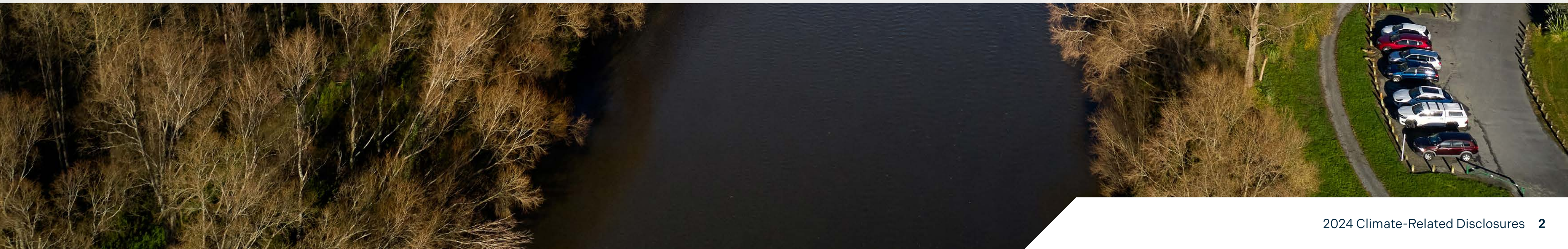
NEW ZEALAND LOCAL GOVERNMENT
FUNDING AGENCY LIMITED

2024 Climate-Related Disclosures

LGFA

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

Contents
Ngā Ihirangi



Introduction

This document is the New Zealand Local Government Funding Agency's (LGFA) first Climate-Related Disclosures (CRD) report.

These disclosures cover the reporting period 1 July 2023 to 30 June 2024.

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

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 1: Current financial impacts
2. Adoption provision 2: Anticipated financial impacts
3. Adoption provision 3: Transition planning
4. Adoption provision 4: Scope 3 GHG emissions
5. Adoption provision 5: Comparatives for Scope 3 GHG emissions
6. Adoption provision 6: Comparatives for metrics
7. Adoption provision 7: Analysis of trends.

This report complies with Aotearoa New Zealand Climate Standards 1, 2 and 3 issued by the External Reporting Board.

Approved on behalf of the Board on 29 August 2024.

Craig Stobo
Board Chair

Linda Robertson
Chair, Audit and Risk Committee

Future work

This report, LGFA's first mandatory CRD, sets out our progress to date with incorporating climate-related risks and opportunities across our governance, strategy, and risk management functions.

As at June 2024, LGFA is in the early stages of integrating climate-related risks and opportunities throughout our operations which is reflected across many aspects of our disclosures.

This early development work includes our initial approach to scenario analysis, which has been instrumental in highlighting the key areas where we intend to focus the future climate-related initiatives and development efforts outlined in these disclosures. For example, our current work programme on quantifying the financial impacts of climate-related risks and opportunities, as well as developing a transition plan which will outline how LGFA's business model and strategy will address our climate-related risks and opportunities.

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 8 & 15 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.

Our business model

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.

Our purpose

Benefiting local communities through delivering efficient financing for local government.

Our values

We act with integrity

We are honest, transparent and are committed to doing what is best for our customers and our company.

We are customer focused

Our customers are our council borrowers, investors, and all other organisations that we deal with. We listen to them and act in their best interests to deliver results that make a positive difference.

We strive for excellence

We strive to excel by delivering financial products and services that are highly valued at least cost while seeking continuous improvement in everything we do.

We are innovative

To meet our ever-changing customer requirements, we will encourage innovation and provide a diverse range of financial products and services.

