

HALF YEAR REPORT

31 DECEMBER 2013



New Zealand Local Government Funding Agency Limited

Half Year Report
31 December 2013

New Zealand Local Government Funding Agency Limited

Half Year Report 31 December 2013

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Directors' commentary on operations

For the six months ended 31 December 2013



“We have continued to reduce our base margin charged to councils delivering on our commitment to provide debt to councils at the lowest possible interest rate”

Craig Stobo, Chairman LGFA Board

There are three key achievements in the half-year ended 31 December 2013 that we wish to highlight:

1. We have continued to reduce our base margin charged to councils.

We have continued to reduce our base margin charged to councils delivering on our commitment to provide debt to councils at the lowest possible interest rate. Initially, LGFA charged a base margin to borrowers of 30 basis points (bps). This margin was cut twice during 2012/13, with a further cut from 20 bps to 15 bps in September 2013.

2. We have achieved LGFA bond outstandings in excess of \$3 billion.

At the 11 December 2013 tender, our bond outstandings increased to \$3.05 billion. During the half-year, outstandings in the March 2019 bond reached \$1 billion; the first time we have achieved this important milestone for a single maturity.

3. Pre-establishment expenses have been fully recovered.

Prior to the incorporation of LGFA on 1 December 2011, pre-establishment expenses of \$3.843 million were incurred. LGFA has subsequently made sufficient profit to fully recover these expenses. As at 31 December 2013, our total equity (\$25.144 million including retained earnings) exceeded paid up share capital (\$25 million) for the first time.

During the half-year to 31 December 2013, a further three councils joined LGFA, either as borrowers and guarantors, or as borrowers only.

As at 31 December 2013, of the 78 local authorities, 42 are eligible borrowers of LGFA. These 42 eligible borrowers represent over 90% of total local government sector debt.

LGFA has provided significant savings in interest costs to our member councils. As at 31 December 2013, we estimate that LGFA was saving AA rated councils approximately:

- 20 to 25 bps in annual interest costs on a December 2017 maturity, and
- 25 bps in annual interest costs on a March 2019 maturity.¹

Non-rated borrowers will be saving significantly more.

Our net operating profit for the half-year ended 31 December 2013 was \$3.27 million; \$0.09 million ahead of the forecast in our Statement of Intent.

Standard and Poor's (on 7 November 2013) and Fitch Ratings (on 26 November 2013) continue to recognise LGFA's strong credit fundamentals by affirming our local currency (AA+) and foreign currency (AA) ratings. These credit ratings are the same as the New Zealand sovereign ratings.

We also want to record our appreciation for the Crown's continuing involvement as the largest single shareholder in LGFA and as provider of operational support and a significant liquidity facility through the New Zealand Debt Management Office (NZDMO).

1 Refer 3.1 of the Statement of Service Performance (page 7).

New Zealand Local Government Funding Agency Limited

Statement of service performance
For the six months ended 31 December 2013

Statement of service performance

For the six months ended 31 December 2013

The **2013/14 Statement of Intent (SOI)**, prepared in accordance with section 64(1) of the Local Government Act 2002, sets out the intentions and expectations of LGFA.

This section outlines the performance objectives set out in the SOI with a summary of LGFA's performance against these for the six months ended 31 December 2013 contained in section 3 of this report.

1. Primary Objective

LGFA operates with the primary objective of optimising the debt funding terms and conditions for participating local authorities. Among other things this includes:

- Providing estimated savings in annual interest costs for all Participating Local Authorities of at least 30 basis points, based on the methodology set out in LGFA's Annual Report 2011-2012. ([refer 3.1 below](#))
- Making longer-term borrowings available to Participating Local Authorities. ([refer 3.2 below](#))
- Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice. ([refer 3.3 below](#))

2. Additional objectives

LGFA has a number of additional objectives which complement the primary objective. These additional objectives are to:

- Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6 of the SOI. ([refer 3.4 below](#))
- Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities. ([refer 3.5 below](#))
- Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4 of the SOI. ([refer 3.6 below](#))
- Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency. ([refer 3.7 below](#))
- Achieve the following financial forecasts to 31 December 2013: ([refer 3.8 below](#))
 - Net Interest Income \$4.736m.
 - Total expenses \$(1.555)m.
 - Operating profit \$3.181m.
- Achieve the Dividend Policy set out in section 6 of the SOI. ([refer 3.9 below](#))
- Comply with its Treasury Policy, as approved by the Board. ([refer 3.10 below](#))
- Meet the following four performance targets: ([refer 3.11 below](#))
 1. Average cost of funds relative to NZGS <0.50%
 2. Average margin above LGFA's cost of funds <0.25%
 3. Annualised issuance and operating expenses <\$3.2m
 4. Lending to participating councils >\$3,400m

Statement of service performance

For the six months ended 31 December 2013

3. Performance against objectives to 31 December 2013

3.1 Providing estimated savings in annual interest costs for all Participating Local Authorities of at least 30 basis points, based on the methodology set out in LGFA's Annual Report 2011-2012

LGFA measures the pricing performance of bond tenders against two key benchmarks:

- LGFA aims to reduce its margin over New Zealand Government bonds (NZGBs) in accordance with its Statement of Intent (SOI) performance target.
- LGFA also aims to minimise its margin over swap rates to provide cost effective funding to councils.

We have met our primary objective by achieving significant improvement in the pricing of our benchmark 15 December 2017 and 15 March 2019 bonds since they were first issued. These bonds are regarded as our benchmark bonds because they have the largest volumes outstanding, the most liquidity and greatest frequency of issuance.

Over the course of the half-year ended 31 December 2013:

- NZGB margins deteriorated by 2 bps and 7 bps respectively for the December 2017 and March 2019 maturities.
- Swap margins improved by 13 bps and 10 bps respectively for our December 2017 and March 2019 bonds.

These secondary market pricing movements are summarised in the following tables:

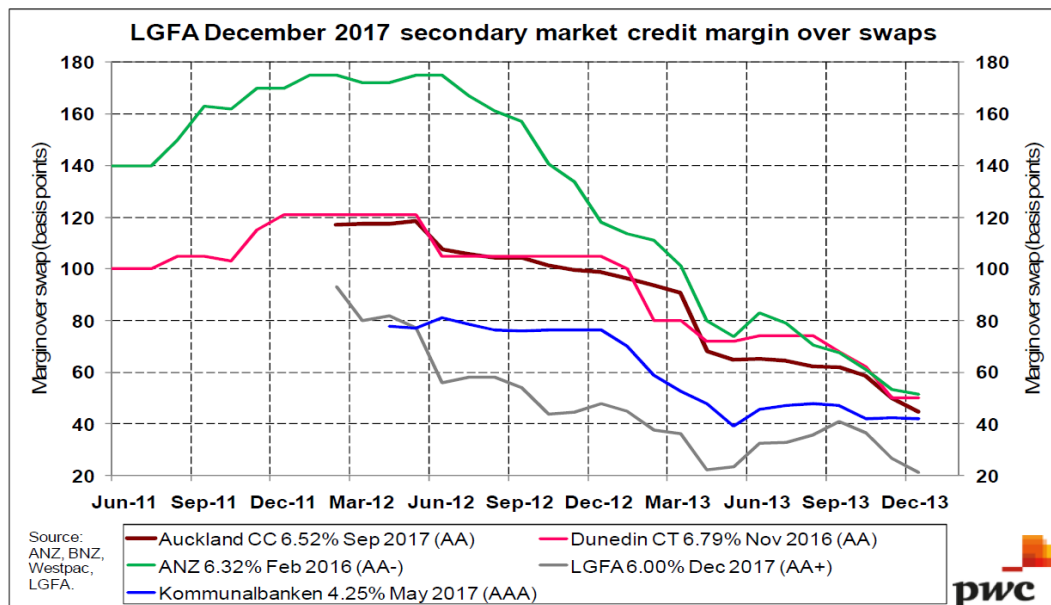
Margins – 15 December 2017	30 Jun 2013 (bps)	31 Dec 2013 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	73	75	(2)
NZGB margin to swap	(40)	(55)	15
LGFA margin to swap	33	20	13

