOCAL GOVERNMENT
FUNDING AGENCY LIMITED

2025 Climate Statement



LGFA



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

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Introduction

New Zealand Local Government Funding Agency Limited (LGFA) is a Climate Reporting Entity under the Financial Markets Conduct Act 2013 (FMCA). This Climate Statement for the year ended 30 June 2025 has been prepared in accordance with the requirements of the FMCA and complies with Aotearoa New Zealand Climate Standards issued by the External Reporting Board in December 2022 (NZCS).

These disclosures cover the reporting period 1 July 2024 to 30 June 2025 (2024/25).

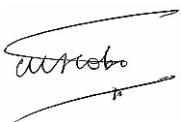
Under the FMCA, it is mandatory for climate reporting entities to produce climate statements according to the NZCS.

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.

LGFA has elected to use the following NZCS 2 adoption provisions for this report:

- 1 Adoption provision 2: Anticipated financial impacts.
2. Adoption provision 4: Scope 3 GHG emissions. LGFA is disclosing those scope 3 emissions that it measures, being financed emissions, business travel, fuel, office waste and printing. All other categories of scope 3 emissions are excluded, including emissions relating to purchased goods and services, capital goods, energy-related activities (not included in scope 1 or scope 2), upstream transportation and distribution, waste generated in operations, employee commuting, downstream transportation and distribution, processing of sold products, use of sold products, end-of-life treatment of sold products, downstream leased assets and franchises.
3. Adoption provision 5: Comparatives for Scope 3 GHG emissions. We have published two years of comparative information for our scope 1, 2 and 3 (operational) and one year of comparative information for our financed emissions.
4. Adoption provision 6: Comparatives for metrics. We have published two years of comparative information for our operational emissions intensity metrics and one year of comparative information in relation to our remaining metrics.
5. Adoption provision 7: Analysis of trends
6. Adoption provision 8: Assurance of scope 3 emissions. LGFA's scope 1, 2 and 3 (category 6: business travel) emissions have been the subject of a limited assurance engagement by KPMG, however this year we have elected not to have our other scope 3 (including financed emissions) disclosures assured.

Approved on behalf of the Board on 30 September 2025.



Craig Stobo
Board Chair



Linda Robertson
Chair, Audit and Risk Committee

Disclaimer

This report includes current and forward-looking statements about climate change, the impacts of it on LGFA, and LGFA's response to it. Climate change, and the impacts of it on individual climate-reporting entities, is subject to significant uncertainty. The information in this report is based on estimates, judgements, assumptions and incomplete data that LGFA considers to be appropriate under current circumstances. However, LGFA cautions reliance being placed on information that is subject to significant uncertainty.

This report includes certain forward-looking information, including statements about climate-related scenarios, risks and opportunities, anticipated impacts, strategies and plans. Words such as "will", "may", "likely", "anticipate", "plan", "target" and "commit" or other similar words are used to identify forward-looking statements. The forward-looking information in this report is based on assumptions, estimates and judgements that are uncertain and likely to change over time, including as a result of factors that are outside of LGFA's control. Forward-looking statements should not be taken as guarantees of future performance, and actual results may differ materially from what is stated. For example, LGFA's actual performance against its climate-related targets, the strategies that it adopts, and the impacts of climate-related risks and opportunities may be materially different than anticipated. New climate-related risks and/or opportunities may also eventuate.

This disclaimer should be read along with the limitations and uncertainties set out on [pages 21 & 26](#) of this report.

LGFA does not represent that the information in this report will not change following publication of this report and gives no undertaking to update the information over time (subject to relevant legal or regulatory requirements). This report is not an offer or recommendation to invest in, distribute or purchase financial products and the information in it does not constitute earnings guidance. Nothing in this report should be interpreted as advice, whether investment, legal, financial, tax or otherwise.

Governance

GOVERNANCE BODY RESPONSIBLE FOR OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

LGFA's Board of Directors (the Board) is responsible for the company's overall strategic direction and control of LGFA's activities. The Board has ultimate oversight of the company's climate-related risks and opportunities and has delegated responsibility for overseeing the identification, assessment and management of climate-related risks and opportunities to the Audit and Risk Committee (ARC), which is a Committee of the Board.

Governance body oversight

THE PROCESSES AND FREQUENCY BY WHICH THE GOVERNANCE BODY IS INFORMED ABOUT CLIMATE-RELATED RISKS AND OPPORTUNITIES

Over the year ended June 2025, the Board met for seven scheduled meetings and the ARC met for five scheduled meetings.

Commencing August 2024, the sustainability team provide an update at every Board meeting as a standing agenda item. The sustainability update includes an update on progress against key projects and the sustainability workplan, as well as climate-related issues as and when required. In addition, the Board meet with the LGFA Sustainability Committee twice a year.

The Board is informed about climate-related risks and opportunities as and when required. In 2024/2025, LGFA's climate change scenarios were discussed at the June 2025 Board meeting, with a further meeting in July 2025 for directors to provide feedback on LGFA's climate-related risks and opportunities. Directors approved LGFA's climate-related risks and opportunities at the August 2025 Board meeting.

GOVERNANCE BODY CLIMATE-RELATED SKILLS AND COMPETENCIES

The Board has access to skills and competencies within LGFA that complement their existing competencies and support them in their oversight role, although LGFA Board appointments do not explicitly require climate-related skills and competencies. The Board has direct access to the LGFA sustainability team and engages with them as and when needed on sustainability and climate-related matters. In June 2025, the sustainability team held a climate change training session with the Board and a climate change and sustainability training schedule has been established. The training schedule was informed by a competency assessment completed by the Board which identified the current range of climate and sustainability-related skills and competencies on the Board.

Some of LGFA's directors serve on the Boards of other organisations that are also climate reporting entities with exposure to climate standards/CRD reporting, which has supported their development of knowledge which is relevant to oversight of LGFA's climate-related risks and opportunities. Some of LGFA's directors are members of the Institute for Directors, Chapter Zero, hold climate and environmental certificates and/or have attended various external climate-related training sessions.

The LGFA Sustainability Committee (the Committee) was established in September 2021 to advise the Chief Executive (CE) on sustainability-related matters, including climate-related risks and opportunities that may impact both LGFA and the local government sector.

The purpose of the Committee is to advise the CE on sustainability issues and opportunities within LGFA, across its operating, borrowing and lending activities. The Committee is Board approved and comprises a minimum of six members, including a Board representative as Committee Chair, three LGFA employees, and a minimum of two external appointees. The Committee meets every two months, but may meet more frequently if needed, and meetings are open to all Board members with some Board members attending meetings on a regular basis. The Committee serves in an advisory capacity and has no decision-making authority.

The Sustainability Committee meets with the Board twice a year to discuss the functioning and progress of the Committee, strategic risks and opportunities, and other sustainability and climate-related matters.

CONSIDERATION OF CLIMATE-RELATED RISKS AND OPPORTUNITIES WHEN DEVELOPING AND OVERSEEING STRATEGY

LGFA's sustainability strategy was updated and approved by the Board in June 2025. The Board was actively involved in the strategy update with support from the CE and the sustainability team. The climate-related risks and opportunities identified and disclosed in LGFA's 2024 climate statement were a consideration in the development of the sustainability strategy. Specifically, the risks LGFA face as a lender to the local government sector and an issuer shaped the commitments that were set in the strategy.

LGFA has not to date developed a climate transition plan but is currently intending to begin that process over the next financial year.

THE BOARD'S OVERSIGHT OF METRICS AND TARGETS

Specific targets and metrics related to the management of climate-related risks and opportunities have not yet been set but may be identified following further assessment of our risks, identified risk controls and in the development of our transition plan.

The Board approves and monitors progress against LGFA's Statement of Intent (SOI) which includes the following sustainability and climate change objectives:

Strategic priority- Environmental and social responsibility

LGFA recognises the risks inherent in climate change for councils and supports New Zealand's shift to a low-carbon economy. LGFA will exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

Objectives	How we measure our performance	Our performance to June 2025
LGFA will:		
Assist the local government sector in achieving their sustainability and climate change objectives.	LGFA is committed to assist borrowers' financing of projects that promote environmental and social wellbeing in New Zealand, and to encourage a reduction in greenhouse gas emissions and increase climate-resilience amongst borrowers. We do this through the development of lending products such as Green, Social & Sustainability (GSS) loans and Climate Action Loans (CALs). This objective will be measured by the number of new GSS loans and the number of new members eligible for CALs.	Over the year to June 2025, we: - approved one new GSS loan application to Tauranga City Council for the \$103 million Te Manawataki o Te Papa green building project. As at June 2025, we have approved seven GSS loans with a combined approved value of \$675.3 million of which \$453.9 million has been advanced. - advanced a further \$923 million under our CAL lending programme. As at June 2025, seven councils have been approved for CAL loans with combined qualifying loans totalling \$3.7 billion. Our third Annual Impact Report, published on 30 September 2025, provides information on the allocation of proceeds from LGFA's Sustainable Financing Bond issuance as at June 2025. This is referred to by way of additional context and is not intended to include content from the Annual Impact Report into this Climate Statement by cross reference. In March 2025, the LGFA team organised a series of panel discussions and keynote presentations to provide guidance to councils on accessing climate-related financing instruments, as well as to highlight useful data and tools (for the development, collection and communication of risk information).