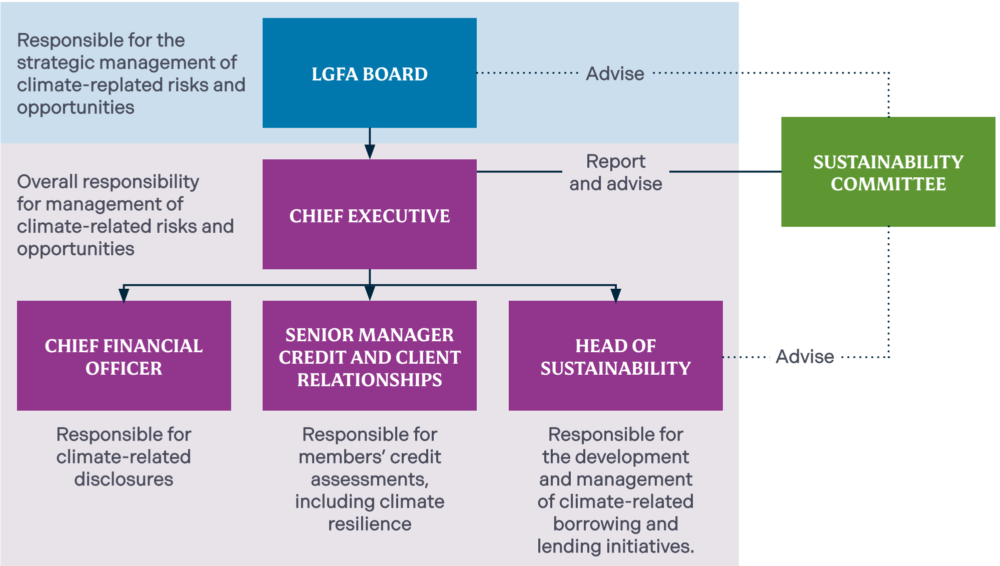
We provide leadership

We are here for our stakeholders in being strategically minded, providing resilience and executing our strategy. We embrace a high-performance culture and can be relied upon to deliver results.

Governance

LGFA Climate Governance

LGFA's governance structure in relation to managing climate-related risks and opportunities.



The Board

The Board of directors is ultimately responsible for setting the company's overall strategic direction, including the strategic management of climate-related risks and opportunities.

Board climate skills and competencies

Board appointments to date have not explicitly included skills and competencies related to climate risk and LGFA has not completed a Board competency assessment on the skills required to oversee climate related risks and opportunities.

Over the next 12 months, LGFA will consider Board competency requirements following further assessment and quantification of LGFA's climate-related risks and opportunities.

Although LGFA currently doesn't have formal competency requirements for directors, our Board brings climate-related skills and experience to LGFA, including experience with leading the development of a Climate Change Strategy, membership of sustainability committees, advisory for climate and energy, managing environmental registries, Chapter Zero membership, as well as climate-related qualifications including Sustainability and ESG Designation (GCB.D) and Climate and Biodiversity Certificate.

Management

LGFA management are responsible for identifying, assessing, and managing climate-related risks and opportunities.

- The **Chief Executive** has overall responsibility for LGFA's assessment and management of climate-related risks and opportunities.
- The **Head of Sustainability** is responsible for the development, ongoing monitoring, and management of LGFA's climate-related borrowing and lending initiatives.
- The **Senior Manager Credit and Client Relationships** is responsible for members' credit assessments, including climate resilience.
- The **Chief Financial Officer** is responsible for LGFA's Climate-related Disclosures.

LGFA Sustainability Committee

The Sustainability Committee reports to the Chief Executive.

The purpose of the Committee is to advise the Chief Executive and Board on sustainability matters within LGFA, across its operating, borrowing and lending activities. This includes providing input into the governance and oversight process of the Green Social and Sustainability (GSS) loan programme, Sustainable Bond Framework and the Climate Action Loan (CAL) programme.

As at June 2024, the comprised of three LGFA employees and four independent members.

The Committee serves in an advisory capacity only and does not hold any governance or management responsibilities.

Oversight and management of climate-related risks and opportunities

Over 2023-24, the Board discussed and reviewed LGFA's obligations in relation to climate reporting standards and Board representatives participated in the climate scenarios workshop, with the workshop findings reviewed by the Board.

The Board also met with the Sustainability Committee to discuss sustainability issues within the company. Representatives from the Board attend some of the scheduled Sustainability Committee meetings.

The Board has met to discuss LGFA's climate-related risks and opportunities. The Board's ongoing role regarding climate-related risks and opportunities will be reviewed over the next 12 months as LGFA works through implementing the climate scenario workshop into company strategy and operations.

Board oversight and monitoring

To date, the Board has approved the following climate-related initiatives into LGFA strategy:

1. **Green, Social & Sustainability (GSS) Loans**
   Introduced October 2021.

   GSS loans provide opportunity for funding projects which:

   - Promote the transition to a low carbon society;
   - Lead to verifiable reductions in greenhouse gas emissions or energy consumption;
   - Promote resilience to climate change;
   - Support adaptation to climate change or adaptations that are, in some other way, related to New Zealand's national energy, climate and environment targets.

2. **Climate Action Loans (CALs)**
   Introduced March 2023.