Margins – 15 March 2019	30 Jun 2013 (bps)	31 Dec 2013 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	77	84	(7)
NZGB margin to swap	(37)	(54)	17
LGFA margin to swap	40	30	10

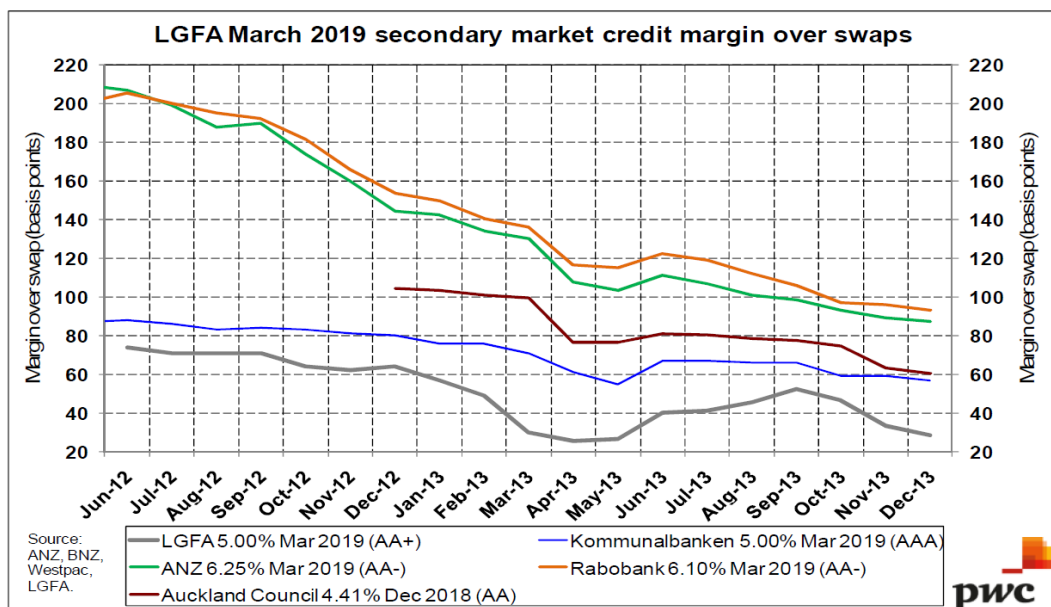
Statement of service performance

For the six months ended 31 December 2013

Despite a substantial improvement in our swap margins during the December quarter, we did not achieve annual interest cost savings of at least 30 bps. This is because swap margins for our benchmark councils (Auckland and Dunedin) also improved, largely in line with LGFA. These two councils both issued securities at favourable pricing immediately following the very successful LGFA tender held on 6 November 2013.



Source: PricewaterhouseCoopers



Source: PricewaterhouseCoopers

From the charts above we estimate that as at end December 2013, LGFA was saving AA rated councils approximately:

- 20 to 25 bps in annual interest costs on a December 2017 maturity, and
- 25 bps in annual interest costs on a March 2019 maturity.

Statement of service performance

For the six months ended 31 December 2013

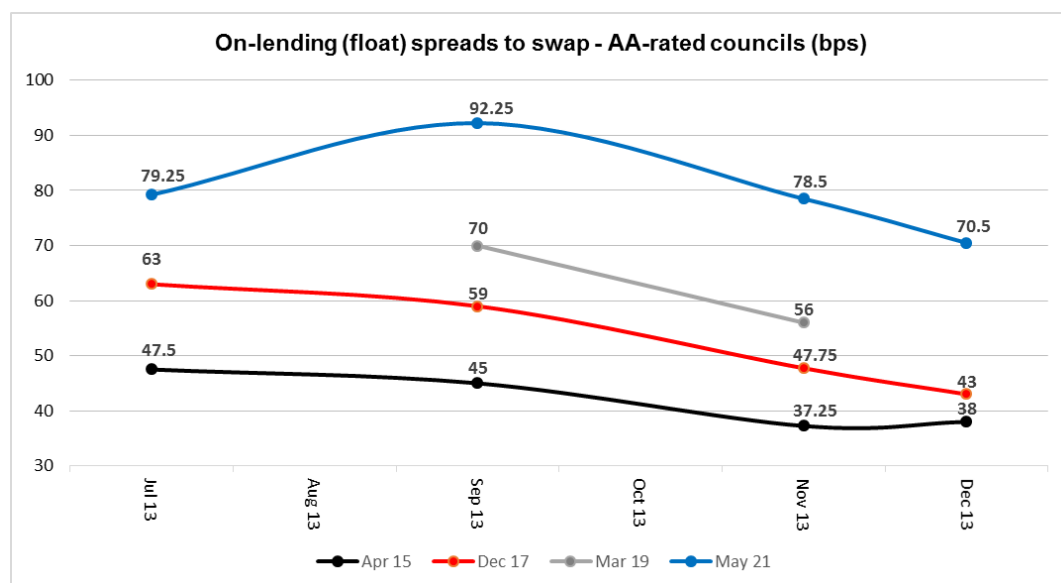
The basis for these estimates is set out in the table below:

Margins as at 31 December 2013	December 2017 maturity (bps)	March 2019 maturity (bps)
AA rated councils margin to swap*	45 to 50	60
Less: LGFA margin to swap	(20)	(30)
LGFA Funding Advantage	25 to 30	30
Less: LGFA Base Margin	(15)	(15)
LGFA Net Funding Advantage	10 to 15	15
Add: 'LGFA Effect' **	10	10
Total saving for AA rated councils	20 to 25	25

* For the 2017 bond, the benchmark councils are Auckland (45 bps) and Dunedin (50 bps). For the 2019 bond, the benchmark is Auckland. Dunedin does not have a 2019 bond on issue.

** The 'LGFA effect' represents the estimated conservative reduction in AA rated councils margin to swap as a result of LGFA operations. From May to June 2012, the margin to swap for AA rated councils fell by 10 bps, with no corresponding move in swap spreads for other borrowers. This suggests that potential access to cost-effective LGFA funding has enabled these councils to reduce their borrowing margin by around 10 bps.