Objectives	How we measure our performance	Our performance to June 2025
Improve sustainability outcomes within LGFA.	LGFA is committed to measuring and managing our carbon emissions, increasing our resilience to climate change, and managing our climate-related risks and opportunities. To do this effectively, climate change considerations will be embedded into our governance, strategy and risk management functions.	In 2021, the Board of LGFA set a target to reduce our per employee emissions (scope 1, 2 and operational scope 3) by 30% by 2030, compared with a 2018/19 base year. Further detail in relation to the scope of this target and LGFA's performance against it is set out on page 20. In addition, we have established a work programme to improve how climate change is considered across our governance, strategy and risk management functions. This work is ongoing.

The Board also works with the CE to set annual staff key performance indicators (KPIs). For the financial year 2024/2025, sustainability related KPIs included:

- Three new borrowers for CALS (SOI)
- Two new GSS loans (SOI)
- Meet reduction targets outlined in our carbon reduction plan
- Maintain Toitū Net Carbon Zero Certification
- Provide annual seminar to update councils and CCOs on sustainability developments, climate change impact and LGFA reporting requirements.

Progress against these KPIs is reported at each Board meeting.

Board and management remuneration policies currently do not incorporate climate-related performance metrics.

Management's role

HOW CLIMATE-RELATED RESPONSIBILITIES ARE ASSIGNED TO MANAGEMENT AND ENGAGEMENT WITH THE GOVERNANCE BODY

LGFA's CE is ultimately responsible for assigning climate-related responsibilities to management. LGFA management are assigned various climate-related responsibilities as detailed in Table 1.

Table 1: LGFA management climate-related responsibilities

Chief Executive	Overall responsibility for LGFA's assessment and management of climate related risks and opportunities.
Head of Sustainability	Responsible for the development, ongoing monitoring, and management of LGFA's climate-related borrowing and lending initiatives.
Chief Financial Officer (CFO)	Responsible for LGFA's climate-related disclosures and greenhouse gas emissions measurement and reporting.
Senior Manager Credit and Client Relations (SMCCR)	Responsible for members' credit assessments, including climate resilience.
Treasury team	Sustainable bond framework forms part of LGFA's overall issuance strategy. Responsible for implementing the Responsible Investment Policy, including maintaining the exclusion list.

The CE, CFO and SMCCR attend all Board meetings and have regular communications with the Board outside of scheduled meetings to discuss various matters, including those related to climate change on an ad hoc basis.

As noted, from August 2024 the sustainability team (led by the Head of Sustainability) provides an update at every Board meeting as a standing agenda item, and the Sustainability Committee also meets with the Board twice a year.

ORGANISATIONAL STRUCTURE

Figure 1 shows where management level positions and committees with climate-related responsibilities sit and reporting lines between management and the Board.

The Sustainability Committee is chaired by a director and the Chief Financial Officer, Head of Sustainability and the Senior Manager Council Relationships are members of the Committee.

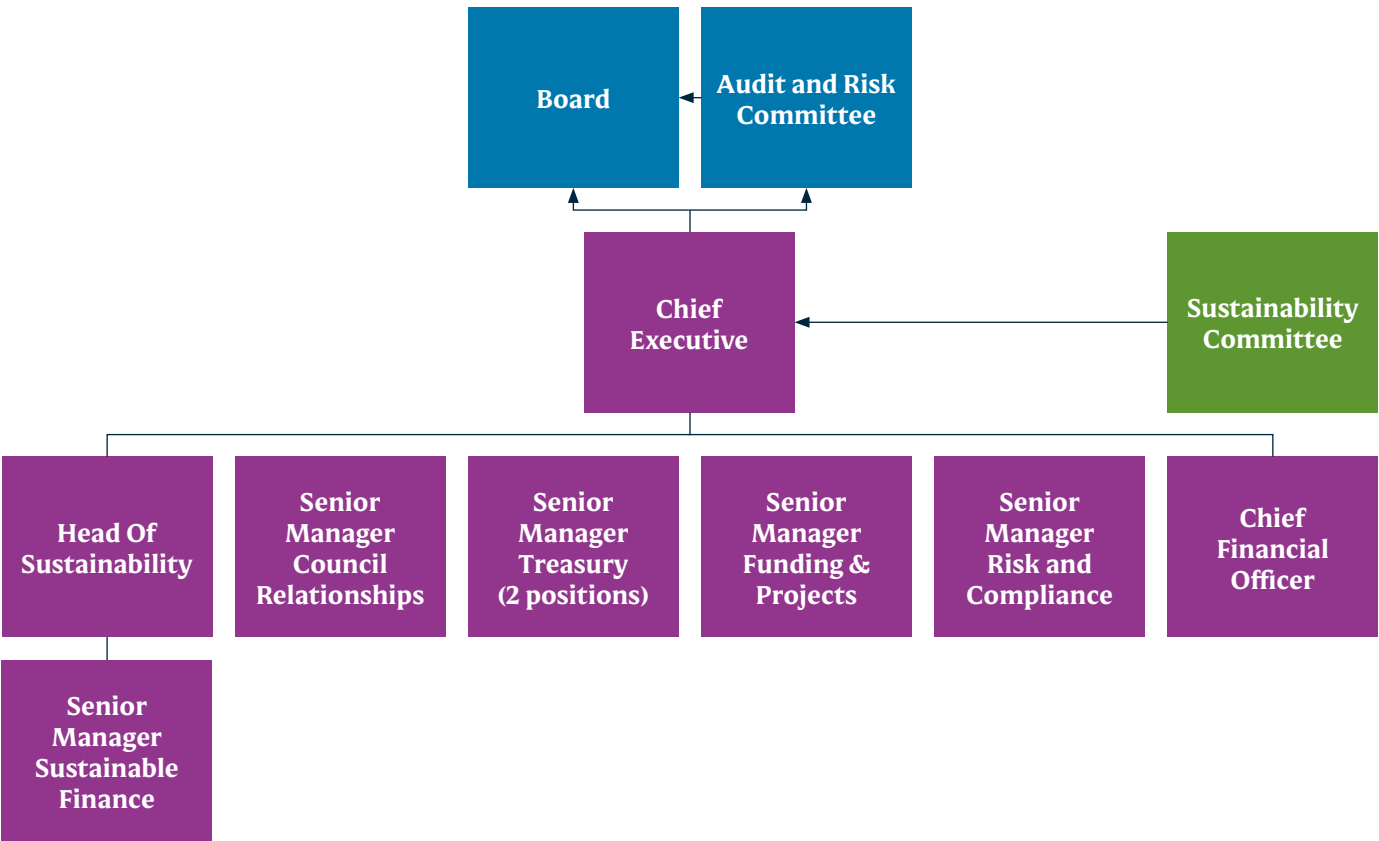


Figure 1: Organisational structure showing roles with climate-related responsibilities

PROCESSES AND FREQUENCY BY WHICH MANAGEMENT IS INFORMED ABOUT, MAKES DECISIONS ON, AND MONITORS, CLIMATE-RELATED RISKS AND OPPORTUNITIES

LGFA staff meet weekly where climate-related risks and opportunities are discussed when relevant. In addition, as required, climate-related risks and opportunities impacting both LGFA and the local government sector (not exclusive to LGFA’s organisational climate-related risks and opportunities) are discussed at the Sustainability Committee.

In practice, supported by the organisation’s relatively small size, the sustainability team regularly engages with the CE and management on climate-related risks and opportunities and management makes decisions on these as and when needed. For example, the sustainability team and management met over the year to review our scenario analysis and to review the criteria for our climate-related lending products. In addition, LGFA has formal processes for reviewing and monitoring Climate Action Loans and Green and Social Loan products which help inform management about climate-related risks and opportunities.

No formal processes are in place for management to monitor climate-related risks and opportunities outside of the annual climate resilience risk assessment where LGFA review the climate-related risks and opportunities of its members (described further on [page 18](#)).

Current impacts and financial impacts

To identify current and related financial impacts, management reviewed previously identified climate-related risks, opportunities, and anticipated impacts to assess whether any occurred over the current reporting period. Management did not identify any material current climate-related impacts or any associated financial impacts that have directly affected our ability to deliver efficient financing to the local government sector in financial year 2024/25. Despite the local government sector experiencing several extreme weather events, they did not translate into any material financial impacts to LGFA.

Scenario analysis undertaken

SCENARIO ANALYSIS PROCESS

In financial year 2024/25, a working group of senior managers, with input from the CE, was established to review and update LGFA's climate change scenarios to assess how the organisation could be impacted against a range of plausible futures.

The working group's update of the scenarios was informed by guidance developed by the Task Force on Climate-related Financial Disclosures and the External Reporting Board (refer Figure 2).

This was a standalone process completed in-house and is the second time LGFA has completed a climate change scenario analysis. LGFA's approach to scenario analysis continues to evolve as we better understand our management of our climate-related risks and opportunities.

No quantitative modelling was undertaken, and external stakeholders were not involved, except for high-level feedback provided by an independent Sustainability Committee member on the plausibility and alignment of our scenarios to the underlying reference scenarios.

Figure 2: Process for completing scenario analysis

Setting the foundations

1. Identify stakeholder involvement
2. Understand current state
3. Agree on focal question
4. Define time horizons

Update climate change scenarios

5. Identify driving forces
6. Select temperature outcomes and GHG emission pathways
7. Draft scenario narratives

Scenario analysis

8. Undertake scenario analysis
9. Review and refine climate-related risks and opportunities

We defined the problem with the following question that would provide a focal point throughout our scenario analysis process:

What climate-related risks facing the local government sector could have a material impact on LGFA's ability to deliver efficient financing to the sector?