   CALs are target (or incentive) based lending structures designed to incentivise councils and CCOS to act on climate change and reduce greenhouse gas emissions.

   CAL's are a valid strategy to incentivise climate emission reduction.

3. **Sustainable Financing Bond**
   Inaugural issue April 2023.

   Sustainable financing bonds recognise LGFA's commitment to support council and CCO borrowers to fund sustainable assets and activities by enabling LGFA to issue bonds that are notionally allocated to the Sustainable Loans on LGFA's balance sheet.

Board approval of these initiatives followed specific development projects led by the Head of Sustainability.

Board targets

The Board has set formal organisational performance targets increasing the number of GSS loans and ensuring compliance with mandatory climate reporting standards.

Metrics and targets have not yet been established for climate-related risks and opportunities. Over the next 12 months, LGFA will review the risks and opportunities identified in the climate scenario workshop to consider the feasibility for introducing metrics and targets for these.

In 2021, LGFA directors committed to reducing our carbon emissions over time, with our target of cutting per employee emissions by 30% by 2030, compared with a 2018/19 base year. Scope 3 emissions within this target are limited to organisation travel. While LGFA's operational GHG emissions, including scope 3 for travel, are not material, they are noted in this report as an organisational climate-related metric/target.

Management oversight and monitoring

To date, management have been informed and made decisions on climate-related risks and opportunities following specific climate-related projects led by the Head of Sustainability. This project work resulted in the development of GSS loans, CALs, and LGFA's Sustainable Financing Bond Framework.

Management are members of the LGFA Sustainability Committee which has responsibility for making recommendations to the Chief Executive on GSS loan and CAL applications, as well as monitoring approved applications. The Sustainability Committee met on nine scheduled meetings over the year.

Management have Board-approved KPIs relating to GHG emission reduction targets for operational emissions, CAL and GSS loans, maintaining net zero certification for operational emissions and compliance with the Climate Reporting Standards. Management remuneration is not specifically linked to performance against these targets.

Management of the sustainable bond framework forms part of LGFA's overall issuance strategy.

In 2023-24, the Climate Scenarios Workshop was a key driver for informing the assessment and management of climate-related risks and opportunities. Further work is planned over the next 12 months to consider the operational implications, including oversight and monitoring, of the climate-related risks and opportunities identified in the workshop.

Strategy

Climate strategy

LGFA's direct business operations have limited exposure to climate-related risks and opportunities.

LGFA has yet to commence work on how local government sector management of climate-related risks and opportunities might impact our business model and strategy. Development of our transition plan will depend on the materiality of our climate-related risks and opportunities which has yet to be quantified. This is on our workplan for the next 12 months.

LGFA has yet to determine the materiality or how climate-related risks and opportunities should serve as an input to its internal capital deployment and funding decision-making processes. This is on our workplan for the coming 12 months.

LGFA's strategy does not currently address how it will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state.

Climate-related impacts

Current physical impacts: LGFA did not observe any material physical impacts on the Company over the 2023-24 year. Although not material to overall lending levels, we did note there was some member borrowing activity directly related to responding to climate-related events.

Current transition impacts: LGFA has allocated resourcing to embed climate-related risks and opportunities into business strategy, including ensuring ongoing compliance with the mandatory climate-related disclosures, for the purposes of Part 7A of the FMCA and the XRB's NZCS.

Anticipated financial impacts: LGFA has yet to complete work on the anticipated financial impacts of climate-related risks and opportunities on our lending and funding strategies. This is on our workplan for the next 12 months.