The following chart shows the total borrowing margin charged to AA rated councils (borrowing on a floating rate basis) at the four tenders held in the first half of 2013/14. Over the past six months, borrowing margins charged to councils have been steadily declining for all maturities (as a general trend).



3.2 Making longer-term borrowings available to Participating Local Authorities

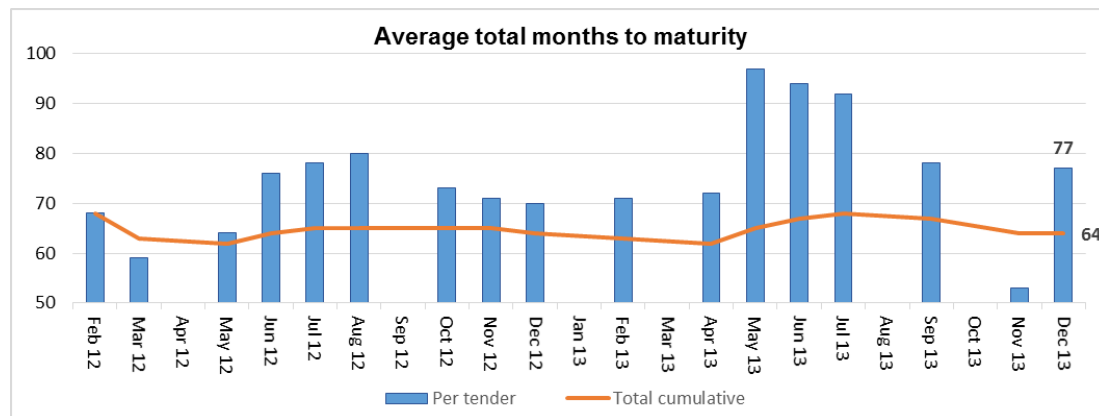
Over the course of the half-year, LGFA continued to offer two maturities of five years and longer to participating councils:

- 15 March 2019 bond (just over five years), first issued at the fourth bond tender held on 6 June 2012, and
- 15 May 2021 bond (just over seven years), first issued at the twelfth bond tender held on 15 May 2013.

Statement of service performance

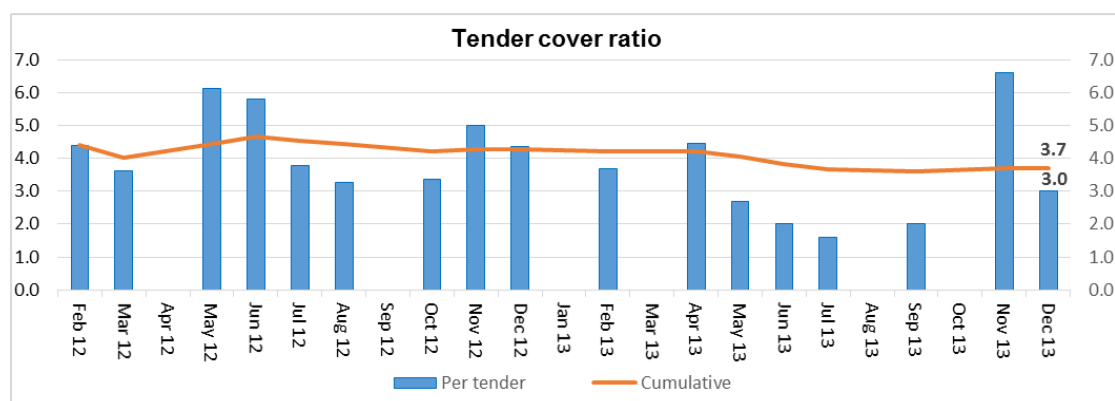
For the six months ended 31 December 2013

The following graph shows the average months to maturity for bonds issued at tender, and the aggregate average months to maturity for all bonds outstanding at each tender:



3.3 Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice

Access to debt markets has been enhanced by the consistently strong cover ratios achieved at most LGFA bond tenders held to date. Our cover ratio (ie. ratio of total amount bid to total amount offered) for each tender has been:



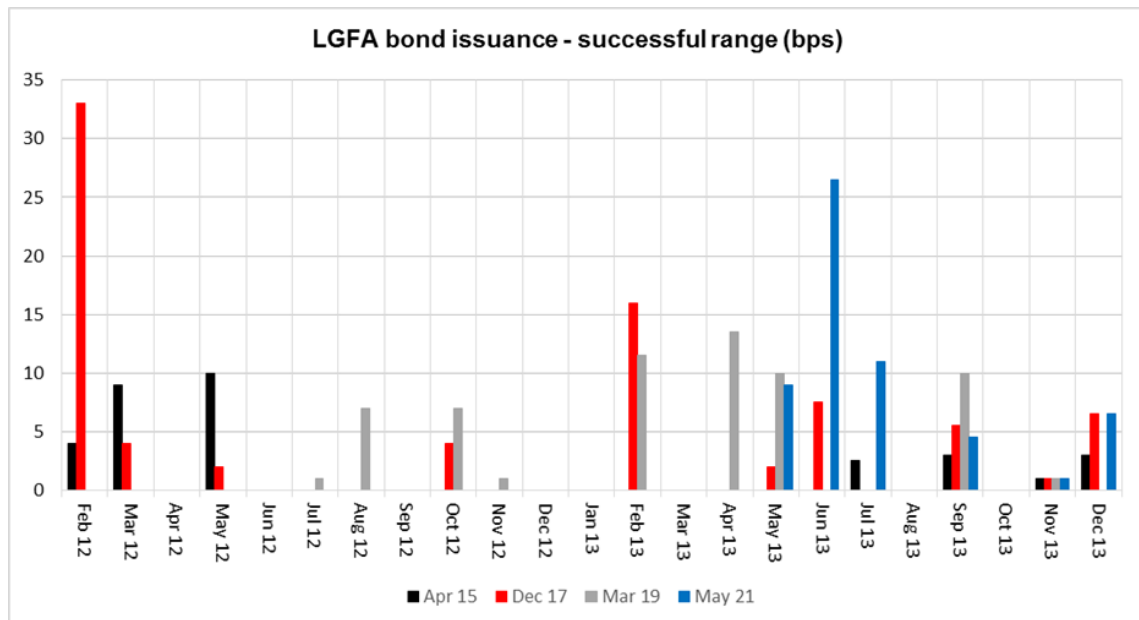
From the table, it is important to note that:

- Total bids received have amounted to \$11.3 billion in the first seventeen tenders,
- The average cover ratio has been 3.7 times, and
- Cover ratios in the two tenders held during the December quarter (6.6 times and 3.0 times) were significantly better than those achieved in the previous quarter (1.6 times and 2.0 times). Improving global financial market conditions and rising offshore investor demand for LGFA bonds were the key reasons for this improvement.