The time horizons used in the analysis are as follows:

Short term	Present- FY28	Aligns with the three-year planning cycle for LGFA's Statement of Intent.
Medium term	FY29- FY34	Aligns with the local government sector's long term planning horizon.
Long term	FY35- FY50	Aligns with international emission reduction targets under the Paris Agreement.

GOVERNANCE PROCESS USED TO OVERSEE AND MANAGE THE SCENARIO ANALYSIS PROCESS

LGFA's CE and Board were involved in different capacities throughout the scenario analysis process, detailed below in Table 2.

Table 2: Engagement with CE and Board throughout the scenario analysis process

Scenario analysis step	Who	Role
Focal question	CE	Approval
	Board	Review and Feedback
Time horizons	CE	Approval
	Board	Presented during Board education session
Driving forces	CE	Approval
	Board	Presented during Board education session
Temperature outcomes and GHG emission pathways	CE	Approval
	Board	Presented during Board education session
Scenario narratives	CE	Approval
	Board	Review and Feedback
Scenario analysis workshop	CE	Participant
	Board	Approach presented during climate-related risks and opportunities review
Risks and opportunities	CE	Review, feedback and approval
	Board	Approval

OUR CLIMATE CHANGE SCENARIOS

LGFA considers that our climate change scenarios are relevant and appropriate to assessing the resilience of LGFA's business model and strategy. This is because they help LGFA assess how its core business activities may be impacted by considering climate drivers impacting the local government sector, as well as domestic and offshore capital markets. The scenarios also enable us to explore how LGFA may be impacted by central government policies.

While our climate change scenarios are informed by global and national reference scenarios and applied qualitatively, they involve inherent uncertainty and should be interpreted accordingly.

The scope of operations considered in our scenarios is LGFA's capital markets and funding operations, and our financing and lending services to councils and council-controlled organisations.

SCENARIO 1: NET ZERO 2050 (1.5 DEGREES CELSIUS SCENARIO)

Reference scenarios (including emissions reduction pathways)

SSP1- Taking the Green Road

NGFS- Net Zero 2050

CCC- Tailwinds

RCP- 1.9

SPANZ- 100% Smart

Key assumptions

Policy reaction: Immediate and smooth

Technology change: Fast

Carbon sequestration: Present but kept to a minimum

Physical risks: Moderate

Transition risks: Moderate

Collective action is being taken to reduce greenhouse gas emissions globally. The worst predicted impacts of climate change are prevented under this scenario, however, long-term chronic impacts from historic greenhouse gas emissions still occur.

Stringent policies are introduced by central government early from 2025 and become gradually more stringent to influence the technological and behaviour change needed to reach net zero emissions by 2050.

Central government policies require local government to support their communities to reduce emissions and coordinate managed retreats in coastal locations where rising sea levels and associated flooding and erosion cannot be prevented. Although government support is present, there is still a lot of pressure on local government to reprioritise spend towards mitigation and adaptation activities.

Despite disruption caused by an immediate policy response, the world achieves global net zero emissions around 2050.

SCENARIO 2: FRAGMENTED WORLD (2 DEGREES CELSIUS SCENARIO)

Reference scenarios (including emissions reduction pathways)

SSP2- Middle of the Road

NGFS- Fragmented world

CCC- Headwinds

RCP- 4.5

SPANZ- Kicking, Screaming

Key assumptions

Policy reaction: Delayed and fragmented

Technology change: Slow at first, then fragmented

Carbon sequestration: More reliance on carbon removals

Physical risks: High

Transition risks: High

In the fragmented world scenario, the transition to net zero is misaligned between different parts of the world. Extreme weather events become more frequent and increase in severity as 2050 approaches. Periods of drought become more frequent, and seasons become more unpredictable.

Some countries have introduced policies that have spurred their transition to net zero whilst others maintain a focus on fossil-fuelled development. From 2030, New Zealand's central government introduces stringent policies and tax increases to fund mitigation and transition efforts whilst simultaneously dealing with the impacts of ongoing climate-related events that are exacerbated by a lack of action in the 2020s.

High climate-related operating costs and central government policies mean councils need to make significant rate increases, putting pressure on their rating base. Climate-related inflation ramps up from 2030, negatively impacting the cost of living and exacerbating rates affordability.

Overall, there is a delay in action globally and the acute and chronic physical impacts of climate change cannot be prevented.

SCENARIO 3: CURRENT POLICIES (3 DEGREES CELSIUS SCENARIO)

Reference scenarios (including emissions reduction pathways)

SSP3- Regional Rivalry – A Rocky Road

NGFS- Current Policies

CCC- Current Policy Reference

RCP- 7.0

SPANZ- Unspecific Pacific

Key assumptions

Policy reaction: Current policies remain

Technology change: Slow

Carbon sequestration: Remains at current levels

Physical risks: Extreme

Transition risks: Low

In a hothouse world, it is assumed that only current policies are continued, resulting in physical risk including irreversible impacts. The impacts in New Zealand are significant and globally range from significant to severe. From now until 2050, physical risk leads to an increasing severity of acute extreme weather events, which is accompanied by rising sea levels. Droughts increase in severity and duration, and extreme weather events that lead to increased flooding and slips, occur frequently, significantly impacting daily life for communities and businesses.

Global economic development is slow and declining in the Pacific region. Global disruption means central government is not able to support disaster recovery, leading to a significant increase in debt requirements for councils.

Emissions continue to grow out to 2050 leading to severe physical risks and irreversible changes like higher sea level rise.

Further detail on these scenarios can be found in [Appendix B](#).

The Tom Parker Fountain was returned to active service as part of the Marine Parade Heritage Restoration Programme. **Gisborne District Council**



Climate-related risks and opportunities and anticipated impacts

TIME HORIZONS

LGFA is exposed to several business and treasury related risks as a result of our core business activities issuing debt securities and lending to local government members. LGFA is also exposed to central government policies and domestic and offshore capital markets.

To reflect our exposure, the following time horizons were used to identify our climate-related risks and opportunities:

Short term	Present- FY28	Aligns with the three-year planning cycle for LGFA's Statement of Intent.
Medium term	FY29- FY34	Aligns with the local government sector's long term planning horizon.
Long term	FY35- FY50	Aligns with international emission reduction targets under the Paris Agreement.

CLIMATE-RELATED RISKS AND OPPORTUNITIES

LGFA's climate-related risks and opportunities were updated in 2025.

Risk	Risk description	Physical/ transition	Time horizon	Climate driver	Anticipated impacts
Increased counterparty credit risk due to increased spend on climate-related activities by councils.	Councils borrowing requirements increase due to proactive mitigation and adaptation activities driven by central government policy change increasing counterparty risk to LGFA.	Transition	Short-medium term	Policy	Increase in counterparty credit risk
Decrease in LGFA market share and lending volumes as a result of greater competition in sustainable finance.	As council spend on climate-related activities increases, alternative lending providers may target LGFA members with sustainable lending opportunities for climate-related projects.	Transition	Short-medium term	Market	Lower operating profit Decreased market share Decrease in GSS & CAL applications
Failure to meet stakeholder expectations regarding climate change.	LGFA fails to meet stakeholder expectations to support and incentivise the local government sector in the transition towards a low carbon, climate-resilient economy.	Transition	Medium term	Social	Negative stakeholder/public perceptions of LGFA
Inability for councils to attract and retain staff with climate-related skills may reduce the number of councils borrowing through our sustainable lending programmes.	Increasing demand for staff with skills that support the transition to a low carbon, climate-resilient economy restricts councils' ability to attract or retain staff to deliver their climate response. This may lead to: - councils being unable to borrow through our sustainable lending programmes - CAL approved borrowers unable to meet their emission reduction targets.	Transition	Medium term	Social	Reduction in sustainable financing bonds (SFBs)

Risk	Risk description	Physical/ transition	Time horizon	Climate driver	Anticipated impacts
Reduced access / efficiency for LGFA funding through offshore capital markets.	Potentially negative investor perceptions of New Zealand due to a delayed climate change response, in comparison to other countries, could impact LGFA's ability to access affordable and efficient financing offshore.	Transition	Medium-long term	Financial	Increase in cost of borrowing Increase in funding risk Increase in lending margins
Financial stressors, exacerbated by climate change, could see some councils breach their LGFA covenant limits.	Financial stressors, exacerbated by climate change, could lead to some councils breaching LGFA covenant limits, constraining high utilisation councils from borrowing to fund mitigation and adaptation activities and responses to extreme weather events. This could result in some councils leaving LGFA.	Transition and Physical	Short-medium term	Reputation	Decrease in market share Decrease in operating income
Increasing pressure from councils for LGFA to reduce lending margins in response to climate change.	Councils faced with increased pressure to fund climate-related activities may lobby for reduced lending margins. Alternative lenders may be able to capitalise through lower cost funding.	Transition	Medium term	Market	Decrease in market share Decrease in operating income
Council borrowing requirements become more volatile as the impacts of climate change increase.	Council borrowing requirements become more volatile as the impacts of climate change increase, necessitating both proactive and reactive responses from councils. Increasing volatility compromises LGFA's forecasting ability and places pressure on the liquid asset portfolio's (LAP) ability to fund increased on-demand borrowing.	Physical	Medium-long term	Extreme weather events	Higher LAP required Increase in funding risk
Increased credit risk if climate change is not sufficiently incorporated into LGFA credit risk assessments.	Not sufficiently incorporating climate change into sector risk assessments could undermine our risk management processes and lead to increased credit risk.	Physical	Medium-long term	Acute and chronic climate change	Increase in credit risk Unanticipated council defaults Increase in resourcing requirements
Increased pressure from central government on LGFA to allow councils to take on high levels of debt due to increasing climate-related costs could lead to credit rating downgrades of councils and LGFA.	As councils face increased costs associated with proactive and reactive responses to climate change, central government may put pressure on LGFA to ease financial covenants to allow councils to take on higher levels of debt, which could lead to a credit rating downgrade.	Transition	Short-medium term	Policy	Credit rating risk Negative stakeholder perceptions of LGFA Increase in counterparty risk