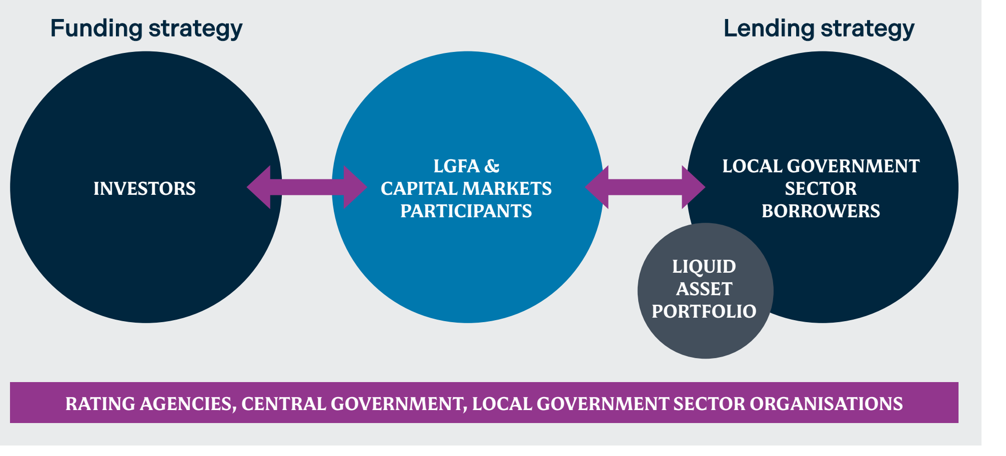
Scenario analysis

LGFA undertook in-house climate change scenario analysis to identify our climate-related risks and opportunities, including implications for our business strategy.

Our scenario analysis for these disclosures was a standalone exercise due to CRD requirements. Over the next 12 months, we will review how future scenario analysis will fit within our overall business strategy.

Scenario analysis process

Our scenario analysis comprised workshop discussions with management, with participants from the LGFA Board and Sustainability Committee, on how climate scenarios could impact our **value chain**:



Future borrowing demand from local government sector borrowers will be a key driver for our funding and liquidity strategies.

Our analysis did not include any specific modelling; it was a high-level qualitative exercise on how aggregate borrowing demand from the local government sector (lending strategy) and/or investor demand (funding strategy) could vary under each scenario.

We have yet to develop our analysis to quantify the anticipated financial impacts; this is on our work programme for the coming year.

Focal question

How could climate change plausibly affect LGFA's future funding, lending, and risk management strategies?

Climate scenarios

Scenario 1 – Orderly decarbonisation

IPCC Representative Concentration Pathway 2.6.

Temperature rise limited to 1.5o – 2.0o C

Emissions start declining and go to zero by 2050

Transition risk:	Moderate to higher complexity
Physical risk:	Low to moderate

A relatively orderly transition to a lower-emissions economy, with New Zealand and global policies and activities to address climate change being introduced early and gradually becoming more stringent. Initial high transition risk leading to minimising both physical and transition risks over time.

Scenario 2 – Delayed decarbonisation

IPCC Representative Concentration Pathway 4.5.

Temperature rise limited to 2.5o – 3.0o C

Emissions peak around 2040, then decline. Higher temperature rise leads to greater physical risks.

Transition risk:	Moderate complexity up to mid-2030's, high complexity thereafter
Physical risk:	Moderate to higher physical risk

A less orderly transition to a lower-emissions economy, with delayed action or divergent policies across countries or sectors to reduce emissions leading to an increase in acute transition risks. ie. Disordered and inconsistent regulation in the 2020's, Abrupt and stringent policies enacted in the 2030's.

Scenario 3 - Hothouse

IPCC Representative Concentration Pathway 8.5.

Temperature rise approx 5.0o C

Emissions continue to rise throughout the 21st century.

Transition risk:	Moderate complexity
Physical risk:	High to severe physical risk

Temperatures rise exceeds 4.0o C. Highest temperature rise leads to most significant physical risk.

A particularly severe transition, with minimal action across countries to reduce emissions, due to a lack of political will, limited financial resources, or other factors that prevent countries from taking any meaningful action to address climate change. ie. Potential for runaway global warming, which could lead to a catastrophic "hothouse" state of the Earth's climate system.

Time horizons

In considering the anticipated risks and opportunities from the impacts identified with our three scenarios, we considered the implications over the short, medium and long term.

Short term	3 years	Aligns with the three-year planning cycle for LGFA's Statement of Intent.
Medium term	3-10 years	Aligns with the local government sector's long term planning horizon.
Long term	10+ years	Long-term strategic implications.

Limitations and uncertainties

Our scenario analysis reflects our current understanding as at August 2024 in respect of the 12-month period to 30 June 2024. As our understanding and processes will continue to progress over time, it is important to communicate the challenges and uncertainties with our climate scenario analysis.

The most material uncertainty is the exact nature and impacts from the physical change to the climate itself, particularly over long-term horizons, given the climate is dynamic, involves feedback loops, interdependencies, and tipping points.

Approach to scenario analysis

LGFA direct operations have limited direct exposure to either transition or physical risks.

However, the local government sector is directly exposed to substantive risks from climate change, both transitional and physical, and the sector's approach to addressing and managing their climate risks will impact LGFA's lending and funding operations.