Statement of service performance

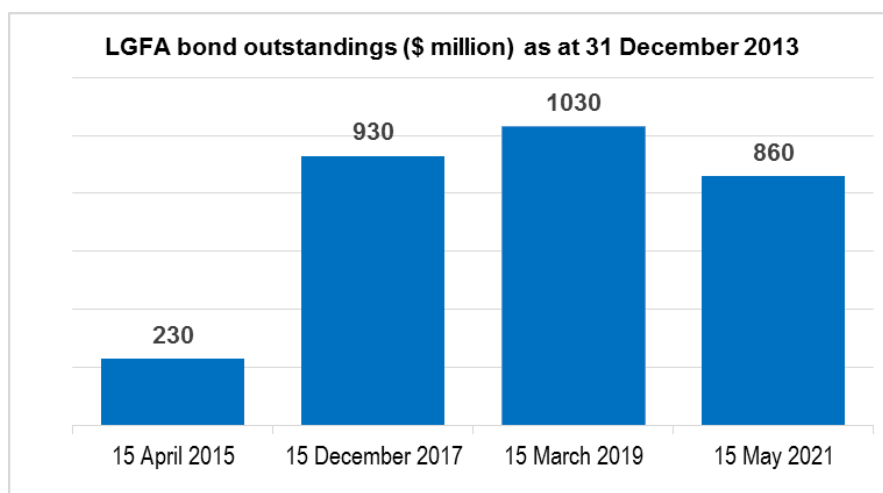
For the six months ended 31 December 2013

The following chart shows the successful bid range for all of our bonds (for all tenders), which provides a good guide to the market conditions at tenders. In general, the lower the successful bid range (difference between the highest and lowest successful bids), the better the tender.



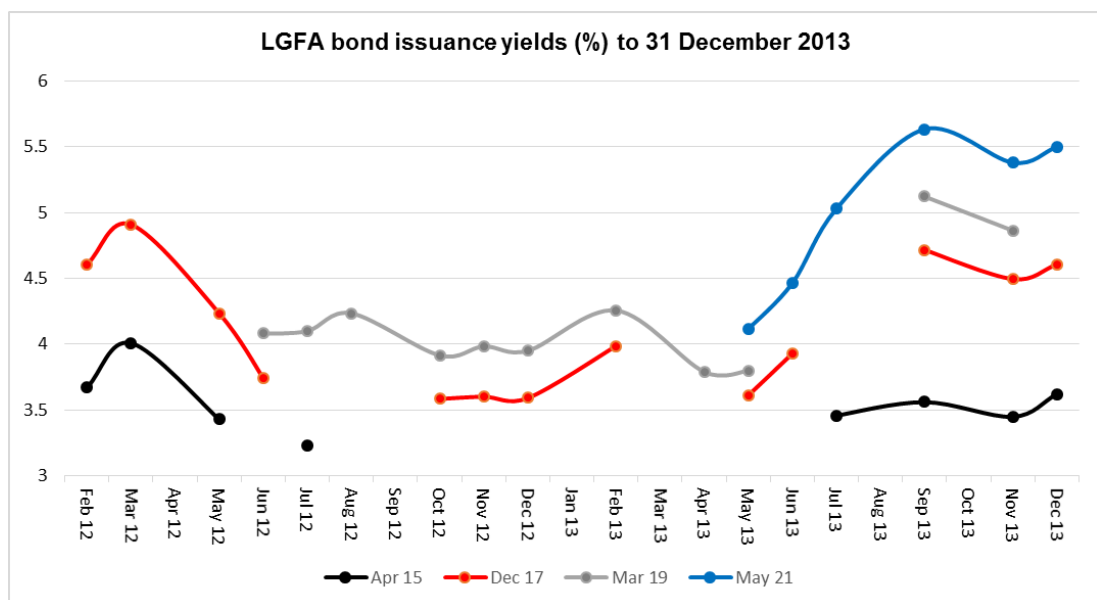
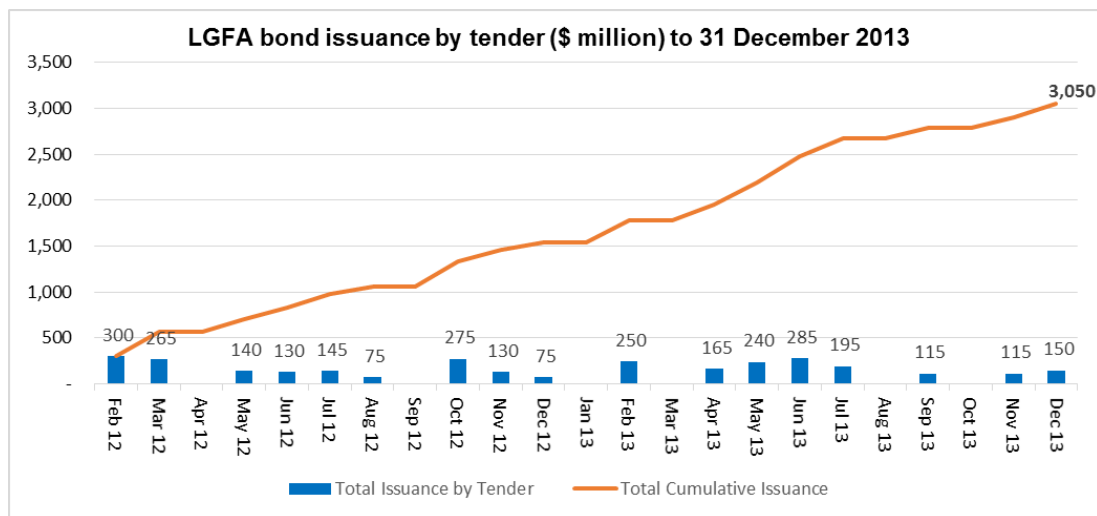
The following three charts summarise LGFA bond issuance to 31 December 2013:

- Total bonds outstanding
- Bond issuance by tender
- Issuance yields



Statement of service performance

For the six months ended 31 December 2013



3.4 Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6 of the SOI.

LGFA's policy is to pay a dividend that provides an annual rate of return to shareholders equal to LGFA cost of funds plus 2%.

Assuming a cost of funds of 5% during 2013/14, LGFA anticipates paying an annual rate of return to shareholders of 7%. This equates to a total dividend payment of \$1.750 million on \$25 million of paid-up ordinary shares.

Net operating profit in the first half ended 31 December 2013 was \$3.270 million, so performance to date gives rise to no concerns that would lead LGFA to alter its guidance around dividend payments.