Risk	Risk description	Physical/ transition	Time horizon	Climate driver	Anticipated impacts
Low levels of council demand for sustainable lending products.	Lack of investment into climate solutions from councils reduces the number of sustainable lending product applications, reducing LGFA's ability to issue sustainable bonds.	Transition	Long term	Financial	Reduction in sustainable financing bonds (SFBs)
A reduction in some council rates revenue leads to higher counterparty risk.	Councils' ability to service higher levels of debt is compromised, due to: • Ratepayers facing financial hardship due to rate increases driven by climate change. • Reduction in number of rating units due to climate-related events. • Less financial support available from central government.	Physical	Long term	Acute and chronic climate change	Increase in risk of council default Negative stakeholder perceptions of LGFA Credit rating risk
A reduction in LGFA security quality leads to LGFA credit downgrade.	Deteriorating local government sector finances impair LGFA security quality increasing risk of LGFA credit downgrade.	Transition	Short-medium term	Financial	Negative stakeholder perceptions of LGFA Reduced investor confidence Higher lending margins
Change in member base driven by climate change impacting members differently.	Changes across regions in the makeup of council constituents could alter the relative size and credit quality of LGFA members, with some members experiencing financial distress as their rateable base reduces. LGFA may not have the mechanisms in place to adapt and respond to the change in our member base. Our co-operative model comes under pressure as some councils may be in a stronger financial position and better prepared for climate change or have undertaken more investment in adaptation.	Transition	Medium-long term	Social	Increase in counterparty risk Operational risk Reduction in member base
Insurance withdrawal from councils due to climate change.	Insurance companies withdraw insurance to councils due to climate change which raises credit spreads on LGFA bonds, increasing LGFA's cost of borrowing.	Transition	Medium-long term	Financial	Increase in financing costs Lower operating profit Reduced investor confidence Higher lending margins

CLIMATE-RELATED OPPORTUNITIES

Opportunity description	Physical/transition	Time horizon	Climate driver	Anticipated impacts
Enhancing our sustainability lending products. Increased local government sector climate-related projects may lead to higher utilisation of LGFA's sustainable lending programmes.	Transition	Short-medium term	Financial	Improved reputation in sustainable finance Access to wider pool of investors as a larger asset pool enables more frequent issuance of LGFA SFBs.
Expanding our sustainable finance programme. Opportunity to develop new sustainable lending products that support local government sector investments in climate solutions, enabling LGFA to issue new ESG-aligned bonds.	Transition	Short-medium term	Financial	New sustainable lending products enable issuance of new ESG-aligned bonds, broadening access to a wider pool of investors Positive reputational impacts
Population migration leads to increased borrowing requirements. Population migration, within New Zealand and from overseas, generates new infrastructure requirements leading to an increase in council borrowing through LGFA.	Transition	Medium-long term	Social	Increase in revenue
Climate-related products. Assisting the sector to manage its climate-related risks by considering new products such as insurance or catastrophe bonds.	Physical	Medium term	Extreme weather events	Increase in revenue

HOW CLIMATE-RELATED RISKS AND OPPORTUNITIES SERVE AS AN INPUT TO ITS INTERNAL CAPITAL DEPLOYMENT AND FUNDING DECISION-MAKING PROCESSES

LGFA's climate-related risks and opportunities inform both our sustainable lending programme and our funding strategy through the issuance of sustainable financing bonds.

Sustainable lending programmes	LGFA is exposed to climate-related risks and opportunities as a lender to the local government sector. One way in which we can manage our exposure is by incentivising and supporting the sector to manage their own risks through our sustainable lending programmes. Our sustainable lending programme includes our GSS loans and CALs as described on page 6 .
Sustainable financing bonds	LGFA issues sustainable financing bonds in recognition of the increasing demand for financial instruments that support low-carbon investments.

Our response to this disclosure is based on the climate-related risks and opportunities that were identified in 2024. How climate-related risks and opportunities serve as an input into our capital deployment and funding decision making is expected to evolve as we develop responses to the risks and opportunities identified in 2025.

Anticipated financial impacts

LGFA has elected to use Adoption provision 2: Anticipated financial impacts in 2024/2025 (its second year of reporting), which means that it does not disclose the anticipated financial impacts of climate-related risks and opportunities reasonably expected, the time horizons over which those anticipated financial impacts could reasonably be expected to occur and any explanations as to why quantitative information cannot be disclosed.

Transition plan aspects of its strategy

DESCRIPTION OF BUSINESS MODEL AND STRATEGY

LGFA is a Council-Controlled Organisation (CCO) operating under the Local Government Act 2002.

LGFA specialises in financing the New Zealand local government sector, its purpose being to provide more efficient financing costs and diversified financing sources for New Zealand local authorities and council-controlled organisations. LGFA was established to raise debt on behalf of local authorities on terms that are more favourable to them than if they raised the debt directly.

At a high level, LGFA raises debt mainly by issuing retail bonds, which are listed on debt capital markets (primarily the NZX). The funds raised through bond issuances are then lent on to local authorities, with LGFA's obligations in relation to the securities being guaranteed by local authorities.

LGFA activities are governed by the Local Government Borrowing Act 2011, the Local Government Act 2002, and the Companies Act 1993 and LGFA is controlled by participating local authorities. LGFA shareholders comprise the New Zealand Government (20%) and 30 councils (80%). The LGFA Shareholders' Council comprises five to ten appointees from the shareholders with its primary role being to review and report performance of LGFA and the Board.

LGFA's Statement of Intent (SOI) sets out the nature and scope of its activities, objectives, and performance targets for a three-year period. As outlined in the SOI, LGFA's primary strategic objective is to optimise the terms and conditions of the debt funding it provides to its members.

TRANSITION PLAN ASPECTS OF OUR STRATEGY AND ALIGNMENT TO CAPITAL DEPLOYMENT AND FUNDING DECISION-MAKING PROCESSES

LGFA has not yet developed a climate transition plan.

In any event, over the financial year 2024/25, LGFA has taken a number of steps which are expected to inform the development of LGFA's transition planning in future. Specifically, we have:

- Updated our sustainability strategy;
- Updated our climate change scenarios;
- Established a climate change and sustainability training programme for the Board;
- Refreshed our climate-related risks and opportunities;
- Appointed a Senior Manager Sustainable Finance;
- Appointed a Director as Chair, Sustainability Committee; and
- Formalised Sustainability as a standing Board agenda item

While LGFA has not yet developed its transition plan, its actions towards a low-emissions, climate-resilient future include its offering of GSS loans and CALs (see [page 6](#)) and has also issued sustainable financing bonds (see [page 16](#)). While LGFA has an operational emissions intensity target (see further on [page 20](#)), this target is unlikely to be a material pillar of LGFA's transition planning going forward.

LGFA is increasingly aware of the emerging risks for councils from climate change and recognise our exposure to these risks as the primary lender to the local government sector. LGFA does not have direct control over these risks but acknowledges its role in supporting the sector and has provided discounted financing through our sustainable lending programmes since 2023. In addition, LGFA has hosted a sustainable finance workshop series and supported the development of local government sector scenarios in the financial year 2024/25. LGFA recognises that there is scope to further consider its role in supporting the local government sector to manage climate-related risks, which in turn reduces LGFA's exposure to climate change, during the development of our transition plan.

As we have not developed a transition plan, LGFA has not yet defined how it will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state and we are unable to disclose how the transition plan aspects of our strategy are aligned with our internal capital deployment and funding decision-making processes (although note that climate-related risks and opportunities inform our approach to sustainable lending programmes and sustainable financing bonds as described on [page 16](#)).

Risk Management

The objective of LGFA's risk management function is to ensure that effective controls and frameworks are implemented that reflect international best practice to ensure that risks are managed effectively and in compliance with LGFA's governance and legislative requirements.

The risk management function ensures that LGFA can achieve its objectives, as set out in the Statement of Intent, in a manner that is consistent with the risk appetite of the LGFA Board.

LGFA's approach to risk management is based on the following core elements:

- The LGFA Board sets the risk appetite of the organisation and ensures that it is consistent with the Constitution and Shareholders' Agreement.
- The risk appetite is reflected in policies that are approved by the LGFA Board and the ARC, as defined by the LGFA register of policies.
- LGFA management ensures that policies and controls are implemented and maintained to ensure that all relevant risks are identified, measured, monitored and managed.
- The Internal Audit and Risk and Compliance functions provide assurance to both the LGFA Board and the ARC on the performance of internal controls and risk management systems that are in place.
- LGFA manages risks that affects its business operations, as they can influence LGFA's performance, reputation and success in the marketplace.

All risks are supported by policies, risk limits, risk assessment models as well as continuous monitoring and compliance reporting.

The following sections detail LGFA's process for identifying climate-related risks and opportunities and how this relates to LGFA's overarching risk management framework.

