



NEW ZEALAND  
LOCAL GOVERNMENT  
FUNDING AGENCY

# HALF YEAR Report

31 DECEMBER 2014





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Cover: William Nelson Park is Hastings' newest inner city park. Opened on Sunday 6 October 2013, William Nelson Park includes plenty of grass and seating areas, a children's playground and skatepark. Hastings District Council

Left: Te Awamutu Reservoir, roof installation. Work on the \$5.2 million reservoir began in April last year and installing the roof marks one of the final stages of the project due for completion in early April 2015. Waipa District Council PHOTO: DEAN TAYLOR





# CHAIRMAN'S REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

"The LGFA has become a significant participant in the New Zealand capital markets."

*Craig Stobo, Chairman LGFA Board*



Directors would like to highlight the following developments at the New Zealand Local Government Funding Authority (LGFA) for the interim results for the six months to December 2014.

## **Strong Financial Performance**

LGFA produced income of \$4.4m for the reporting period, ahead of plan, due to both the strong support from Council borrowers, and cost containment by LGFA. This result includes a reduction in LGFA base lending margins to Council borrowers for the LGFA's shorter maturities. The financial strength of the LGFA was reaffirmed by credit rating agency Standard and Poor's who maintained its credit rating at AA+, while a second credit rating agency Fitch affirmed an AA+ rating but placed the LGFA on credit watch with a positive outlook. LGFA's rating is the same as the NZ Government.

## **Largest NZD issuer after the NZ Government**

LGFA has now issued over \$4.5b of debt on behalf of its Council members across six maturities from 2015 to 2023. LGFA is now the largest issuer of NZD securities after the NZ Government and our bonds are amongst the largest and most liquid NZD debt instruments available for investors. This has been achieved within three years of operation. Directors would like to acknowledge the tremendous support of Council members.

## **Increased focus on stakeholder management**

- For Councils, we have produced a notified tender schedule for the year ahead; increased visits to Councils to gain insights into funding needs; and gained approval from members to provide more flexible borrowing solutions to Councils.
- For investors, we have focussed on marketing the LGFA's structure and debt programme to both resident and non-resident investors to diversify our investor base; and ensured that liquidity is maintained in the LGFAs bonds, and that they are issued at the same maturity as NZ Government benchmark bonds.
- Finally we have worked closely with the NZ Debt Management Office as we progress migration of our treasury functionality. It is planned to complete this work by June 2015.

It has been a successful six month period and the Board would like to thank staff for their efforts as we continue to achieve our objective of optimising debt funding terms and conditions for the Local Government sector.



# STATEMENT OF SERVICE PERFORMANCE



Pines sewerage treatment plant at Rolleston which became operational in the last 18 months. This site cost approx \$30 million and is part of an all up total capital spend in the past three years of \$60 million on sewerage capacity upgrades as the District has accommodated new population as part of the greater Christchurch rebuild from the earthquakes. Selwyn District Council

## STATEMENT OF SERVICE PERFORMANCE

### Performance Against Objectives and Performance Targets

#### 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:

##### 1.1 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 2012-2013

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 improvement in the pricing of our four benchmark bonds over the past six months and since they were first issued. These bonds are regarded as our benchmark bonds because they have large volumes outstanding, the most liquidity and greatest frequency of issuance.

Over the course of the six months ended 30 December 2014:

- LGFA margins to NZGB improved by 21 bps, 17 bps, 13 bps and 12 bps respectively for the December 2017, March 2019, May 2021 and April 2023 maturities.
- LGFA margins to swap improved by 8 bps, 7 bps, 9 bps and 10 bps respectively for the December 2017, March 2019, May 2021 and April 2023 maturities.

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

Margins – 15 December 2017	As at 30 June 2014 (bps)	As at 30 Dec 2014 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	61	40	21
NZGB margin to swap	(46)	(33)	(13)
LGFA margin to swap	15	7	8

Margins – 15 March 2019	As at 30 June 2014 (bps)	As at 30 Dec 2014 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	72	55	17
NZGB margin to swap	(49)	(39)	(10)
LGFA margin to swap	23	16	7

Margins – 15 May 2021	As at 30 June 2014 (bps)	As at 30 Dec 2014 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	80	67	13
NZGB margin to swap	(46)	(42)	(4)
LGFA margin to swap	34	25	9



## STATEMENT OF SERVICE PERFORMANCE

Margins – 15 April 2023	As at 30 June 2014 (bps)	As at 30 Dec 2014 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	87	75	12
NZGB margin to swap	(43)	(41)	(2)
LGFA margin to swap	44	34	10

There was a substantial improvement in our margin to swap over the six months due to stronger credit market conditions and growing offshore investor interest in LGFA bonds.