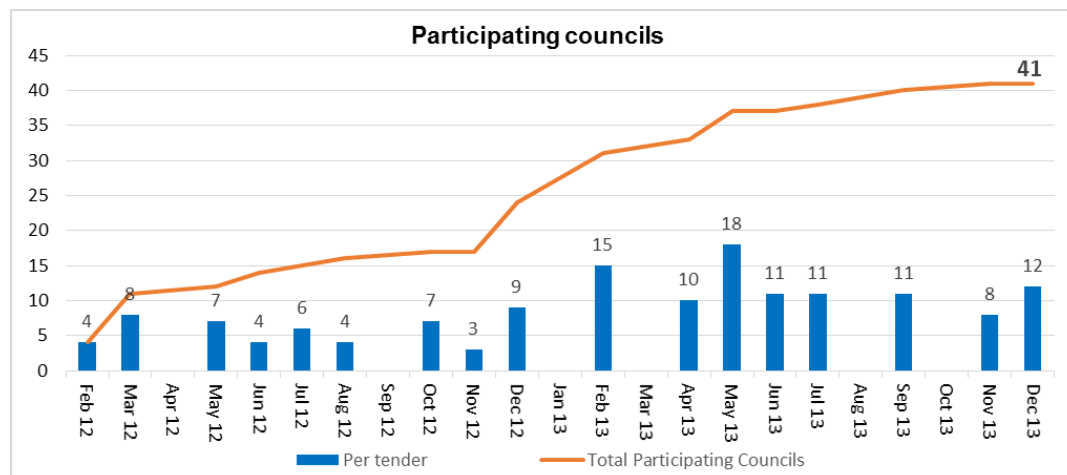
Statement of service performance

For the six months ended 31 December 2013

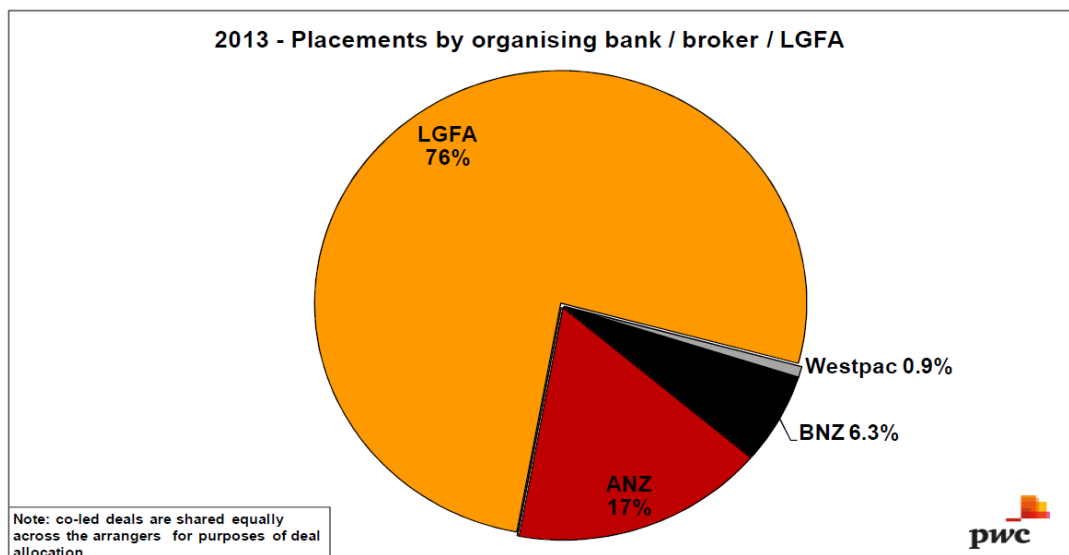
3.5 Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities.

A survey of all participating local authorities (42 councils at 31 December 2013) will be undertaken in the third quarter of 2013/14. This survey will enable us to gather accurate information on the proportion of long-term debt funded by LGFA for each participating council.

In the interim, strong council support for LGFA is demonstrated in the following graph which shows the progression of council participation from LGFA's commencement of issuance in February 2012:



The following chart below from PricewaterhouseCoopers shows the breakdown by organising bank or LGFA of new local government debt issuance in calendar year 2013. Our share of new long-term borrowing by all councils (including non-members of LGFA) was recorded at 76% in calendar year 2013. This market share is up from 63% in calendar year 2012.



Source: PricewaterhouseCoopers

Statement of service performance

For the six months ended 31 December 2013

3.6 Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4 of the SOI.

The following table shows LGFA's actual issuance and operating expenses for the half-year ended 31 December 2013 compared to forecast:

Half ended	Actual 31 Dec 2013 \$m	SOI Forecast 31 Dec 2013 \$m
Issuance and on-lending expenses	0.653	0.681
Operating expenses	0.839	0.874
Total expenses	1.492	1.555

Total expenses are currently running at \$62,000 below forecast for the first half of 2013/14.

The primary reason for this is lower than forecast personnel costs and legal fees associated with our on-lending activities.

3.7 Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency

- On 7 November 2013, Standard & Poor's affirmed LGFA's local currency credit rating at AA+ and foreign currency credit rating at AA. The outlook on both ratings is stable.
- On 26 November 2013, Fitch affirmed LGFA's local currency credit rating at AA+ and foreign currency credit rating at AA. The outlook on both ratings is stable.
- LGFA's credit ratings from both Fitch and Standard & Poor's are the same as the New Zealand sovereign ratings.

3.8 Achieve the Financial Forecasts set out in section 4

The following table shows LGFA's actual financial results (for key items set out in Section 4 of the SOI) for the first half ended 31 December 2013 compared to forecast:

Half ended	Actual 31 Dec 2013 \$m	SOI Forecast 31 Dec 2013 \$m
Net interest income	4.762	4.736
Total expenses	(1.492)	(1.555)
Operating profit	3.270	3.181

3.9 Achieve the Dividend Policy set out in section 6 of the SOI.

Refer to our comments on the dividend in section 3.4.

3.10 Comply with its Treasury Policy, as approved by the Board.

There were no breaches of the Treasury Policy.

Statement of service performance

For the six months ended 31 December 2013

3.11 Performance targets

Four performance targets are specified for LGFA in the SOI. Progress against each of these targets is discussed below, including an explanation of any material variances.

Performance Measure	Full Year Target	Result as at 31 December	Expect to meet target?
Average cost of funds relative to NZGS	<0.50%	0.71%	No. Refer to (i) below
Average margin above LGFA's cost of funds	<0.25%	0.15%	Yes
Annualised issuance and operating expenses	<\$3.2 million	\$1.492 million	Yes. Refer to (ii) below
Lending to participating councils	>\$3,400 million	\$3,055 million	Yes. Refer to (iii) below

(i) Average cost of funds

There are two key reasons for LGFA's relative cost of funds averaging 21 bps over the target level of 50bps:

- We issued a relatively large amount of May 2021 bonds (\$105 million out of a total tender size of \$150 million) at our 11 December tender. Longer dated bonds price at a relatively higher margin above NZGS than shorter dated bonds.

LGFA MARGINS TO NZGS Tender No 16 – 6 November 2013

Maturity	Margin (bps)
Apr 2015	37
Dec 2017	57
Mar 2019	66
May 2021	88

- While offshore investor interest in LGFA bonds is clearly increasing, we do not yet have a "critical mass" of these investors to drive down our NZGS margin towards the 50 bps target. That said, the 6 November 2013 tender was our most successful to date against this measure (see table above), with a weighted average margin over NZGS of just 59.6 bps.

As a result, LGFA's weighted average margin to NZGS fell to 71 bps in the December quarter 2013; our best quarterly outcome to date.

	Dec quarter 2012	Mar quarter 2013	Jun quarter 2013	Sep quarter 2013	Dec quarter 2013
Average cost of funds relative to NZGS	0.84%	0.76%	0.84%	0.97%	0.71%

(ii) Issuance and operating expenses

Total expenses for the half year ended 31 December 2013 amounted to \$1.492 million against a full year target of less than \$3.2 million. For the first half of 2013/14 we are currently \$62,000 ahead of the SOI target.