Processes for identifying, assessing and managing climate-related risks

TOOLS AND METHODS USED

In 2024, LGFA identified its climate-related risks and opportunities using scenario analysis. This process was reviewed in 2025 against revised climate change scenarios to reflect LGFA's evolving approach. This process is detailed in the strategy section on [page 9](#). In addition to the revised risks and opportunities, existing risks and opportunities were reviewed to determine whether they were still applicable and relevant under the new climate change scenarios. The risks and opportunities were reviewed by both management and the Board before being adopted by the Board.

While LGFA's scenario analysis involved qualitatively reviewing the risks identified through scenario analysis as described on [page 9](#), we have not to date formally assessed our climate-related risks using a likelihood and impact matrix.

Scenario analysis is the primary tool used to identify LGFA's climate-related risks to date. LGFA acknowledges the limited use of tools used to date and that there is scope for its approach to evolve over time.

LGFA undertakes an **annual climate resilience risk assessment** as part of its annual credit risk assessment of local authorities. This is a high-level review that considers a range of factors related to a council's susceptibility and management of climate risk, including insurance coverage, flood hazard risk and climate adaption planning. A council's climate resilience risk assessment is one input into LGFA's internal credit rating assessment model. In our SOI 2025-2028, we have committed to incorporating climate change considerations into our credit risk assessments more extensively. The insights gained from this work are expected to enhance our understanding and evaluation of climate-related risks.

TIME HORIZONS

The time horizons used to identify LGFA's climate-related risks and opportunities using scenario analysis are detailed below:

Short term	Present- FY28	Aligns with the three-year planning cycle for LGFA's Statement of Intent.
Medium term	FY29- FY34	Aligns with the local government sector's long term planning horizon.
Long term	FY35- FY50	Aligns with international emission reduction targets under the Paris Agreement.

VALUE CHAIN

All elements of LGFA's value chain were included in the identification of our climate-related risks and opportunities. Our credit risk assessment process (including our climate risk assessment) applies to our borrowers.

FREQUENCY OF ASSESSMENT

To date, LGFA has carried out scenario analysis to identify its climate-related risks and opportunities annually which reflects our evolving understanding and approach to scenario analysis. The frequency of the identification and assessment of our climate-related risks and opportunities may be revised in future, including by reference to the frequency of assessment set out in our overarching risk management framework. The climate risk assessment process as part of credit risk assessments is annual.

PRIORITISING CLIMATE-RELATED RISKS RELATIVE TO OTHER TYPES OF RISKS

The identification of climate-related risks is currently a standalone process. Climate change is captured under environmental risk in LGFA's risk register and is prioritised against other business risks; however, climate-related risks are not currently prioritised relative to other business risks. As noted, climate risk is also a key aspect of credit risk assessments and is prioritised against other risks to understand a borrower's overall credit risk.

How processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management processes

To date, LGFA has not integrated its processes for identifying, assessing and managing climate-related risks into its overall risk management process, although climate change is captured under environmental risk in LGFA's risk register.

Going forward, LGFA recognises that there is scope to develop a climate risk management framework that is incorporated into LGFA's overarching risk management framework and includes reporting and monitoring lines that align to LGFA's current processes for reporting other enterprise risks.

Metrics and Targets

Metrics

GREENHOUSE GAS EMISSIONS

LGFA is relying on adoption provision 4, which provides an exemption from the requirement to disclose scope 3 emissions in an entity's first and second reporting period. Those operational scope 3 emissions that LGFA currently measures are disclosed below, with detail of financed emissions on [page 21](#).

GHG Scope (tCO ₂ e)	Base year 2018/19	2022/23	2023/24	2024/25
Scope 1	0	0	0	0
Scope 2. Location-based method	2.44	3.04	2.26	1.21
Scope 3 (excluding financed emissions – see page 21)				
1. Purchased goods and services	0.01	0.05	0.04	0.08
3. Fuel & energy related activities	0.25	0.22	0.17	0.09
5. Waste generated in operations	0.12	0.10	1.12	0.10
6. Business travel	135.11	50.15	40.47	54.28
Total direct emissions	0	0	0	0
Total indirect emissions for above categories	137.93	53.56	43.06	55.76
Total gross emissions for above categories	137.93	53.56	43.06	55.76

Gross GHG emissions intensity and associated target

In 2021, LGFA set a target of cutting per employee operational emissions (scopes 1 and 2, and operational scope 3) by 30% by 2030, compared with a 2018/19 base year. This is an intensity target and does not have any interim targets. In terms of performance against this target LGFA's emissions intensity results are as follows:

Emissions intensity (Gross tCO ₂ e)	Base year 2018/19	2022/23	2023/24	2024/25
FTE – New Zealand Local Government Funding Agency (gross tCO ₂ e / head)	10.61	3.57	2.69	2.79

LGFA is accordingly on track to meet this target, although notes that this is as a result of an increase in headcount rather than a reduction in absolute emissions. While this target does not rely on offsets, LGFA does purchase offsets as part of its Toitū Net Carbon Zero certification. In relation to this operational target, it should be noted:

- As it was anticipated that LGFA's operational capability would increase relative to the base year, a per employee target was considered a more appropriate target than an absolute target.
- The emissions covered by this target are small in relation to LGFA's overall emissions profile, and accordingly LGFA does not consider that this target is material to the management of the climate-related risks and opportunities identified in this Climate Statement. In any event, we are disclosing this target and the associated intensity metrics because they are organisational climate-related metrics/target and may therefore be of interest to LGFA's primary users. This target may be reviewed in future as LGFA continues to develop its approach to the management of climate-related risks and opportunities.
- In terms of contribution to 1.5 degrees Celsius of global warming, while the target was set with New Zealand's emissions reduction targets in mind, it has not been externally verified or certified and relates only to a small sub-set of our emissions.

Measurement standard, consolidation approach, emission factors and GWP rates

LGFA greenhouse gas (GHG) emissions (excluding financed emissions) inventory has been measured in accordance with the requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). Organisational boundaries were set with reference to the methodology described in the GHG Protocol and ISO 14064-1:2018 standard. An operational control consolidation approach has been used and the business units and mandatory emission sources that LGFA has operational control over have been included in our inventory. All emissions were calculated using emission factors and Global Warming Potentials (GWP's) from the Ministry for the Environment 2025 emissions calculation guide. GWP's from IPCC's Fifth Assessment Report (AR5) have also been used as a preferred approach where available.

Exclusions

LGFA has not excluded any facilities, operations or assets from its GHG inventory. All scope 1 and 2 emission sources associated with LGFA business operations have been included. Scope 3 categories were assessed based on materiality. Business travel was included in the inventory due to its relatively significant contribution compared to Scope 1 and 2 emissions. Financed emissions are excluded from this inventory and have been measured separately.

Calculation methodology

The calculation methodology used for quantifying LGFA's emissions inventory is based on the following calculation approach:

GHG Emissions = activity data x GHG emission factor

Where applicable unit conversion methods were also applied when processing activity data. Generate Zero software, called 'Footprint', was used to calculate this GHG emissions inventory.

Assumptions, limitations and uncertainties

LGFA has assumed that all supplier invoices, included travel reports, are accurate. A travel calculator, supplied by Generate Zero, has been used to calculate travel distance between depart and arrive destinations. Waste generated across LGFA's two offices is minimal and has been estimated based on observed weekly waste.

FINANCED EMISSIONS

LGFA's financed emissions methodology is guided by the Business Loans and Unlisted Equity calculation methodology from the Partnership for Carbon Accounting Financials (PCAF) Standard A to calculate greenhouse gas emissions associated with our lending activity.

[Appendix A](#) outlines our methodology, assumptions and limitations in relation to our financed emissions.

Metric	Year ended 30 June 2025	Year ended 30 June 2024
Absolute financed emissions (tCO ₂ e)	56,901	68,314
Portfolio emissions intensity (tCO ₂ e/ \$m lent)	2.0	4.0
PCAF Data Quality Score (weighted loan value)	1.7	1.9

PERCENTAGE OF ASSETS AND BUSINESS ACTIVITIES VULNERABLE TO CLIMATE CHANGE

LGFA is exposed to impacts from climate change as a lender to the local government sector. The percentage of sector activities vulnerable to transition and physical climate-related risks is difficult to measure and is dependent on how well individual members manage their financial exposure to climate-related risks. However, we do not consider this vulnerability to be material to LGFA business model or activities in the short/medium term.

LGFA has no capital expenditure in relation to climate-related risks or opportunities. This is unchanged from 2023/2024.

During the 12 months ending 30 June 2025, LGFA had the following assets specifically aligned with climate-related opportunities:

- \$3.67 billion under the CAL lending programme (\$2.77 billion 2024).
- \$454 million under the GSS lending programme (\$377 million 2024).

During the 12 months ending 30 June 2025, LGFA had the following liabilities specifically aligned with climate-related opportunities:

- Two SFBs with a total amount on issue being \$3.26 billion (\$1.76 billion 2023/2024).

OTHER METRIC CATEGORIES

LGFA does not use an internal emissions price as this is not considered appropriate for LGFA's business model. This is unchanged from 2023/2024.

Management remuneration is not specifically linked to climate-related risks and opportunities. This is unchanged from 2023/2024.

Other than the metrics and targets outlined in this Climate Statement, LGFA does not use any industry-based metrics or KPIs to manage its climate-related risks and opportunities.

Targets

Specific targets and metrics related to the management of climate-related risks and opportunities have not yet been set.

Information about LGFA's operational emissions target is set out on [page 20](#). Metrics and targets related to the management of climate-related risks and opportunities is relatively new for LGFA. LGFA acknowledges that there is scope to develop its climate-related metrics and targets as part of its planned work to develop a transition plan.