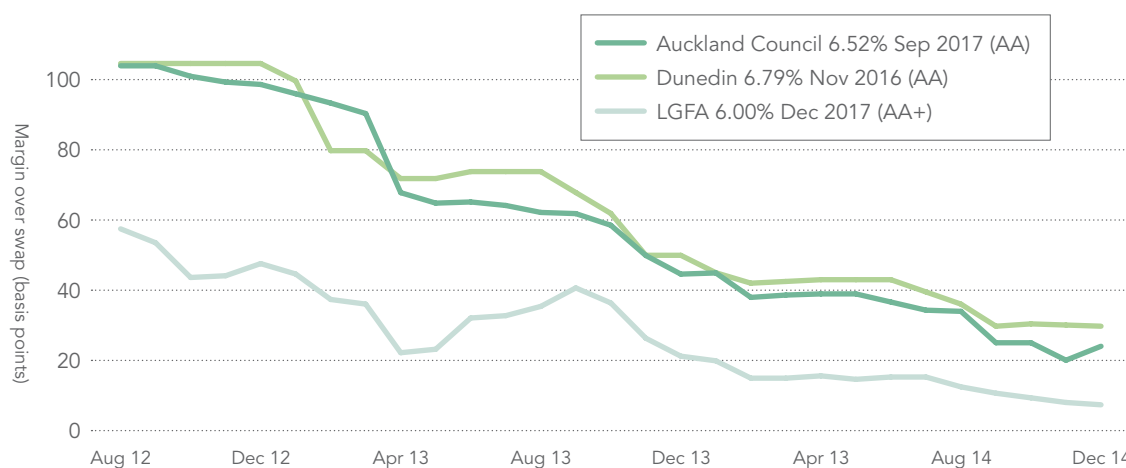
In the past six months, our estimate of annual interest cost savings for AA rated councils has slipped below the 30 bps target. This is because swap margins for our benchmark councils (Auckland and Dunedin) also improved. These two councils have both been able to issue debt securities at favourable pricing following the series of successful LGFA tenders held over the past year and a general shortage of single name council debt since most councils are now borrowing from LGFA.

The positive credit market conditions has also seen a narrowing of credit spreads in general that means the credit spreads of lesser rated borrowers will outperform the spreads of better rated borrowers.

From the charts below we estimate that as at 30 December 2014, LGFA was saving AA rated councils approximately:

- 17 to 26 bps in annual interest costs on a December 2017 maturity, and
- 15 bps in annual interest costs on a March 2019 maturity.

### LGFA December 2017 secondary market credit margin over swaps

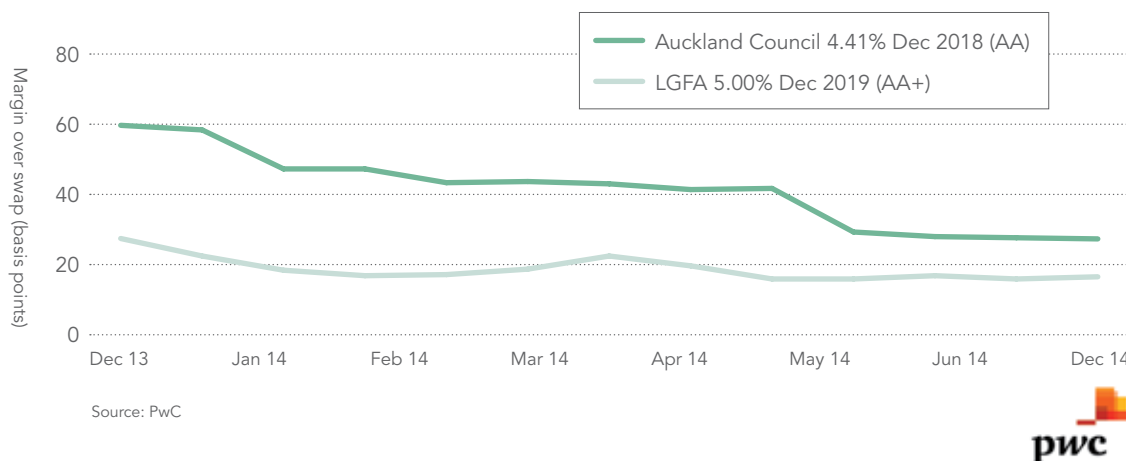


Source: PwC



## STATEMENT OF SERVICE PERFORMANCE

### LGFA December 2019 secondary market credit margin over swaps



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

Margins as at 30 December 2014	December 2017 maturity (bps)	March 2019 maturity (bps)
AA rated councils margin to swap*	24 to 33	31
Less: LGFA margin to swap	(7)	(16)
LGFA Funding Advantage	17 to 26	15
Less: LGFA Base Margin	(10)	(10)
LGFA Net Funding Advantage	7 to 16	5
Add: 'LGFA Effect' **	10	10
<b>Total saving for AA rated councils</b>	<b>17 to 26</b>	<b>15</b>

\* For the 2017 bond, the benchmark councils are Auckland (24 bps) and Dunedin (33 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.

