

Customer Story

How a Local Government Funding Agency Drove Sustainable Infrastructure Investment in New Zealand

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





Committed to Sustainability in Aotearoa

The New Zealand Local Government Funding Agency's (LGFA) primary purpose is to provide New Zealand councils and council-controlled organizations (CCOs) with access to debt at a better rate than they would receive on the open market. In 2019, the agency recognized it could use its influence to impact environmental and social change throughout the island nation. With the support of Morningstar Sustainalytics and its finance and lending products, LGFA set about establishing its Sustainable Financing Bond Framework to fund green and socially responsible projects that stand to benefit local communities for generations to come.



Industry
Finance



Region
APAC (New Zealand)



Sustainability Product
Second-Party Opinion
(Sustainable Financing Bond Framework)

"The work provided by Sustainalytics gave LGFA confidence that its Sustainable Financing Bond Framework is highly credible and follows best-in-class standards."

Nick Howell
Head of Sustainability, LGFA



The Opportunity



LGFA wanted to provide councils and CCOs with accessible funding tools they could use to implement projects with environmental and social benefits, but the agency needed to ensure its funding framework met the highest standards.

The Solution



Upon developing a Sustainable Financing Bond Framework, the agency engaged Sustainalytics to provide a KPI-SPT Assessment Report. LGFA subsequently obtained a second-party opinion from Sustainalytics to demonstrate to stakeholders that issuances delivered under the framework would have an overall positive environmental and social impact.

The Results



Sustainalytics' expertise gave LGFA confidence that its framework was credible and its standards were best in class. This allowed the agency to issue bonds that fund sustainable infrastructure projects across New Zealand and encourage councils and CCOs to reduce their organizational greenhouse gas emissions.

About New Zealand Local Government Funding Agency

The New Zealand Local Government Funding Agency, incorporated as a limited liability company in December 2011, is an agency that raises debt for councils and CCOs with more favorable terms than would be possible on the open market. These favorable terms are possible by issuing bonds and distributing the proceeds to communities to fund local infrastructure projects. The New Zealand government owns 20% of the agency while 30 councils own the remaining 80%.





The Opportunity

Encouraging Climate Action Through Sustainable Investment Opportunities

LGFA recognized that climate change poses a risk to the local communities that it serves and aimed to support the country's transition to a low-carbon economy. As such, the agency encouraged councils to take on green, social and sustainability (GSS) projects by providing GSS loans for local sustainable infrastructure projects. The agency also offered climate action loans (CAL) to prompt councils to reduce their organizational carbon footprints. To advance this ambition, the LGFA developed a Sustainable Financing Bond Framework, with the proceeds from issuances earmarked to fund the GSS loans and CAL programs.

LGFA's Sustainable Financing Bond Framework was designed around one sustainable finance asset pool from which the two different types of loans could be distributed to councils and CCOs. This would simplify its sustainable financing bond issuance process. The framework would provide borrowers (i.e., councils and CCOs) with the support they need to fund sustainable assets and activities, while incentivizing the reduction of greenhouse gas emissions. The agency hoped the framework would attract investors and encourage investment in the sustainable finance market, helping borrowers achieve sustainability goals.

To assure stakeholders that the Sustainable Financing Bond Framework lived up to its expectations, LGFA embarked on a search for a second-party opinion provider whose reputation as a market leader would leave no doubt to the framework's credibility.

"The process was very smooth, and from start to finish, was very clearly outlined. The Sustainalytics team remained flexible throughout, which resulted in excellent execution in all aspects of the project."

Mark Butcher
Chief Executive, LGFA



The Solution

Engaging the Market Leader for Second-Party Opinions

When selecting a second-party opinion provider for its Sustainable Financing Bond Framework, LGFA had specific qualities in mind, including a track record in New Zealand, availability of specialized teams, and a willingness to work within tight timelines. Sustainalytics checked all the boxes and was engaged to begin the work.

Through Sustainalytics, the agency received assessments of its key performance indicators, sustainable performance targets, GSS lending criteria and CAL lending criteria, as well as a pre-issuance report on its loan portfolio. This led to LGFA obtaining a second-party opinion on its bond framework.

Obtaining an independent, external evaluation of their bond framework was a crucial part of the issuance process. A second-party opinion and assessment from Sustainalytics provided investors with assurances that the bond framework was aligned to accepted market principles and that their bond's use of proceeds, as set out in the framework, was aligned to market practices and expectations of the investor community.

As a supra-national, sub-sovereign, and agency debt issuer, it was critical that LGFA adopted the highest standards and exhibited the utmost integrity in its product delivery. According to LGFA, Sustainalytics was able to provide the agency with the confidence it needed to ensure its Sustainable Financing Bond Framework was clear, robust and credible.

"Our experience with Sustainalytics was excellent. The project teams went over and above the call of duty in ensuring they provided the best outcomes under a tight timetable."

Nick Howell
Head of Sustainability, LGFA



The Results

Leading the Way Through a Sustainability Strategy

The findings of the Sustainalytics second-party opinion were favorable, indicating the framework is “expected to advance LGFA’s and New Zealand’s sustainability objectives and generate positive environmental and social impacts.”¹ The report also noted that the bonds issued under the framework would fund overall impactful social and environmental activities through the two sustainable loan pools (i.e., GSS loans and CALs).

Despite being issued a tight deadline, the team at Sustainalytics managed to deliver its reports on time, allowing LGFA to enjoy a seamless transition to its new bond issuance strategy. And on April 11, 2023, the agency launched its inaugural sustainable financing bond issue and priced an issue size of NZD 1.1 billion (US\$695 million) the following day. The proceeds from that bond will be set aside to deliver sustainable loans to councils and CCOs and help to achieve sustainability goals and meet climate change mitigation targets across New Zealand.

Moving forward, LGFA is eager to build on its sustainability strategy and plans to focus on its Climate-Related Disclosures (CRD) reporting requirements and financed emissions data collection. With its ongoing commitment to sustainability, the agency plans to engage Sustainalytics again and complete its annual bond issuance reporting requirements.



¹ Sustainalytics. 2023. “Second-Party Opinion: LGFA Sustainable Financing Bond Framework.” March 29, 2023. [https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/the-new-zealand-local-government-funding-agency-limited-\(lgfa\)/lgfa-sustainable-financing-bond-framework-second-party-opinion/lgfa-sustainable-financing-bond-framework-second-party-opinion-\(2023\)](https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/the-new-zealand-local-government-funding-agency-limited-(lgfa)/lgfa-sustainable-financing-bond-framework-second-party-opinion/lgfa-sustainable-financing-bond-framework-second-party-opinion-(2023))

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