Therefore, our approach to scenario analysis was to consider how our business strategy may be impacted by the implications of climate risk on the two significant stakeholders in our value chain: our borrowers (the local government sector), and our domestic and international investors (Capital markets).

Lending strategy – Local government sector

The local government sector's future financing requirements will be a significant driver of how effectively councils manage climate risks, both transition and physical. This includes:

A Councils response to the pace of regulatory change and evolving political and societal pressures (transition risk), and

B Councils preparation and response to the impacts from increasing frequency and severity of weather events (physical risk).

Funding strategy – Capital markets

Forecast financing requirements for the local government sector is a key driver for LGFA's funding strategy. As climate risk increasingly impacts councils financing requirements, we need to ensure LGFA's funding strategy is fit for purpose. This includes:

C Investor preference for investment in low-carbon technologies, renewable energy, and sustainable infrastructure.

D International capital markets perception of New Zealand and/or NZ local government sector.

Local Government Sector
Responding to pace of regulatory change and political and societal pressures

ORDERLY	DELAYED	HOTHOUSE
Highest level of consistent regulatory activity across local entities, commencing in 2020s and being maintained over medium/long-term.	Less regulatory activity in 2020s as well as inconsistent activity across local entities. Level of activity increases in both frequency and stringency in the 2030s.	Least level of regulatory activity and disagreement across local entities on actions required. Persists over short/ medium/long-term.

Local government sector risks

- Regulatory changes increase operating expenditure (e.g. higher resourcing requirements due to expertise and greater complexity).
  Driving force: Political
- Regulatory changes increase capital expenditure (e.g. increased focus on resilience and mitigation measures, plus 'green' assets are more overhead intensive).
  Driving force: Political
- Public demand for more sustainable public transport options (e.g. hydrogen buses).
  Driving force: Social
- Exposure to carbon price increases.
  Driving force: Economic

Implications for local government sector funding

ORDERLY	DELAYED	HOTHOUSE
Increase in council financing in short-term. Will maintain or reduce over medium/long-term with limited volatility.	Increase in council financing in short-term. May increase over medium/long-term with some volatility.	Minimal increase in council financing requirements in short-term, increasing medium-term, significant (potentially unaffordable) in long-term.

Expectation differences
LGFA transition risk

Difference in expectations between LGFA and stakeholders regarding LGFA's commitment to, and adoption of, climate regulatory changes and/or aligning with societal or political pressures. Members may elect to borrow elsewhere if they consider LGFA not moving fast enough.

ORDERLY	DELAYED	HOTHOUSE
High short-term.	Some short-term, increasing over medium, long-term.	Limited short, medium increases over long-term.

High complexity
LGFA transition risk

Regulatory changes drive high-complexity in information requirements, disclosure, and product innovation. Likely to drive higher resourcing requirements over short/medium-term, plus introduce distraction risk over core functions.

ORDERLY	DELAYED	HOTHOUSE
High short-term.	Some short-term, increasing over medium, long-term.	Limited short, medium increases over long-term.

Increase in funding requirements
LGFA transition opportunity

Regulatory change and political and societal pressures drive an increase in member funding requirements, improving balance sheet growth.

ORDERLY	DELAYED	HOTHOUSE
High short-term.	Some short-term, increasing over medium, long-term.	Limited short, medium increases over long-term.

Promotion of products to support sector
LGFA transition opportunity

LGFA supports local government sector's early adoption of mitigation through actively promoting sustainable lending products, both improving LGFA profitability and lifting reputation as proactive climate risk entity.

ORDERLY	DELAYED	HOTHOUSE
High short-term.	Some short, medium, limited long-term.	Limited short, medium, long-term.

Improved sector relationship
LGFA transition opportunity

Improvement in LGFA local government sector relationship across all levels of sector, including industry bodies and engagement across elected members.

ORDERLY	DELAYED	HOTHOUSE
High short-term.	Some short, medium, limited long-term.	Limited short, medium, long-term.

Local Government Sector
Increased frequency and severity of weather events

ORDERLY	DELAYED	HOTHOUSE
Higher incidence of significant weather events creates periodic response and reconstruction pressures on regions.	Significant weather events increase in frequency placing higher response and reconstruction pressures on regions.	Increasing frequency of significant weather events create ongoing substantive response and reconstruction pressures on regions.