### 1.2 Making longer-term borrowings available to participating local authorities

Over the past year, LGFA offered to participating councils two maturity dates for borrowing in excess of seven years:

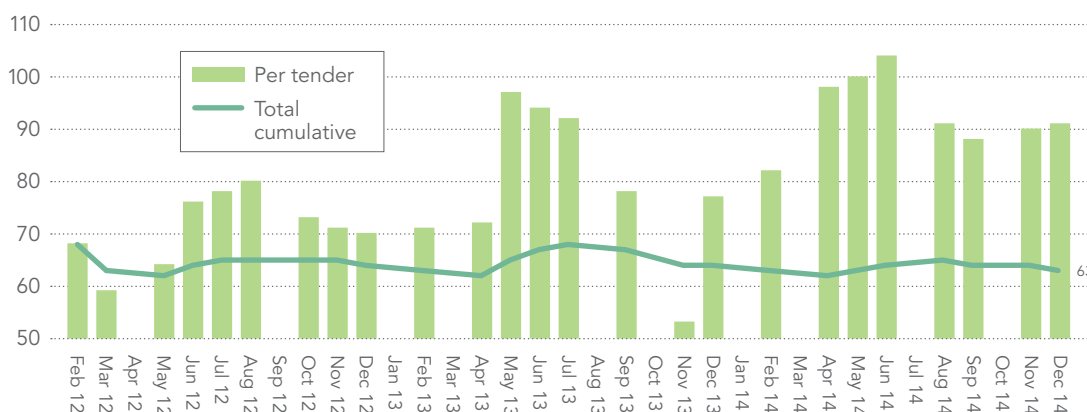
- 15 May 2021 bond (seven years). This maturity now has the largest amount on issue of all LGFA maturities, and
- 15 April 2023 bond (nine years). This maturity has comprised 55% of total issuance in the past six months.

Since the August 2014 tender, LGFA has also offered an April 2020 (six years) maturity.

## STATEMENT OF SERVICE PERFORMANCE

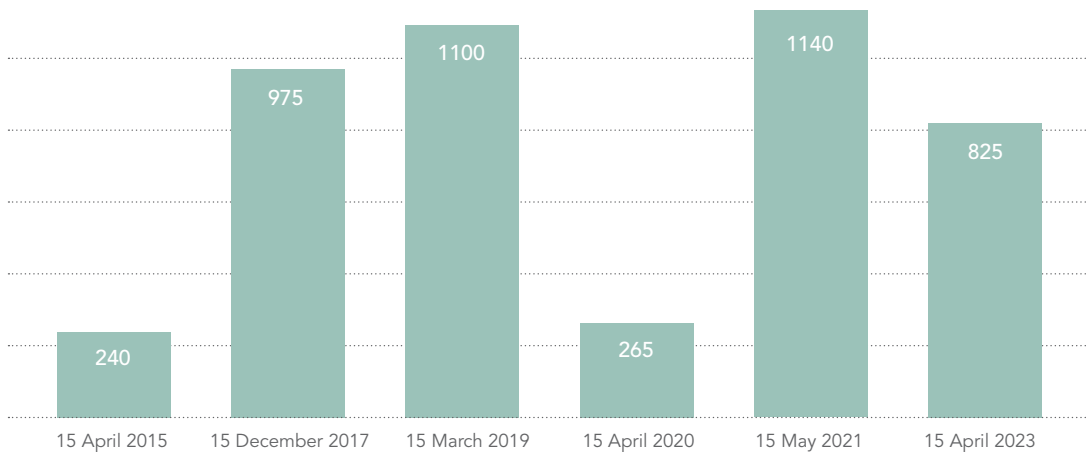
The following chart shows the average months to maturity for bonds issued at tender, and the aggregate average months to maturity for all bonds outstanding at each tender:

**Average total months to maturity**



The following chart shows the total LGFA bond outstandings by maturity as at 30 December 2014:

**LGFA bond outstandings (\$ million)**



Over the six months ended 31 December 2014, LGFA issued \$850 million of debt with a weighted average maturity of 7.2 years:

Apr 15	Dec 17	Mar 19	Apr 20	May 21	Apr 23	Total
nil	15	30	265	70	470	850

## STATEMENT OF SERVICE PERFORMANCE

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

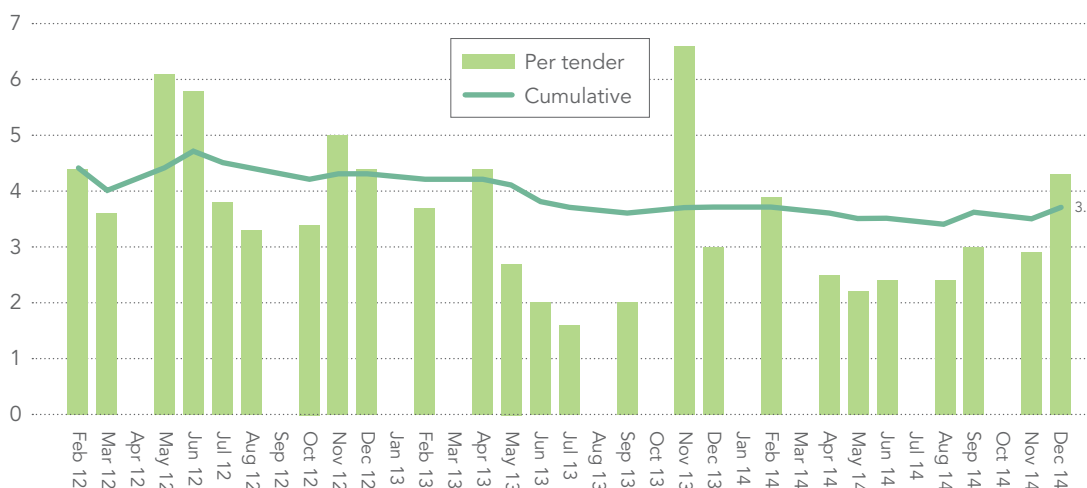
LGFA held four tenders during the past six months, with an average tender volume of \$213 million. The volume offered at each tender ranged from \$135 million to \$285 million. Total issuance during the six month period was \$850 million, bringing outstandings of LGFA bonds to \$4.545 billion as at 30 December 2014.

#### LGFA bond issuance by tender (\$ million)



Over the six month period, total bids received across the four tenders was \$2.528 billion for the \$850 million of LGFA bonds offered resulting in a coverage ratio of 2.97 times. The LGFA cover ratio for each tender and the cumulative ratio for all tenders is shown in the following chart.

#### Tender cover ratio





## STATEMENT OF SERVICE PERFORMANCE

While the coverage ratio for the past year is lower than the average coverage ratio of 3.7 times since LGFA first commenced issuing in February 2012, this is not surprising given the longer duration of LGFA bonds being tendered and the smaller tranche sizes being offered in the shorter-dated LGFA maturities. Furthermore, offshore investor demand for LGFA securities has been noted in the secondary market rather than at LGFA tenders.

While LGFA issues fixed coupon debt to investors, Councils were provided the choice of either fixed or floating rate borrowing for their borrowing from LGFA. Over the past six months 93% of borrowing by Councils from LGFA was on a floating rate basis as Councils manage their funding and interest risk separately.

### 2 Additional objectives

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

#### 2.1 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 Statement of Intent

The 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% over the medium term.

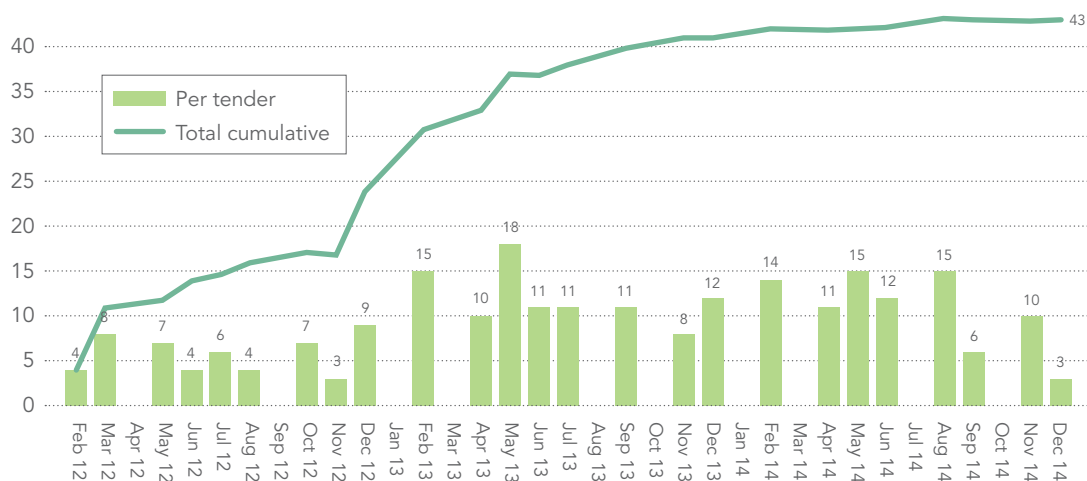
Due to higher lending volumes and expenditure being contained close to budget we expect profitability to be sufficient to make a dividend payment.

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

Councils have strongly supported LGFA and by 30 December 2014, 43 (out of 44) participating councils have borrowed from LGFA.

The strong council support for LGFA is demonstrated in the following chart which shows the progression of council participation from LGFA's commencement of issuance in February 2012.