(iii) Lending to participating councils

With \$264 million of loans made to councils in the December quarter 2013, and \$310 million of on-lending in the September quarter 2013 (against a forecast per quarter of \$230 million), we are \$115 million ahead of target to date.

New Zealand Local Government Funding Agency Limited

Financial Statements

For the six months ended 31 December 2013

New Zealand Local Government Funding Agency Limited

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Directors' declaration

In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 20 to 33:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 31 December 2013, and
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial position of the Company and facilitates the compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Directors:

A handwritten signature in blue ink, appearing to read 'C. Stobo', with a long horizontal flourish extending to the right.

C. Stobo
Director
28 February 2014

A handwritten signature in blue ink, appearing to read 'A. Foote', with a stylized, looped structure.

A. Foote
Director
28 February 2014

Statement of comprehensive income

For the six months ended 31 December 2013 (unaudited)

in \$000s

		For the six months ended 31 December	
	Note	2013 Unaudited	2012 Unaudited
Interest income from			
Cash and cash equivalents		571	242
Loans to local government		54,177	23,938
Marketable securities		-	133
Deposits		488	419
Derivatives		12,652	6,507
Fair value hedge ineffectiveness	3	-	-
Total interest income		67,888	31,239
Interest expense on			
Bonds		62,343	28,601
Borrower notes		783	345
Total interest expense		63,126	28,946
Net interest income		4,762	2,293
Operating expenses			
Issuance and on-lending expenses	4	653	579
Operating expenses	5	839	927
Total expenses		1,492	1,506
Net operating profit (loss)		3,270	787
Total comprehensive income (deficit) for the period		3,270	787

These statements are to be read in conjunction with the notes to the financial statements

Statement of changes in equity

For the six months ended 31 December 2013 (unaudited)

	Note	Share capital	Retained earnings	Income for period	Total equity
Opening balance at 30 June 2013		25,000	(1,611)		23,389
Income for the period				3,270	
Total comprehensive income / (deficit) for the period				3,270	
Dividend paid			(1,515)		
Closing balance at 31 December 2012		25,000	(3,126)	3,270	25,144

For the six months ended 31 December 2012 (unaudited)

	Note	Share capital	Retained earnings	Income for period	Total equity
Opening balance at 30 June 2012		25,000	(4,243)		20,757
Income for the period				787	
Total comprehensive income / (deficit) for the period				787	
Dividend paid			-		
Closing balance at 31 December 2012		25,000	(4,243)	787	21,544

These statements are to be read in conjunction with the notes to the financial statements

Statement of financial position

As at 31 December 2013 (unaudited)

in \$000s

Assets	Note	31 December 2013 Unaudited	30 June 2013
Financial assets			
Cash and cash equivalents		47,318	41,932
Trade and other receivables		9	51
Loans to local government	6	3,098,502	2,514,946
Marketable securities		-	-
Deposits		34,395	24,322
Derivatives in gain		48,973	106,725
Non-financial assets			
Prepayments		507	238
Property, plant and equipment		8	9
Total assets		3,229,712	2,688,223
Equity			
Share capital		25,000	25,000
Retained earnings		(3,126)	(1,611)
Total comprehensive income / (deficit) for the period		3,270	
Total equity		25,144	23,389
Liabilities			
Financial liabilities			
Trade and other payables		552	436
Accrued expenses		145	137
Bonds	7	3,149,480	2,623,589
Borrower notes	8	50,640	40,672
Derivatives in loss		3,751	-
Total liabilities		3,204,568	2,664,834
Total equity and liabilities		3,229,712	2,688,223

These statements are to be read in conjunction with the notes to the financial statements

Statement of cash flows

For the six months ended 31 December 2013 (unaudited)

in \$000s	Note	For the six months ended 31 December	
		2013 Unaudited	2012 Unaudited
Cash flow from operating activities			
Cash applied to loans to local government		(581,486)	(716,903)
Interest paid on bonds issued		(72,603)	(25,666)
Interest received from cash and cash equivalents		568	243
Interest received from loans to local government		52,107	22,119
Interest received from marketable securities		-	333
Interest received on deposits		415	471
Net interest on derivatives		24,055	5,132
Payments to suppliers and employees		(1,595)	(1,030)
Net cash flow from operating activities	9	(578,539)	(715,301)
Cash flow from investing activities			
Maturity (Purchase) of marketable securities		-	-
Purchase of deposits		(10,000)	(200)
Purchase of plant and equipment		-	-
Net cash flow from investing activities		(10,000)	(200)
Cash flow from financing activities			
Dividends paid		(1,515)	-
Cash proceeds from borrower notes		9,184	11,376
Cash proceeds from bonds issued		598,312	748,695
Cash applied to derivatives		(12,056)	(40,280)
Net cash flow from financing activities		593,925	719,791
Net (decrease) / increase in cash		5,386	4,290
Cash and cash equivalents at beginning of year		41,932	18,363
Cash and cash equivalents at end of year		47,318	22,653

These statements are to be read in conjunction with the notes to the financial statements

Notes to the financial statements

1 Reporting entity

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

LGFA is controlled by participating local authorities and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating local authorities.

The registered address of LGFA is Level 13, 342 Lambton Quay, Wellington 6011.

The financial statements are for the six month period ended 31 December 2013.

These financial statements were authorised for issue by the Directors on 28 February 2014.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in the New Zealand Local Government Funding Agency annual report to 30 June 2013. These policies have been consistently applied to the reporting period to 31 December 2013.

These interim financial statements of the New Zealand Local Government Funding Agency have been prepared in accordance with NZ IAS 34 and New Zealand generally accepted accounting practice.

3 Hedge accounting

LGFA is exposed to interest rate risk from fixed rate borrowing and variable rate lending to councils. LGFA manages this interest rate risk through the use of interest rate swaps. For hedge accounting purposes, LGFA has designated these swaps in fair value relationships to its fixed rate borrowing.

The gain or loss on the hedging instrument and the hedged item attributable to the hedged risk for fair value hedge relationships is shown in the table below.

For the six months ended 31 December		
<i>in \$000s</i>	2013 Gain/(loss) Unaudited	2012 Gain/(loss) Unaudited
Hedging instruments – interest rate swaps	(62,161)	1,600
Hedged item attributable to the hedged risk – fixed rate bonds	62,161	(1,600)
Ineffectiveness recognised in profit or loss from fair value hedges	-	-

The gains or losses on the hedging instrument (interest rate swaps) and the hedged item (bonds) are mapped to the same fair value account. For this reason, the statement of comprehensive income will only report any ineffectiveness arising from the fair value hedge.

Notes to the financial statements

4 Issuance and on-lending expenses

Issuance and on-lending expenses are those costs that are incurred as a necessary expense to facilitate the ongoing issuance of LGFA debt securities.

For the six months ended 31 December

<i>in \$000s</i>	2013 Unaudited	2012 Unaudited
NZDMO processing fees	77	70
NZDMO standby facility fee	100	125
Rating agencies fees	265	296
Legal fees for issuance	37	33
Regulatory, registry, other fees	10	8
Trustee fees	54	37
Promotion/Roadshow	-	2
Approved issuer levy	110	8
	653	579

5 Operating expenses

Operating expenses are all other expenses that are not are not classified as 'Issuance and on-lending expenses.'