Local government sector risks

- Operating costs. Responding to weather events creates volatile cost pressures on operating budgets.
  Driving force: Environmental
- Capital expenditure. Replacement of infrastructure assets.
  Driving force: Environmental
- Resourcing. Reduced ability for councils to deliver core services as resources diverted to manage response to weather events.
  Driving force: Environmental, economic
- Central government funding. Assist councils deal with additional costs from responding to weather events.
  Driving force: Environmental & political
- Managed retreat activity in regions.
  Driving force: Environmental
- Rating impact. Property values decrease; reluctance or inability from rating base to pay rates.
  Driving force: Environmental & economic
- Ratings impact. Population declines in regions vulnerable to climate events reduces rating base.
  Driving force: Environmental & economic
- Insurance cost and availability.
  Driving force: Environmental & economic

Implications for local government sector funding

ORDERLY	DELAYED	HOTHOUSE
Increase in short-term financing requirements to assist recovery from ad hoc adverse weather events. Additional long-term financing may be required for managed retreat.	Increase in short-term financing requirements to assist recovery from weather events, increasing in frequency over medium/long-term. Long-term financing may be required for managed retreat /adaptation, increasing in magnitude over medium/ long-term. Some risk of increasing pressure on council ability to adequately fund over medium/long-term.	High pressure on short-term financing requirements to assist recovery from weather events, increasing in frequency over medium/ long-term. Long-term financing may be required for managed retreat /adaptation, increasing in magnitude over medium/ long-term. Risk of increasing pressure on councils' ability to adequately fund over medium/long-term.

Back to contents

Financing risk

LGFA physical risk

Increasing volatility in council borrowing requirements increases LGFA financing risk. LGFA required to hold larger liquid asset portfolio (LAP) to manage increased volatility in borrowing requirements adversely impacting profitability.

ORDERLY	DELAYED	HOTHOUSE
Larger LAP to meet increased short-term financing requirements. Some reduction in profitability.	Larger LAP to meet increased short-term financing requirements and increasing volatility in council long-term borrowing forecasts. Higher negative impact on profitability	Larger LAP to meet increased short-term financing requirements and high volatility in council long-term borrowing forecasts. Possible material adverse impact on profitability.

Council covenant limits

LGFA physical risk

Rapid increase in council borrowing requirements utilise covenant limits with risk councils may be unable to borrow if covenant limits are breached.

ORDERLY	DELAYED	HOTHOUSE
No material impact. Existing risk with growth councils.	Heightened risk with growth councils and councils in regions at high risk of adverse weather events.	Likely material risk under current covenant structure.

Council credit default

LGFA physical risk

Climate change significantly lifts both quantum and volatility in council financing requirements. Higher capital costs combined with decrease in rates income increases risk of council credit default.

ORDERLY	DELAYED	HOTHOUSE
Low council default risk.	Emerging, but low, default risk.	Increasing possibility of default risk.

Alternative financing providers

LGFA physical risk

Councils seek financing from alternative providers if LGFA unable or unwilling to lend to heavily indebted councils.

ORDERLY	DELAYED	HOTHOUSE
Low risk.	Some risk if LGFA constrained in lending due to covenant implications.	High risk if LGFA constrained in lending due to covenant or risk re council credit.

LGFA credit downgrade

LGFA physical risk

Deteriorating local government sector finances impair LGFA asset quality increasing risk of LGFA credit downgrade.

ORDERLY	DELAYED	HOTHOUSE
Limited risk of downgrade unless NZ sovereign downgrade.	Risk of downgrade if sovereign downgrade. Emerging risk if significant councils adversely impacted by severe weather.	High risk of credit downgrade due to deteriorating financial positions of council borrowers.

Differentiated pricing

LGFA physical opportunity

Potential to vary lending margins by council to better reflect risk exposure to climate events.

ORDERLY	DELAYED	HOTHOUSE
Opportunity across all scenarios.		

Closer working relationship with central government

LGFA physical opportunity

LGFA and central government work cooperatively together with aim of providing optimal financing solutions to assist councils manage climate-related financing risk.

ORDERLY	DELAYED	HOTHOUSE
Opportunity across all scenarios.		

Capital markets

Increasing preference for investment in low-carbon technologies, renewable energy, and sustainable infrastructure.

ORDERLY	DELAYED	HOTHOUSE
Early shift in investor sentiment and interest in short-term, increasing into medium/long-term.	Some early shift in investor sentiment and interest in short-term, increasing into medium/long-term.	Limited shift in investor sentiment and interest in short-term, increasing significantly into medium/long-term.