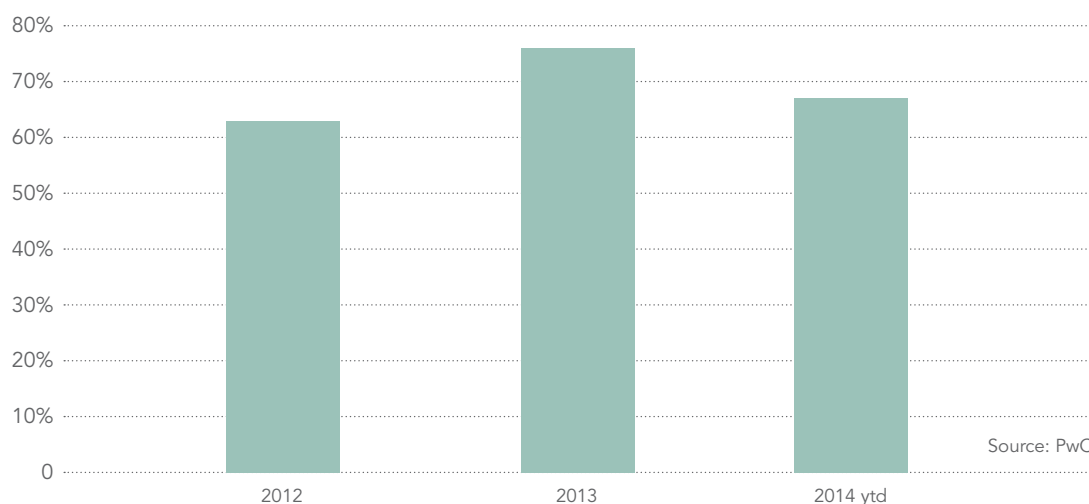
Participating councils



## STATEMENT OF SERVICE PERFORMANCE

The following chart shows LGFA's share of new local government debt issuance in the 2012, 2013 and 2014 calendar years. Our share of new long-term borrowing by the sector, including non-members of LGFA, was estimated at 67% for the nine month period to September 2014. The reduction in our market share from the 2013 calendar year is due to the sector's largest borrower, Auckland Council issuing a greater proportion of its debt in the domestic market than in the prior year.

**LGFA Share of Local Government Debt Issuance (as at September 2014)**



### 2.3 **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 Statement of Intent**

Issuance and Operating Expenses for the first six month period of the 2014-15 year were \$2.133 million compared to a full year SOI forecast of \$4.67 million.

Over the past six month period, additional travel and marketing expenses and higher Approved Issuer Levy payments were incurred due to servicing the increased investor interest in LGFA bonds. This was offset by a lower than forecast amount for the treasury system.

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

On 20 October 2014, Standard & Poor's (S&P) affirmed LGFA's local currency credit rating at AA+ and foreign currency credit rating at AA. The outlook on both ratings is stable.

On 18 November 2014, Fitch affirmed LGFA's local currency credit rating at AA+ and foreign currency credit rating at AA. The outlook on both ratings was revised from stable to positive.

Both the S&P and Fitch ratings are the same as, and are capped by, New Zealand's sovereign credit ratings. Fitch has defined LGFA as a dependant Public Sector Entity and our credit rating is now explicitly linked to the New Zealand Sovereign credit rating.

## STATEMENT OF SERVICE PERFORMANCE

### 2.5 Achieve the Financial Forecasts set out in section 4 of the Statement of Intent

LGFA's financial results for key items set out in section 4 of the SOI for the year to 30 June 2015 are:

In \$ million	30 Dec 2014 Actual	6 month SOI Forecast	Full year SOI Forecast
Total Net Income (net of borrower notes)	8.019	5.962	11.970
Overheads	(2.132)	(2.011)	(4.670)
Borrower Notes Interest	(1.419)		
<b>Net Profit</b>	<b>4.468</b>	<b>3.951</b>	<b>7.300</b>

Due to the larger than forecast borrowing by Councils from LGFA the Total Net income and Net Profit was higher than forecast for the first six month period of the current financial year.

### 2.6 Meet or exceed the Performance Targets outlined in section 5

Current performance targets	Target	Result as at Half Year	Outcome
1 Average cost of funds relative to NZGB	<0.50%	0.85%	No (i)
2 Average base on lending margin above LGFA's cost of funds	<0.25%	0.15%	Yes
3 Annualised issuance and operating expenses	<\$4.67 million	\$2.13 million	Yes
4 Lending to participating councils	>\$4,400 million	\$4,518 million	Yes

(i) The average cost of funds relative to NZGB has remained similar to the 2013-14 year (0.85%). The margin has not narrowed to our target because of the disproportionate amount of longer dated LGFA bonds issued (and hence a wider margin) over the past six months. The historical average cost of funds calculation is also influenced by securities issued in 2012 at issuance margins in excess of 1.00% which have yet to mature.

A weighted average of LGFA margins to NZGB based on the secondary market levels as at 30 December 2014 was 57 bps.

### 2.7 Comply with its Treasury Policy, as approved by the Board

One of the Foundation Policies states "No more than the greater of NZD 100 million or 25% of a LG's borrowings from the LGFA will mature in any 12-month period".

For part of the six month period, our two largest borrowing councils had borrowings in a single LGFA maturity that were greater than both \$100 million and 25% of their total borrowing from LGFA. This non-compliance was due to LGFA having until April 2014 only four borrowing maturities available to Councils. This non-compliance was expected to be naturally remedied by June 2015 as the number of LGFA borrowing maturities increase. However LGFA shareholders approved a change to the Foundation Policy in November 2014 to increase this limit to 33% of borrowings.