For the six months ended 31 December

<i>in \$000s</i>	2013 Unaudited	2012 Unaudited
Directors fees	141	162
Insurance	28	27
Legal fees	67	161
Marketing*	25	-
Other expenses	112	128
Auditor's remuneration		
Statutory audit	33	40
Advisory services	-	11
Personnel	433	398
	839	927

Marketing expenses comprise costs associated with the marketing and promotion of LGFA to potential investors. Some of these costs include international travel and other costs associated with marketing and promotion. Prior to 31 December 2013, some of costs were recorded under the 'Promotion/Roadshow' category of 'Issuance and on-lending expenses.'

Notes to the financial statements

6 Loans to local government As at 31 December 2013 (unaudited)

<i>in \$000s</i>	Face value	Unamortised premium	Accrued interest	Total
Auckland Council	1,025,000	21,780	5,885	1,052,665
Ashburton District Council	10,000	890	76	10,967
Christchurch City Council	457,000	1,907	1,392	460,300
Far North District Council	10,000	-	44	10,044
Gisborne District Council	5,000	-	8	5,008
Greater Wellington Regional Council	125,000	-	407	125,407
Grey District Council*	15,000	790	110	15,900
Hamilton City Council	210,000	-	643	210,643
Hastings District Council	30,000	-	90	30,090
Hauraki District Council	23,000	-	96	23,096
Horizons Regional Council*	10,000	-	15	10,015
Horowhenua District Council	33,000	660	272	33,932
Hurunui District Council	2,000	-	3	2,003
Hutt City Council	22,000	346	200	22,546
Kapiti Coast District Council	100,000	-	207	100,207
Manawatu District Council	19,000	351	124	19,474
Marlborough District Council	8,000	(82)	90	8,007
Masterton District Council	29,000	-	73	29,073
Matamata-Piako District Council	11,000	-	16	11,016
Nelson City Council	10,000	-	28	10,028
New Plymouth District Council	36,000	-	96	36,096
Otorohanga District Council	6,000	241	52	6,293
Palmerston North City Council	47,000	-	107	47,107
Queenstown Lakes District Council	50,000	1,329	329	51,659
Rotorua District Council	55,000	839	584	56,423
Selwyn District Council	35,000	-	58	35,058
South Taranaki District Council	25,000	-	52	25,052
Taranua District Council*	4,000	-	6	4,006
Tasman District Council	55,000	-	98	55,098
Taupo District Council	80,000	-	291	80,291
Tauranga City Council	160,000	731	566	161,297
Thames-Coromandel District Council	25,000	-	51	25,051
Timaru District Council	30,000	68	159	30,226
Waikato District Council	35,000	-	66	35,066
Waimakariri District Council	5,000	445	38	5,483
Waipa District Council	13,000	-	19	13,019
Wanganui District Council	19,000	-	43	19,043
Wellington City Council	50,000	-	149	50,149
Western Bay of Plenty District Council	70,000	-	110	70,110
Whakatane District Council	15,000	-	23	15,023
Whangarei District Council	86,000	134	397	86,531
	3,055,000	30,429	13,072	3,098,502

* Borrower only. All other councils are guarantors of LGFA. In addition, Bay of Plenty Regional Council are guarantors of LGFA, but had not borrowed from LGFA as at 31 December 2013.

Notes to the financial statements

Loans to local government (continued) As at 30 June 2013

<i>in \$000s</i>	Face value	Unamortised premium	Accrued interest	Total
Auckland Council	860,000	19,300	4,559	883,859
Ashburton District Council	10,000	940	75	11,015
Christchurch City Council	390,000	-	415	390,415
Far North District Council	10,000	-	39	10,039
Gisborne District Council	5,000	-	6	5,006
Greater Wellington Regional Council	75,000	-	246	75,246
Grey District Council*	15,000	836	108	15,943
Hamilton City Council	195,000	-	444	195,444
Hastings District Council	30,000	-	79	30,079
Hauraki District Council	14,000	-	28	14,028
Horowhenua District Council	23,000	652	190	23,843
Hutt City Council	10,000	376	145	10,522
Kapiti Coast District Council	100,000	-	114	100,114
Manawatu District Council	14,000	408	65	14,473
Masterton District Council	25,000	-	31	25,031
Matamata-Piako District Council	11,000	-	14	11,014
Nelson City Council	10,000	-	24	10,024
New Plymouth District Council	21,000	-	26	21,026
Otorohanga District Council	6,000	266	51	6,317
Palmerston North City Council	32,000	-	47	32,047
Queenstown Lakes District Council	40,000	1,323	245	41,568
Rotorua District Council	20,000	291	291	20,582
Selwyn District Council	35,000	-	49	35,049
South Taranaki District Council	20,000	-	26	20,026
Tasman District Council	36,000	-	61	36,061
Taupo District Council	80,000	-	272	80,272
Tauranga City Council	110,000	308	335	110,642
Thames-Coromandel District Council	12,000	-	12	12,012
Timaru District Council	25,000	73	124	25,197
Waikato District Council	35,000	-	34	35,034
Waimakariri District Council	5,000	470	38	5,508
Waipa District Council	6,000	-	7	6,007
Wanganui District Council	19,000	-	38	19,038
Wellington City Council	30,000	-	84	30,084
Western Bay of Plenty District Council	70,000	-	93	70,093
Whakatane District Council	12,000	-	16	12,016
Whangarei District Council	70,000	-	273	70,273
	2,481,000	25,242	8,704	2,514,946

* Borrower only. All other councils are guarantors of LGFA. In addition, Bay of Plenty Regional Council and Marlborough District Council are guarantors of LGFA, but had not borrowed from LGFA as at 30 June 2013.

Notes to the financial statements

7 Bonds issued As at 31 December 2013 (unaudited)

<i>in \$000s</i>		Face value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 April 2015	6% coupon	230,000	6,575	2,919		
15 December 2017	6% coupon	930,000	56,387	2,453		
15 March 2019	5% coupon	1,030,000	43,771	15,222		
15 May 2021	6% coupon	860,000	67,650	6,557		
		3,050,000	174,383	27,151	(102,054)	3,149,480

As at 30 June 2013

<i>in \$000s</i>		Face value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 April 2015	6% coupon	165,000	6,262	2,056		
15 December 2017	6% coupon	850,000	58,372	2,090		
15 March 2019	5% coupon	975,000	47,614	14,174		
15 May 2021	6% coupon	485,000	54,276	3,638		
		2,475,000	166,524	21,958	(39,893)	2,623,589

8 Borrower notes

Borrower notes are subordinate debt instruments (which are required to be held by each local authority that borrows from LGFA in an amount equal to 1.6% of the aggregate borrowings by that local authority).

LGFA may convert borrower notes into redeemable shares if it has made calls for all unpaid capital to be paid in full and the LGFA Board determines it is still at risk of imminent default.