Work underway on Ranfurly Gully wastewater upgrade. Photo credit CB Civil. **Hamilton City Council**



Glossary

Adaptation	Actions taken to help communities and ecosystems cope with changing climate condition. Adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities.
Climate change commission (CCC)	An independent Crown entity that advises the New Zealand Government on climate change policy within the framework of the Climate Change Response Amendment Act. The CCC developed four future scenarios, as part of its 2021 advice to the New Zealand government, on how NZ's 2050 emissions target could be met. The scenarios can be found in Chapter 12: Long-term scenarios to meet the 2050 target.
Climate resilience	The ability of a system and its component parts to anticipate, absorb, accommodate or recover from the effects of a hazardous event in timely and efficient manner. This includes ensuring the preservation, restoration or improvement of its essential basic structures and functions.
Greenhouse gas emissions (GHG)	Gases emitted to the atmosphere which contribute to the GHG effect where more than the normal amount of atmospheric heat is retained in the atmosphere.
Mitigation	The action of reducing the severity, harm and seriousness of climate change through emissions reduction.
Net zero	A state in which greenhouse gas emissions going into the atmosphere can be absorbed and durably stored by nature and other carbon dioxide removal measures, leaving zero emissions in the atmosphere.
Network for Greening the Financial System (NGFS)	A network of central banks and financial supervisors that aims to help strengthen the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilise mainstream finance in the context of environmentally sustainable development. The NGFS climate scenarios can be accessed via the NGFS Scenarios Portal.
Paris agreement	The Paris Agreement is a legally binding international treaty on climate change, adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."
Reference scenario	A projection of possible future outcomes based on certain set of climate and social parameters.
Representative Concentration Pathways (RCP)	Five standard trajectories that represent possible future socioeconomic development for global or regional societies. The relevant data source for the RCP's is the IPCC's sixth assessment report on climate change.
Shared Socioeconomic Pathways (SSP)	Five standard trajectories that represent possible future socioeconomic development for global or regional societies. The relevant data source for the SSP's is the IPCC's sixth assessment report on climate change.
Shared Policy Assumptions for New Zealand (SPANZ)	National-scale socio-economic scenarios developed for New Zealand that are nested within IPCC SSPs and RCPs. They describe potential mitigation and adaptation policies specific to New Zealand, enabling divergence of New Zealand-specific futures from assumed trends in the global SSPs.
Scope 1 GHG emissions	Direct emissions from sources owned or controlled by an entity.
Scope 2 GHG emissions	Indirect emissions from the generation of purchased energy that an entity uses.
Scope 3 GHG emissions	Other indirect emissions occurring because of the activities of entity but generated from sources it does not own or control.
Toitū Net CarbonZero Certification	A programme verified by Toitū Envirocare that involves annual greenhouse gas emissions measurement to international standard ISO 14064-1 and a commitment to manage, reduce and offset impacts to achieve a neutral balance.

Appendix A: Financed emissions methodology

Purpose

This document outlines the methodology that the NZ Local Government Funding Agency (LGFA) has adopted to measure and report the emissions profile of our loans to members, being New Zealand local government councils and Council-controlled Organisations (CCOs).

Modified PCAF Calculation Methodology

LGFA's methodology and calculations are based on the guidance from the Partnership for Carbon Accounting Financials (PCAF) which defines how financial institutions should account for their scope 3 category 15 Investments emissions – also known as financed emissions.

LGFA calculates financed emissions for our asset class: Loans to councils and Council-controlled organisations. Loans comprise short term loans and long term loans. Long term loans comprise general lending, Climate Action Loans and Green, Social and Sustainability (GSS) loans. As at 30 June 2025, loans totalled \$22.657 billion.

LGFA does not calculate financed emissions for our liquid asset portfolio (LAP) as these assets are held on a short term basis to support our liquidity requirements. As at 30 June 2025, LAP assets totalled \$3.037 billion. Cash deposits and cash equivalents and cash pledged as collateral are excluded from our financed emissions. PCAF currently does not include a designated asset class for loans to local government agencies. In the absence of a specific class, LGFA has determined the PCAF asset class for business loans most closely aligns with the characteristics of our loans to members:

Business loans include all on-balance sheet loans and lines of credit to businesses, nonprofits, and any other structure of organizations that are not traded on a market and are for general corporate purposes, i.e., with unknown use of proceeds as defined by the GHG Protocol. [PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition].

In November 2024, PCAF released a public consultation document proposing a methodology for calculating financed emissions from sub-sovereign debt.¹ LGFA has reviewed the proposed asset class and identified several challenges in applying the methodology within the New Zealand context. LGFA consider that our current approach results in a more accurate measurement of emissions and aligns more closely with PCAF's core reporting principles. LGFA acknowledge that the proposed sub-sovereign asset class remains under consultation and is subject to change.

The following table outlines how LGFA has modified the **PCAF Business loans** asset class and calculation methodology for calculating our financed emissions for loans to members.

¹ New guidance and methods for public consultation. For financial institutions measuring and reporting scope 3 category 15 emissions. November 2024.

PCAF Option	Option 1a Verified GHG emissions data from the company	Option 1b Unverified GHG emissions data from the company	Option 3a GHG emissions per sector/ company
PCAF calculation	$\frac{\text{Outstanding Amount (c)}}{\text{Total Equity + debt (c)}} \times \text{Verified company emissions}$ Where: c = borrower or investee company	$\frac{\text{Outstanding Amount (c)}}{\text{Total Equity + debt (c)}} \times \text{Unverified company emissions}$ Where: c = borrower or investee company	$\frac{\text{Outstanding Amount (c)}}{\text{EVIC (c)}} \times \text{Revenue (c)} \times \text{GHG emissions (s)} / \text{Revenue (s)}$ Where: c = borrower or investee company s = Sector
LGFA calculation	$\frac{\text{Outstanding Loan Value (c)}}{\text{Total Assets (c)}} \times \text{Verified Council emissions (c)}$ Where: (c) = Council	$\frac{\text{Outstanding Loan Value (c)}}{\text{Total Assets (c)}} \times \text{Unverified Council emissions (c)}$ Where: (c) = Council	$\frac{\text{Outstanding Loan Value (c)}}{\text{Total Assets (c)}} \times \text{Council adjusted revenue (c)} \times \text{average Council intensity (tCO}_2\text{e}/\$ \text{ adjusted revenue (s))}$ Where: (c) = Council (s) = Sector
Data match requirements	Council has disclosed GHG emissions and has undergone third-party assurance	Council has disclosed GHG emissions but has not undergone third-party assurance	
Expected Data Quality Score	1	2	4

Emission scopes covered

GHG emissions data comprises borrowers' Scope 1 and Scope 2 emissions. In line with PCAF methodology, borrowers' Scope 3 emissions are excluded from our financed emissions calculations as these are often difficult to measure accurately and can result in inconsistent or unreliable data.

Calculation of sector-based emissions (Option 3a)

This section provides information on our methodology for councils without published emissions data.

Emissions data

Where actual GHG emissions data is not available for a borrower, the emissions have been estimated using PCAF Methodology Option 3a.

For councils that do not disclose emissions data, an emission factor is estimated representing the average emissions profile of a typical council. This average sector-based emission factor is calculated by determining the emissions intensity (tCO₂e per \$ of adjusted revenue) across all councils with published Scope 1 and 2 emissions. This average emissions intensity is applied to the revenue of councils without reported emissions to estimate their emissions.

Revenue

For revenue, 'Adjusted Revenue' is calculated in the attribution factor of GHG emissions.

Adjusted Revenue excludes two key items from a council's revenue:

1. *Non-government capital contributions*, which include development contributions and any donations (e.g. a Trust for a community project). These are excluded as they are deemed to be non-re-occurring.

2. *Non-cash flow items*, which include vested assets, found assets, revaluation of derivatives and any revaluation of assets (including revaluation of investment property, forestry and investment portfolios). In addition, any funding revenue received from the Infrastructure Funding and Financing model cannot be included as the debt associated with this is also not included.

PCAF Data Quality Score

A PCAF score is applied to each record depending on match outcome based on the emissions data is for that borrower (i.e. option 1a, 2a, 3a).

In accordance with PCAF guidelines, a data quality score reflects the reliability of emissions data used in financed emissions calculations. LGFA report a weighted average data quality score by outstanding amount, which indicates the level of estimation or data accuracy across our portfolio.

Order of prioritisation	Type of record match	Expected Data Quality Score
1	Verified GHG emissions data from the Council	1
2	Unverified GHG emissions data from the Council	2
3	Data estimated based on average emissions intensity for those councils where emissions are known (excluding outliers)	4

Calculation methodology limitations and uncertainties

LGFA is not aware of any limitations and uncertainties in the calculation methodology. There are assumptions and limitations in the source data used and these are detailed in the data sources table below.

Green, Social and Sustainability (GSS) loans are treated separately to general purpose loans due to materiality. As at 30 June 2025, GSS loans drawn totalled \$454 million which represents 2% of total loans.

Consolidation Approach

As a financial institution, LGFA does not exercise operational control over our members, or the assets financed. Therefore, emissions from these activities are not included in LGFA's Scope 1 or 2 emissions. In line with the GHG Protocol and PCAF guidance, LGFA reports these emissions under Scope 3, Category 15 (Investments), which captures the greenhouse gas emissions associated its lending and investment activities.