# FINANCIAL STATEMENTS



Wellington's Matangi Trains. Greater Wellington Regional Council is buying a further 35 trains as part of the ongoing upgrade of the region's rail passenger services.

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## DIRECTORS' DECLARATION

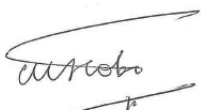
In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 20 to 33:

- 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 2014, 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



C. Stobo, Director  
27 February 2015



A. Foote, Director  
27 February 2015

## STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2014 (unaudited) in \$000s

	Note	2014 Unaudited	2013 Unaudited
<b>Interest income from</b>			
Cash and cash equivalents		848	571
Loans to local government		95,394	54,177
Marketable securities		130	-
Deposits		1,197	488
Derivatives		7,052	12,652
Fair value hedge ineffectiveness	3	-	-
<b>Total interest income</b>		<b>104,621</b>	<b>67,888</b>
<b>Interest expense on</b>			
Bonds		96,602	62,343
Borrower notes		1,419	783
<b>Total interest expense</b>		<b>98,021</b>	<b>63,126</b>
Net interest income		6,600	4,762
<b>Operating expenses</b>			
Issuance and on-lending expenses	4	1,027	653
Operating expenses	5	1,105	839
<b>Total expenses</b>		<b>2,132</b>	<b>1,492</b>
<b>Net operating profit</b>		<b>4,468</b>	<b>3,270</b>
<b>Total comprehensive income for the period</b>		<b>4,468</b>	<b>3,270</b>

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 2014 (unaudited) in \$000s

	Note	Share Capital	Retained earnings	Total equity
Equity as at 30 June 2014	10	25,000	3,848	28,848
Net operating profit		-	4,468	4,468
Total comprehensive income for the period		-	4,468	4,468
Transactions with owners:				
Dividend paid		-	(1,765)	(1,765)
<b>Equity as at 31 December 2014</b>	<b>10</b>	<b>25,000</b>	<b>6,551</b>	<b>31,551</b>

For the six months ended 31 December 2013 (unaudited) in \$000s

	Note	Share Capital	Retained earnings	Total equity
Equity as at 30 June 2013		25,000	(1,611)	23,389
Net operating profit		-	3,270	3,270
Total comprehensive income for the period		-	3,270	3,270
Transactions with owners:				
Dividend paid		-	(1,515)	(1,515)
<b>Equity as at 31 December 2013</b>		<b>25,000</b>	<b>144</b>	<b>25,144</b>

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

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2014 (unaudited) in \$000s

	Note	31 December 2014 Unaudited	30 June 2014
<b>Assets</b>			
<b>Financial assets</b>			
Cash and cash equivalents		31,983	55,126
Trade and other receivables		1	40
Loans to local government	6	4,571,548	3,742,471
Marketable securities		10,196	-
Deposits		107,341	46,542
Derivatives in gain		179,289	73,779
<b>Non-financial assets</b>			
Prepayments		446	226
Property, plant and equipment	7	510	2
<b>Total assets</b>		<b>4,901,314</b>	<b>3,918,187</b>
<b>Equity</b>			
Share capital		25,000	25,000
Retained earnings		2,083	3,848
Total comprehensive income / (deficit) for the period		4,468	-
<b>Total equity</b>		<b>31,551</b>	<b>28,848</b>
<b>Liabilities</b>			
<b>Financial liabilities</b>			
Trade and other payables		3,139	253
Accrued expenses		557	194
Bonds	8	4,770,050	3,825,301
Borrower notes	9	76,462	61,892
Derivatives in loss		19,555	1,699
<b>Total liabilities</b>		<b>4,869,763</b>	<b>3,889,339</b>
<b>Total equity and liabilities</b>		<b>4,901,314</b>	<b>3,918,187</b>

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 2014 (unaudited) in \$000s

	Note	2014 Unaudited	2013 Unaudited
<b>Cash flow from operating activities</b>			
Cash applied to loans to local government		(823,027)	(581,486)
Interest paid on bonds issued		(106,325)	(72,603)
Interest received from cash and cash equivalents		848	568
Interest received from loans to local government		89,345	52,107
Interest received from marketable securities		89	-
Interest received on deposits		1,398	415
Net interest on derivatives		21,091	24,055
Payments to suppliers and employees		(2,017)	(1,595)
<b>Net cash flow from operating activities</b>	10	<b>(818,598)</b>	<b>(578,539)</b>
<b>Cash flow from investing activities</b>			
Maturity (Purchase) of marketable securities		(10,155)	-
Purchase of deposits		(58,000)	(10,000)
Purchase of plant and equipment		(91)	-
<b>Net cash flow from investing activities</b>		<b>(68,246)</b>	<b>(10,000)</b>
<b>Cash flow from financing activities</b>			
Dividend paid		(1,765)	(1,515)
Cash proceeds from borrower notes		13,152	9,184
Cash proceeds from bonds issued		854,603	598,312
Cash applied to derivatives		(2,289)	(12,056)
<b>Net cash flow from financing activities</b>		<b>863,701</b>	<b>593,925</b>
<b>Net (decrease)/ increase in cash</b>		<b>(23,143)</b>	<b>5,386</b>
Cash and cash equivalents at beginning of year		55,126	41,932
<b>Cash and cash equivalents at end of period</b>		<b>31,983</b>	<b>47,318</b>

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 City Chambers, Level 8, 142 Featherston Street, Wellington 6011.