Markets sector risks

- Sustainable practices. Expectation for issuers to adopt low-carbon business practices and carbon emission discloses. Requirement from market and government for increased transparency (eg CRD).
  Driving force: Social & political
- Sustainable instruments. Demand for new financial instruments that support low-carbon investments.
  Driving force: Social & political
- Sustainability-related margins. Investors margin expectations for non-sustainable business practice and/or bonds.
  Driving force: Driving forces: Social & political
- Climate tools. Increased use of climate risk assessment tools to identify and manage physical and transition risks associated with climate change.
  Driving force: Social & technological
- Demand for information. Market and government (CRD). Increased transparency.
  Driving force: Social & technological

Implications for issuance strategy

LGFA unable to rely on vanilla bonds only. Issuance strategy needs to evolve to include a suite of sustainability-related instruments that appeal to both investors and borrowers.

ORDERLY	DELAYED	HOTHOUSE
Highest impact.	Medium impact.	Low impact

Inability to fund borrowers' requirements

LGFA transition risk

Failure to develop sustainability-based issuance strategy that meets investor requirements reducing LGFA's funding pool and reduces diversity of investor base. LGFA borrowing spreads may be adversely impacted.

ORDERLY	DELAYED	HOTHOUSE
Highest risk.	Medium risk.	Low risk.

Market share

LGFA transition risk

Borrowers move to alternative lending providers due to LGFA failure to develop attractive sustainability-based lending products to meet borrower needs

ORDERLY	DELAYED	HOTHOUSE
Highest risk.	Medium risk.	Low risk.

Sustainability-related investment initiatives

LGFA transition opportunity

Investors consider LGFA an attractive entity for sustainability-related investment instruments.

ORDERLY	DELAYED	HOTHOUSE
Highest opportunity.	Medium opportunity.	Low opportunity.

Sustainability-related lending initiatives

LGFA transition opportunity

LGFA develop sustainability-related lending products that incentivise councils to adopt.

ORDERLY	DELAYED	HOTHOUSE
Highest opportunity.	Medium opportunity.	Low opportunity.

Capital markets

International capital markets perception of New Zealand and/or NZ local government sector.

ORDERLY	DELAYED	HOTHOUSE
NZ considered as early adopter of climate reduction initiatives compared to global peers.	NZ adoption of climate reduction initiatives is neither stand out positive or negative compared to global peers.	NZ considered to be lagging in climate reduction initiatives compared to global peers.

Markets sector risks

- NZ country risk. Access/credibility to global investors.
  Driving force: Social & political
- LGFA /NZ local government sector. Access/credibility to global investors
  Driving force: Social & political
- Investor expectations adversely impact borrowing costs from either/both NZ country risk and LGFA/local government sector risk.
  Driving force: Social, political & economic

Implications for issuance strategy

LGFA increasingly unable to access sufficient funding due to negative market perceptions.

ORDERLY	DELAYED	HOTHOUSE
Highest impact.	Medium impact.	Low impact

Market perception – New Zealand

LGFA transition risk

NZ climate risk management perceived negatively by international capital markets.

ORDERLY	DELAYED	HOTHOUSE
Low risk.	Medium risk.	High risk.

Market perception – Local government sector

LGFA transition risk

How LGFA and local government section viewed by international market. E.g. LGFA inability to price efficiently if loans considered non-green, or 'green washing' perception. Greater scrutiny/demand by discerning investors; LGFA may lose market share. Non-green use of funds to councils viewed unfavourably.

ORDERLY	DELAYED	HOTHOUSE
Low risk.	Medium risk.	High risk.

Market perception – Local government sector

LGFA transition opportunity

How LGFA demonstrate climate reduction commitment to positively influence local government and capital markets sectors. Local government sector perceived highly by international investors providing opportunity for LGFA to outperform competing funders.

ORDERLY	DELAYED	HOTHOUSE
Highest opportunity.	Medium opportunity.	Low opportunity.

Risk management

To date, LGFA's processes for identifying, assessing and managing climate-related risks has comprised an annual climate resilience risk assessment for each individual council member.

The climate resilience risk assessment is a high-level review which 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, with each of these informing our overall resilience risk assessment.

A council's climate resilience risk assessment is one input into LGFA's internal credit rating assessment model for each of New Zealand's 78 councils and CCO members.