When reporting Scope 3, Category 15 emissions using PCAF, LGFA attribute emissions from borrowers based on their operational control, which aligns with the GHG Protocol's consolidation approach and ensures consistency in how financed emissions are measured and reported. This requirement allows for consistent reporting of financed emissions under GHG Protocol Standard category of Scope 3, Category 15.

Attribution factor

The attribution factor defines the proportion of total emissions that is allocated to LGFA.

LGFA has adopted a modified attribution factor due to the unavailability of council asset values at the time of loan origination. Instead, the current total asset value of each council is used, as it is the only data available at the time of reporting. The attribution factor is calculated as follows:

General Lending

Attribution factor = Outstanding Loan Value / Total Assets

GSS Lending

Attribution factor = GSS Drawn / Total Assets

Timing of applying data and cutoff

Reporting Entities should aim to report emissions as close to the reporting period as possible. There are limitations, however, including:

- Entities own loans portfolios having not reported their emissions in the most recent year
- The reporting entity's cycle may not overlap with client Councils

Council emissions data was prioritised in the following order:

1. Verified or unverified reported emissions for the immediate year prior to reporting
2. Verified or unverified reported emissions for two-years prior to reporting
3. Verified or unverified reported emissions dating back as far as 2019

Procured financials should ideally be from the same year as the reported emissions. However, in some cases Revenue for the current financial year is not yet available. Where revenue does not yet exist for the current reporting year, but emissions do exist, the revenue value from the prior reported year is used. The impact of this is that the ratio of emissions to financials may shift significantly if a Council has seen significant growth or decline in their total revenue.

Data sources

Outstanding Loan Amount/ GSS Drawn	Description	• The outstanding loan value excludes undrawn amounts. • Council Controlled Organisations (CCO's) have been aggregated into a master council as loan data for these councils is only available in a combined view.
	Source	LGFA
	Units	NZ\$
	References	N/A
	Assumptions & Uncertainties	None.

Total Assets	Description	Total assets per entity balance sheet
	Source	Council/CCO financial statements
	Units	NZ\$
	References	N/A
	Assumptions & Uncertainties	• Total assets were used instead of Total Equity + Debt as the closest available alternative • Total assets at the time of reporting are not always available, therefore the closest published total asset is used instead. This results in a timing misalignment between the activities of the reporting period and the calculated emissions.

Adjusted Revenue	Description	Revenue excluding non-government capital contributions and any non-cash flow items.
	Source	Council/CCO financial statements
	Units	NZ\$
	References	N/A
	Assumptions & Uncertainties	• Where current financial year revenue is not yet available, however, reported emissions is available, revenue for the prior financial year is used • Any funding revenue received from the – Infrastructure Funding and Financing model cannot be included as the debt associated with this is also not included.

Verified / Unverified Council emissions	Description	Total scope 1 and 2 emissions reported by the Council
	Source	Client sources from Councils and provides these fields
	Units	tCO ₂ e
	References	N/A
	Assumptions & Uncertainties	• Only Scope 1 & 2 emissions data is included in the PCAF calculation methodology Option 1a, and Option 1b. • Location-based emissions are prioritised for scope 2 over market-based emissions. However, market-based are used if it is the only data available. • Verified emissions have been used without additional review on the assurance level associated with the GHG inventory. While the data may be verified, it may not guarantee a high quality of data and may only be to a limited level of assurance • Unverified emissions have not been independently reviewed which increases the chances of data errors and uncertainty in the dataset. • Council emissions data is based on the most recent report available at the time of LGFA reporting. The climate reporting periods may not align between council emissions data and LGFA disclosure reporting timeline. • Reported financed emissions exclude removals as they are not currently funded by LGFA. This approach also aligns with PCAF methodology. • The emissions data used are measured using a combination of ISO 14064-1 and the GHG Protocol Standard.

GHG emissions per sector	Description	Sector-based emission factor derived by calculating the emissions intensity (tCO ₂ e/\$ adjusted revenue) of each council that had measured their actual Scope 1 and 2 emissions.
	Source	Calculated
	Units	tCO ₂ e
	References	N/A
	Assumptions & Uncertainties	• There are significant assumptions and uncertainty associated with the sector-based emission factor used. The limitations of this factor may include, but not be limited to, a bias towards larger Councils with a certain scale, assets, carbon-intensity and revenue. There is significant uncertainty in applying this average factor to individual Councils. • There will be significant differences in activities and therefore Scope 1 emissions between Councils (landfills, WWTP etc), particularly between city and regional Councils. These have not been separated. • The low sample size of councils with reported scope 1 & 2 emissions could cause skews in average values. • The consolidation approach (e.g. operational control or equity share) is not distinguished when calculating this factor.

Appendix B: Climate change scenario narratives

Scenario 1: Net Zero 2050 (1.5 Degrees celcius scenario)

Collective action is being taken to reduce greenhouse gas emissions globally. The worst predicted impacts of climate change are prevented under this scenario, however, long-term chronic impacts from historic greenhouse gas emissions still occur. A coordinated global effort is factored into trade deals with countries putting high expectations on others to meet ambitious climate goals.

Stringent policies are introduced by central government early from 2025 and become gradually more stringent to influence the technological and behaviour change needed to reach net zero emissions by 2050. The main driver for emission reductions globally, is a shift to cheaper renewable energy options. The carbon price is increased significantly to incentivise the transition away from carbon intensive production, which leads to higher prices in fossil-fuel intensive and high carbon industries, resulting in a negative short-term impact on New Zealand's economic growth. Climate-related inflation is present due to immediate policy action put in place by central government. Immediate action results in long term cost savings for New Zealand and prices level out as we get closer to the middle of the century.

Central government incentives put an emphasis on technological advancement, low carbon transport solutions and waste minimisation. The government also invests in education and health to help ease the human impact of the transition to net zero, meaning more people have the skills to support a low carbon economy. As a result of government interventions, consumption is oriented toward low material growth and lower resource and energy intensity by 2050.

Central government policies require local government to support their communities to reduce emissions and coordinate managed retreats in coastal locations where rising sea levels and associated flooding and erosion cannot be prevented. As part of adaptation efforts, councils prioritise land use for green spaces and protecting natural resources, and purchase large areas of land exposed to flooding, to support carbon sequestration efforts. Central government and councils work together to ensure urban growth is centred around low carbon, resilient developments that enhance blue and green spaces. Although government support is present, there is still a lot of pressure on local government to reprioritise spend towards mitigation and adaptation activities.

Investors view New Zealand's response positively, but the level of investment required at a national and regional level to transition to net zero makes investors cautious.

Globally, investor appetite for ESG aligned financial products has increased significantly and the demand is met by New Zealand issuers who are investing in the transition to net zero. With increasing investor appetite comes more stringent ESG disclosure requirements and reporting standards which puts pressure on issuers. As investors focus shifts to ESG products, divestment away from fossil fuels has a disruptive impact on financial markets leading to stranded assets.

Despite the disruption from immediate policy action, the world achieves global net zero emissions around 2050.

Scenario 2: Fragmented world (2 degrees ceclius scenario)

In the fragmented world scenario, the transition to net zero is misaligned between different parts of the world. Extreme weather events become more frequent and increase in severity as 2050 approaches. Periods of drought become more frequent, and seasons become more unpredictable.

Policy and technology change is delayed and fragmented between New Zealand and the rest of the world. Some countries have introduced policies that have spurred their transition to net zero whilst others maintain a focus on fossil fuelled development. By 2030, countries that have been focused on fossil fuel development shift to net zero aligned policies after experiencing 5 years of significant climate-related events and associated disruption. These countries are exposed to more severe transition risks, slowing economic growth as a higher carbon price reduces competitiveness in export markets.

From 2030, New Zealand's central government introduces stringent policies and tax increases to fund mitigation and transition efforts whilst simultaneously dealing with the impacts of ongoing climate-related events that are exacerbated by a lack of action in the 2020s.

Due to a delayed start, central government cannot provide funding at the level needed to transition to net zero by 2050, so there is an expectation that local government will fill the gaps, putting pressure on the sector. Councils rely heavily on their role in land use planning to enable and promote low carbon and climate resilient growth.

High climate-related operating costs and central government policies mean councils need to make significant rate increases, putting pressure on their rating base. Climate-related inflation ramps up from 2030, negatively impacting the cost of living and exacerbating rates affordability. For those regions that are most exposed to climate change, a combination of climate-related disruption and rate increases forces people to move elsewhere, resulting in councils being more reliant on debt to fund operations.

An increase in climate-related physical events in the 2030s leads to a decline in insurance coverage for some parts of the local government sector that are most exposed to climate change. By 2050, an increase in severe storm events combined with sea-level rise has left vulnerable coastal areas uninhabitable or uninsurable, leading to a drop in rating units captured by effected councils.

With New Zealand being one of the late movers, investors have a negative perception of the country leading to an increase in risk premiums. With investors from early mover countries looking to align their portfolios with ESG investments, there are more stringent ESG disclosure and reporting requirements placed on issuers from late moving countries. Although New Zealand issuers ramp up climate-related investments from the 2030s and are able to meet investor demand for ESG aligned products, investors are more cautious and access to offshore capital markets is more costly and inefficient.

Overall, there is a delay in action globally and the acute and chronic physical impacts of climate change cannot be prevented.