The financial statements are for the six month period ended 31 December 2014.

These financial statements were authorised for issue by the Directors on 27 February 2015.

### 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 2014. These policies have been consistently applied to the reporting period to 31 December 2014.

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>	<b>2014</b> Gain/(loss) Unaudited	2013 Gain/(loss) Unaudited
Hedging instruments – interest rate swaps	99,404	(62,161)
Hedged item attributable to the hedged risk – fixed rate bonds	(99,404)	62,161
<b>Ineffectiveness recognised in profit or loss from fair value hedges</b>	-	-

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 in \$000s	<b>2014</b> Unaudited	2013 Unaudited
NZDMO processing fees	77	77
NZDMO standby facility fee	100	100
Rating agencies fees	250	265
Legal fees for issuance	59	37
Regulatory, registry, other fees	11	10
Trustee fees	51	54
Promotion/Roadshow	16	-
Approved issuer levy	463	110
	<b>1,027</b>	<b>653</b>

### 5 Operating expenses

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

For the six months ended 31 December in \$000s	<b>2014</b> Unaudited	2013 Unaudited
Directors' fees	135	141
Insurance	31	28
Legal fees	62	67
Marketing*	38	25
Other expenses**	301	112
Auditor's remuneration		
Statutory audit	23	33
Advisory services	-	-
Personnel	515	433
	<b>1,105</b>	<b>839</b>

\* 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.

\*\* The increase in other expenses is primarily attributable to costs associated with treasury system selection, foundation policy review, investor analysis, website development and recruitment.

## NOTES TO THE FINANCIAL STATEMENTS

### 6 Loans to local government

As at 31 December 2014 (unaudited) in \$000s	Face value	Unamortised premium	Accrued interest	Total
Ashburton District Council	15,000	892	114	16,006
Auckland Council	1,475,000	18,808	9,413	1,503,221
Christchurch City Council	858,500	3,015	5,024	866,539
Far North District Council	10,000	-	54	10,054
Gisborne District Council	12,000	-	40	12,040
Greater Wellington Regional Council	155,000	-	795	155,795
Grey District Council	20,000	640	166	20,806
Hamilton City Council	235,000	-	1,054	236,054
Hastings District Council	45,000	-	197	45,197
Hauraki District Council	38,000	-	215	38,215
Horizons Regional Council	10,000	-	21	10,021
Horowhenua District Council	37,000	670	325	37,995
Hurunui District Council	10,000	-	55	10,055
Hutt City Council	36,000	315	362	36,677
Kapiti Coast District Council	115,000	-	409	115,409
Manawatu District Council	34,000	41	249	34,290
Marlborough District Council	14,000	(139)	160	14,021
Masterton District Council	44,000	-	210	44,210
Matamata-Piako District Council	24,500	-	102	24,602
Nelson City Council	25,000	-	154	25,154
New Plymouth District Council	56,000	-	200	56,200
Otorohanga District Council	9,000	266	75	9,341
Palmerston North City Council	72,000	-	374	72,374
Porirua City Council	20,000	-	142	20,142
Queenstown Lakes District Council	60,000	1,191	456	61,647
Rotorua District Council	55,000	681	584	56,265
Selwyn District Council	35,000	-	76	35,076
South Taranaki District Council	47,000	-	207	47,207
Taranua District Council	11,000	-	56	11,056
Tasman District Council	90,000	-	428	90,428
Taupo District Council	105,000	-	602	105,602
Tauranga City Council	230,000	575	1,241	231,816
Thames-Coromandel District Council	35,000	-	95	35,095
Timaru District Council	51,000	54	341	51,395
Upper Hutt City Council	15,000	-	55	15,055
Waikato District Council	40,000	-	135	40,135
Waimakariri District Council	35,000	350	291	35,641
Waipa District Council	13,000	-	25	13,025
Wanganui District Council	29,000	-	128	29,128
Wellington City Council	103,000	-	661	103,661
Western Bay of Plenty District Council	70,000	-	146	70,146
Whakatane District Council	28,000	-	106	28,106
Whangarei District Council	96,000	65	581	96,646
	<b>4,518,000</b>	<b>27,424</b>	<b>26,124</b>	<b>4,571,548</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 6 Loans to local government (continued)