A council's LGFA credit rating may influence or limit the extent a council can borrow. Due to the high creditworthiness of the local government sector, LGFA has not limited any council's ability to borrow because of an LGFA credit rating.

The climate resilience risk assessment for councils does not split risks into short-term, medium-term, and long-term time horizons and LGFA does not currently prioritise climate-related risks relative to other types of risks.

To date, LGFA's processes for identifying, assessing, and managing climate-related risks have been limited to the council resilience assessment. As part of our preparation for CRD, LGFA completed a climate scenarios workshop for assessing climate-related risks. This workshop will inform our workplan over the next 12 months to determine if future changes will be made to our processes for identifying, assessing and managing climate-related risks, including incorporating climate-related risks into our overall risk management framework.

Metrics and targets

Greenhouse gas (GHG) emissions

Operational emissions

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

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

EMISSIONS (tCO_2e)	2023/24	2022/23	2021/22	2020/21	2019/20	BASE YEAR 2018/19
Scope 1: Operational	--	--	--	--	--	--
Scope 2: Operational	3	3	3	3	3	2
Scope 3: Operational	41	50	40	28	65	135
Total operational	**43**	**53**	**43**	**31**	**68**	**137**
GHG emissions intensity (per employee)	2.7	3.6	2.9	2.1	5.2	10.6

LGFA uses the operational control approach for calculating GHG emissions.

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

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

Financed emissions

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

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

Key performance indicators and targets

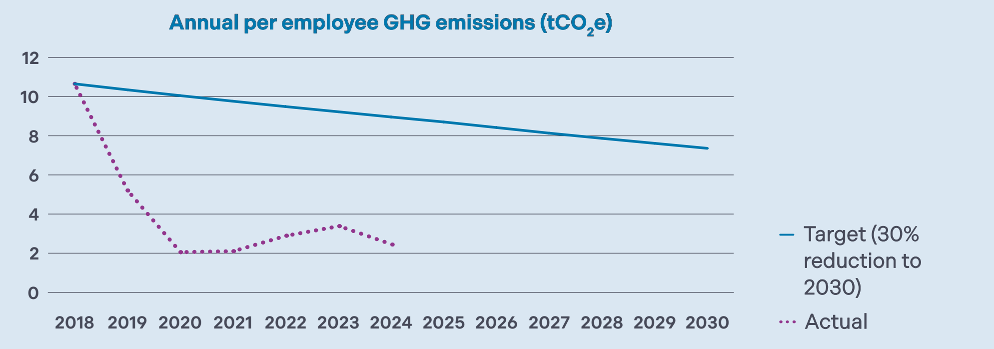
LGFA has the following key performance indicators for measuring and managing climate-related risks and opportunities:

1. LGFA has committed to reducing our operational carbon emissions over time, with our target of cutting per employee emissions by 30% by 2030, compared with a 2018/19 base year. Note: This target relates to operational emissions (primarily organisational travel) and excludes invested or financed emissions.

   LGFA's target to cut per employee operational emissions by 30% by 2030 was set in line with the New Zealand's Government commitment for 2030 and does not rely on offsets. 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.
   - As referenced earlier, while LGFA's direct emissions and scope 3 for travel are not material, they are noted in this report as an organisational climate-related metric/target.

Performance against target as at June 2024



2. Increase our Climate Action Loans (CALs) by three borrowers and undertake two GSS loans (2024-25 annual target).

   For the year-ended June 2024, LGFA met the CAL target with four new borrowers approved, but did not meet the GSS target with one loan approved over the year.

3. Meet all mandatory climate reporting standards (annual target).

All targets are absolute targets, except for GHG emissions intensity (per employee) which is a relative target.

LGFA does not currently have targets relating to Scope 3 emissions for invested and financed emissions.

LGFA does not have a specific view on how targets contribute to limiting global warming to 1.5 degrees Celsius.

LGFA does not use an internal emissions price as this is not considered appropriate for LGFA's business model.

Exposure to climate-related risks and opportunities

All loans to members are subject to a level of transition risk, being a consequence of how well individual members manage their financial exposure to transition risks. However, we do not consider this risk 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.

As at 30 June 2024, LGFA had the following assets specifically aligned with climate-related opportunities:

- CAL loans were $2.74 billion, being 12% of total assets;
- GSS loans were $0.38 billion, being 2% of total assets.

LGFA had the following liabilities specifically aligned with climate-related opportunities:

- Sustainability bonds were $1.76 billion, being 8% of total liabilities.