Scenario 3: Current policies (3 degrees celcius scenario)

In a hothouse world, it is assumed that only current policies are continued, resulting in severe physical risk including irreversible impacts. The impacts in New Zealand are significant and globally range from significant to severe. From now until 2050, physical risk leads to an increasing severity of acute extreme weather events, which is accompanied by rising sea levels. Droughts increase in severity and duration, and extreme weather events that lead to increased flooding and slips, occur frequently, significantly impacting daily life for communities and businesses.

Global economic development is slow and declining in the Pacific region. Where consumption is high, it is material-intensive which only contributes to worsening environmental degradation. The impacts of climate change have disrupted global food supply chains leading to a global trade breakdown. Global disruption means central government is not able to support disaster recovery, leading to significant increase in debt requirements for councils.

A continuation of existing central government policies with the same level of ambition means there are some low emission alternatives and technology adoption, but it is limited and loses momentum towards 2050. New Zealand's focus on economic growth, albeit slow, at the expense of the natural environment, and a resource management system that has not kept up with the changing climate, has put pressure on New Zealand's natural resources and food systems. Central governments investments in education and health decline over time and inequalities persist or worsen resulting in skills shortages and socioeconomic challenges, making councils capacity to respond to climate-related events more challenging.

Many low-lying developing countries are inundated by sea level rise, with New Zealand experiencing an influx of climate refugees from other Pacific Islands, putting pressure on council infrastructure. Rising sea levels combined with coastal erosion that is exacerbated by extreme weather events results in many coastal areas constantly inundated. Coastal communities who can afford to, are forced to retreat inland and councils are left to continue providing services to those who remain.

An increase in acute climate events that lead to significant damage causes disruption to council services and infrastructure projects as capital is redirected towards responding to climate events. Proactive adaptation is not possible for most councils. The most impacted regions see many people displaced or voluntarily move to other regions due to continued disruption to their lives, leading to a material reduction in rating units captured for some councils. Some insurance premiums increase at first and then become unavailable in many parts of New Zealand. For those councils who aren't at risk of default, the borrowing requirements increase significantly putting pressure on lenders.

Capital markets become increasingly costly to access due to economic and geopolitical instability.

Emissions continue to grow out to 2050 leading to severe physical risks and irreversible changes like higher sea level rise.



INDEPENDENT LIMITED ASSURANCE REPORT

TO THE READERS OF NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY'S GHG EMISSIONS DISCLOSED IN ITS CLIMATE STATEMENT FOR THE YEAR ENDED 30 JUNE 2025

Under section 461ZH(3) of the Financial Markets Conduct Act 2013, the Auditor-General is the assurance practitioner of New Zealand Local Government Funding Agency (the Agency). The Auditor-General has appointed me, David Gates, using the staff and resources of KPMG, to carry out a limited assurance engagement, on his behalf, on the greenhouse gas (GHG) emissions information disclosed in the Agency's Climate Statement (GHG disclosures) and additional disclosures (as described in 'scope of the engagement' section below), for the year ended 30 June 2025.

Scope of the engagement

The GHG disclosures below are within the scope of our mandatory limited assurance engagement:

- The gross emissions, in metric tonnes of carbon dioxide equivalent, classified as Scope 1 and Scope 2 (calculated using the location-based method), on page 20.
- The statement describing that GHG emissions have been measured in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, on page 21.
- The approach used to consolidate GHG emissions (operational control) on page 21.
- The sources (or references to sources, where applicable) of emission factors and the global warming potential rates used, on page 21.
- The summary of specific exclusions of Scope 1 and Scope 2 (calculated using the location-based method), emissions sources, including facilities, operations or assets with a justification for their exclusion, on pages 3 and 21.
- The description of the methods and assumptions used (including the rationale for doing so, where applicable) to calculate or estimate Scope 1 and Scope 2 (calculated using the location-based method) GHG emissions, and the limitations of those methods, on page 21.
- The description of any uncertainties relevant to the Group's quantification of its Scope 1 and Scope 2 (calculated using the location-based method) GHG emissions, including the effects of these uncertainties on GHG disclosures, on pages 21.

As agreed in accordance with our letter of engagement on 27 June 2025, the scope of our limited assurance engagement also includes the following disclosures on page 20 ('additional disclosures'):

- Scope 3 Category 6 (Business Travel) GHG emissions

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Agency's GHG disclosures and additional disclosures within the scope of our limited assurance engagement for the year ended 30 June 2025, are not fairly presented and prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards, issued by the External Reporting Board.



Other matter(s)

The comparative information, being the 2024 GHG disclosures and additional disclosures on page 20, has not been subject to assurance. As such, it is not covered by our assurance conclusion.

The comparative information, being the 2024 GHG disclosures on page 20 was verified by Toitū Envirocare Limited in the firm's own capacity. Toitū Envirocare Limited expressed an unmodified report dated 3 September 2024.

The Board of Directors' responsibilities

Subparts 2 to 4 of the Financial Markets Conduct Act 2013 set out requirements for a climate reporting entity in preparing a climate statement, which includes proper record keeping, compliance with the climate-related disclosure framework and subjecting it to assurance.

The Aotearoa New Zealand Climate Standards have been issued by the External Reporting Board as the framework that applies for preparing and presenting a climate statement. The Board of Directors of the Agency is therefore responsible for preparing and fairly presenting a climate statement for the year ended 30 June 2025, in accordance with those standards.

The Board of Directors is also responsible for the design, implementation, and maintenance of internal control relevant to preparing the climate statement that is free from material misstatement, whether due to fraud or error.

Our responsibilities

Section 461ZH of the Financial Markets Conduct Act 2013, requires the GHG disclosures included in the Agency's Climate Statement to be the subject of an assurance engagement.

NZ CS1 *Climate-related disclosures*, paragraph 25 requires such an assurance engagement at a minimum to be a limited assurance engagement, and paragraph 26 specifies the scope of the assurance engagement on GHG disclosures. We also agreed to provide limited assurance on other disclosures in accordance with our letter of engagement on 27 June 2025.

To meet these responsibilities, we planned and performed procedures (as summarised below), to provide limited assurance in accordance with New Zealand Standard on Assurance Engagements 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*, and International Standard on Assurance Engagements (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements*, issued by the New Zealand Auditing and Assurance Standards Board.

Summary of Work Performed

The procedures we performed were based on our professional judgement and included enquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above:

- We obtained, through enquiries, an understanding of the Agency's control environment, processes and information systems relevant to the preparation of the Scope 1, Scope 2 and selected Scope 3 disclosures. We did not evaluate the design of particular control activities or obtain evidence about their implementation.
- We performed analytical procedures on particular emission categories by comparing the expected GHG emissions to recorded GHG emissions and made inquiries of management to obtain explanations for any significant differences we identified.
- We have agreed a selection of emissions data to relevant underlying source documents.
- We evaluated the appropriateness of the emission factors applied.
- We evaluated the overall presentation and disclosure of the Scope 1, Scope 2 and selected Scope 3 disclosures.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Inherent limitations

As outlined on page 4, GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

Other information

The Climate Statement contains information other than the GHG disclosures and additional disclosures and the assurance report thereon. The Board of Directors is responsible for the other information.

Our assurance engagement does not extend to any other information included, or referred to, in the Climate Statement, and therefore, no conclusion is expressed thereon. We read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the GHG disclosures and additional disclosures, or our knowledge obtained in the assurance engagement, or otherwise appears to be materially misstated.

Where such an inconsistency or misstatement is identified, we are required to discuss it with the Board of Directors and take appropriate action under the circumstances, to resolve the matter. There are no inconsistencies or misstatements to report.

Independence and quality management

We complied with the Auditor-General's independence and other ethical requirements, which incorporate the requirements of Professional and Ethical Standard 1 *International Code of Ethics for*



Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1) issued by the New Zealand Auditing and Assurance Standards Board. PES 1 is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. These principles for example, do not permit us to be involved in the preparation of the current year's GHG information as doing so would compromise our independence.

We have also complied with the Auditor-General's quality management requirements, which incorporate the requirements of Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (PES 3) and Professional and Ethical Standard 4 *Engagement Quality Reviews* issued by the New Zealand Auditing and Assurance Standards Board (PES 4). PES 3 requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. PES 4 deals with an engagement quality reviewer's appointment, eligibility, and responsibilities.

Other than our work in carrying out all legally required assurance engagements, we have no relationship with or interests in the Agency.

A handwritten signature in blue ink, appearing to read 'D Gates', with a stylized flourish at the end.

David Gates
KPMG
On behalf of the Auditor-General
Wellington, New Zealand
30 September 2025

30 September 2025

The Register of Financial Service Providers Private Bag
92061
Victoria Street West
Auckland 1142

Dear Registrar

New Zealand Local Government Funding Agency Limited – reliance on the Financial Markets Conduct (Climate-related Disclosures – Assurance Engagement) Exemption Notice 2025

New Zealand Local Government Funding Agency Limited ("**LGFA**") is a climate reporting entity for the purposes of Part 7A of the Financial Markets Conduct Act 2013 (FMCA).

LGFA is required to prepare climate statements for the financial year ended 30 June 2025 ("**FY25**").

LGFA gives notice that it is relying on the exemption in clause 6 of the Financial Markets Conduct (Climate-related Disclosures – Assurance Engagement) Exemption Notice 2025 in FY25.

The effect of relying on the exemption is that LGFA is exempt from s 461ZH(1) of the FMCA, to the extent that its climate statements are required to disclose scope 3 greenhouse gas emissions. This means that LGFA is not required to ensure that its FY25 climate statements are subject to an assurance engagement in respect of the disclosure of scope 3 greenhouse gas emissions.



Mark Butcher
Chief Executive