Notes to the financial statements

Borrower Notes (continued) As at 31 December 2013 (unaudited)

<i>in \$000s</i>	Face value	Accrued interest	Total
Auckland Council	16,400	707	17,107
Ashburton District Council	160	4	164
Christchurch City Council	7,312	220	7,532
Far North District Council	160	3	163
Gisborne District Council	80	2	82
Greater Wellington Regional Council	2,000	64	2,064
Grey District Council	240	6	246
Hamilton City Council	3,360	141	3,501
Hastings District Council	480	17	497
Hauraki District Council	368	7	375
Horizons Regional Council	160	1	161
Horowhenua District Council	528	12	540
Hurunui District Council	32	-	32
Hutt City Council	352	9	361
Kapiti Coast District Council	1,600	53	1,653
Manawatu District Council	304	8	312
Marlborough District Council	128	2	130
Masterton District Council	464	18	482
Matamata-Piako District Council	176	5	181
Nelson City Council	160	3	163
New Plymouth District Council	576	15	591
Otorohanga District Council	96	5	101
Palmerston North City Council	752	14	766
Queenstown Lakes District Council	800	16	816
Rotorua District Council	880	16	896
Selwyn District Council	560	30	590
South Taranaki District Council	400	13	413
Taranua District Council	64	-	64
Tasman District Council	880	24	904
Taupo District Council	1,280	69	1,349
Tauranga City Council	2,560	89	2,649
Thames-Coromandel District Council	400	5	405
Timaru District Council	480	10	490
Waikato District Council	560	12	572
Waimakariri District Council	80	2	82
Waipa District Council	208	3	211
Wanganui District Council	304	9	313
Wellington City Council	800	28	828
Western Bay of Plenty District Council	1,120	57	1,177
Whakatane District Council	240	6	246
Whangarei District Council	1,376	56	1,432
	48,880	1,760	50,640

Notes to the financial statements

Borrower Notes (continued)

As at 30 June 2013

<i>in \$000s</i>	Face value	Accrued interest	Total
Auckland Council	13,760	414	14,174
Ashburton District Council	160	1	161
Christchurch City Council	6,240	103	6,343
Far North District Council	160	1	161
Gisborne District Council	80	1	81
Greater Wellington Regional Council	1,200	40	1,240
Grey District Council	240	1	241
Hamilton City Council	3,120	86	3,206
Hastings District Council	480	9	489
Hauraki District Council	224	2	226
Horowhenua District Council	368	4	372
Hutt City Council	160	3	163
Kapiti Coast District Council	1,600	27	1,627
Manawatu District Council	224	3	227
Masterton District Council	400	11	411
Matamata-Piako District Council	176	2	178
Nelson City Council	160	1	161
New Plymouth District Council	336	6	342
Otorohanga District Council	96	3	99
Palmerston North City Council	512	5	517
Queenstown Lakes District Council	640	5	645
Rotorua District Council	320	5	325
Selwyn District Council	560	20	580
South Taranaki District Council	320	7	327
Tasman District Council	576	14	590
Taupo District Council	1,280	47	1,327
Tauranga City Council	1,760	53	1,813
Thames-Coromandel District Council	192	1	193
Timaru District Council	400	3	403
Waikato District Council	560	4	564
Waimakariri District Council	80	-	80
Waipa District Council	96	-	96
Wanganui District Council	304	4	308
Wellington City Council	480	16	496
Western Bay of Plenty District Council	1,120	38	1,158
Whakatane District Council	192	3	195
Whangarei District Council	1,120	35	1,155
	39,696	976	40,672

Notes to the financial statements

9 Reconciliation of net profit to net cash flow from operating activities

For the six months ended 31 December

<i>in \$000s</i>	2013 Unaudited	2012 Unaudited
Net profit/(loss) for the year	3,270	787
Cash applied to loans to local government	(581,486)	(716,903)
Non-cash adjustments		
Amortisation and depreciation	(222)	338
Working capital movements		
Net change in trade debtors and receivables	159	275
Net change in prepayments	(268)	87
Net change in accruals	8	115
Net cash flows from operating activities	(578,539)	(715,301)

Notes to the financial statements

10 Share capital

Share capital

As at 31 December 2013 LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. All ordinary shares rank equally with one vote attached to each ordinary share.

As at 31 December 2013, the shareholding of the New Zealand Government had been fully paid up. For all other shareholders, 50% of the shareholding had been called.

Shareholder information

	31 December 2013 Unaudited		30 June 2013	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional District Council	3,731,958	8.3%	3,731,958	8.3%
Greater Wellington Regional Council	3,731,958	8.3%	3,731,958	8.3%
Tasman District Council	3,731,958	8.3%	3,731,958	8.3%
Tauranga City Council	3,731,958	8.3%	3,731,958	8.3%
Wellington City Council	3,731,958	8.3%	3,731,958	8.3%
Western Bay of Plenty District Council	3,731,958	8.3%	3,731,958	8.3%
Whangarei District Council	1,492,784	3.3%	1,492,784	3.3%
Hastings District Council	746,392	1.7%	746,392	1.7%
Marlborough District Council	400,000	0.9%	400,000	0.9%
Selwyn District Council	373,196	0.8%	373,196	0.8%
Gisborne District Council	200,000	0.4%	200,000	0.4%
Hauraki District Council	200,000	0.4%	200,000	0.4%
Horowhenua District Council	200,000	0.4%	200,000	0.4%
Hutt City Council	200,000	0.4%	200,000	0.4%
Kapiti District Council	200,000	0.4%	200,000	0.4%
Manawatu District Council	200,000	0.4%	200,000	0.4%
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North City Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames-Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Wanganui District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
	45,000,000		45,000,000	

Notes to the financial statements

11 Related parties

Identity of related parties

The Company is related to the local authorities set out in the Shareholder Information by shareholding.

The Company operates under a Statement of Intent with the respective local authorities that requires the Company to provide debt to them at the lowest possible interest rates and to enhance their certainty of access to debt markets.

Shareholding local authorities, and non-shareholder local authorities who borrow more than \$20 million, are required to enter into a guarantee when they join or participate in LGFA. The guarantee is in respect of the payment obligations of other guaranteeing local authorities to the LGFA (cross guarantee) and of the LGFA itself.

Council employee Mark Butcher (Auckland Council) is a director of LGFA.

Related party transactions

LGFA was established for the purpose of raising funds from the market to lend to participating councils. The lending to individual councils is disclosed in note 6, and interest income recognized on this lending is shown in the Statement of Comprehensive Income.

The purchase of LGFA borrower notes by participating councils is disclosed in note 8, and the interest expense on these is shown in the Statement of comprehensive income.

LGFA has contracted the NZDMO to provide outsourced treasury services for LGFA. Services include operational processing associated with debt issuance, lending to local authorities, settlement services, investments, hedging and measuring risk. In addition, NZDMO provide some accounting services. The NZDMO is an operating unit of the Treasury and provide LGFA with a committed liquidity facility.

OCG were contracted during the financial year to provide recruitment and payroll services.²

12 Subsequent events

There have been no significant events after balance date that have affected the accuracy of these financial statements.

Subsequent to balance date, LGFA has issued \$175 million in bonds through a tender on 19 February 2014.

² C Stobo, Director, is a Director of OCG Consulting Ltd.

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Photo: B. Muirhead