As at 30 June 2014 in \$000s	Face value	Unamortised premium	Accrued interest	Total
Ashburton District Council	15,000	950	113	16,062
Auckland Council	1,175,000	20,816	6,610	1,202,426
Christchurch City Council	571,500	2,045	2,386	575,931
Far North District Council	10,000	-	53	10,053
Gisborne District Council	10,000	-	13	10,013
Greater Wellington Regional Council	125,000	-	475	125,475
Grey District Council	20,000	685	145	20,830
Hamilton City Council	230,000	-	880	230,880
Hastings District Council	45,000	-	184	45,184
Hauraki District Council	23,000	-	112	23,112
Horizons Regional Council	10,000	-	18	10,018
Horowhenua District Council	33,000	616	273	33,889
Hurunui District Council	8,000	-	19	8,019
Hutt City Council	26,000	350	267	26,617
Kapiti Coast District Council	115,000	-	314	115,314
Manawatu District Council	29,000	303	189	29,492
Marlborough District Council	14,000	(149)	157	14,007
Masterton District Council	35,000	-	110	35,110
Matamata-Piako District Council	24,500	-	61	24,561
Nelson City Council	15,000	-	59	15,059
New Plymouth District Council	46,000	-	131	46,131
Otorohanga District Council	9,000	297	73	9,370
Palmerston North City Council	62,000	-	256	62,256
Queenstown Lakes District Council	50,000	1,240	329	51,569
Rotorua District Council	55,000	760	573	56,333
Selwyn District Council	35,000	-	65	35,065
South Taranaki District Council	42,000	-	109	42,109
Tararua District Council	7,000	-	32	7,032
Tasman District Council	85,000	-	254	85,254
Taupo District Council	80,000	-	330	80,330
Tauranga City Council	220,000	654	1,008	221,662
Thames-Coromandel District Council	35,000	-	83	35,083
Timaru District Council	51,000	61	304	51,366
Upper Hutt City Council	11,000	-	28	11,028
Waikato District Council	35,000	-	78	35,078
Waimakariri District Council	25,000	374	200	25,574
Waipa District Council	13,000	-	22	13,022
Wanganui District Council	24,000	-	77	24,077
Wellington City Council	83,000	-	256	83,256
Western Bay of Plenty District Council	70,000	-	126	70,126
Whakatane District Council	28,000	-	85	28,085
Whangarei District Council	96,000	100	514	96,614
	<b>3,696,000</b>	<b>29,102</b>	<b>17,370</b>	<b>3,742,471</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 7 Property, plant and equipment

<i>in \$000s</i>	<b>31 December 2014</b> Unaudited	30 June 2014
Property, plant and equipment	510	2

As at 31 December 2014, property, plant and equipment comprised:

Work-in-progress associated with the treasury system implementation	473
Furniture and fittings	29
Computer equipment	8

### 8 Bonds issued

As at 31 December 2014 (unaudited) in \$000s		Face value	Unamortised premium / (discount)	Accrued interest	Fair value hedge adjustment	Total
15 April 2015	6% coupon	240,000	1,559	3,046		
15 December 2017	6% coupon	975,000	45,109	2,571		
15 March 2019	5% coupon	1,100,000	37,315	16,256		
15 April 2020	3% coupon	265,000	(20,285)	1,682		
15 May 2021	6% coupon	1,140,000	74,082	8,692		
15 April 2023	5.5% coupon	825,000	23,015	9,599		
		<b>4,545,000</b>	<b>160,795</b>	<b>41,846</b>	<b>22,409</b>	<b>4,770,050</b>

As at 30 June 2014 in \$000s		Face value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 April 2015	6% coupon	240,000	4,257	2,990		
15 December 2017	6% coupon	960,000	51,251	2,361		
15 March 2019	5% coupon	1,070,000	40,424	15,556		
15 May 2021	6% coupon	1,070,000	73,598	8,025		
15 April 2023	5.5% coupon	355,000	4,781	4,054		
		<b>3,695,000</b>	<b>174,311</b>	<b>32,986</b>	<b>(76,996)</b>	<b>3,825,301</b>

### 9 Borrower notes

Borrower notes are subordinated 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

### 9 Borrower Notes (continued)

As at 31 December 2014 (unaudited) in \$000s	Face value	Accrued interest	Total
Ashburton District Council	240	14	254
Auckland Council	23,600	1,510	25,110
Christchurch City Council	13,736	617	14,353
Far North District Council	160	9	169
Gisborne District Council	192	7	199
Greater Wellington Regional Council	2,480	147	2,627
Grey District Council	320	18	338
Hamilton City Council	3,760	284	4,044
Hastings District Council	720	43	763
Hauraki District Council	608	23	631
Horizons Regional Council	160	8	168
Horowhenua District Council	592	36	628
Hurunui District Council	160	4	164
Hutt City Council	576	27	603
Kapiti Coast District Council	1,840	121	1,961
Manawatu District Council	544	25	569
Marlborough District Council	224	12	236
Masterton District Council	704	40	744
Matamata-Piako District Council	392	17	409
Nelson City Council	400	14	414
New Plymouth District Council	896	43	939
Otorohanga District Council	144	10	154
Palmerston North City Council	1,152	51	1,203
Porirua City Council	320	5	325
Queenstown Lakes District Council	960	53	1,013
Rotorua District Council	880	57	937
Selwyn District Council	560	53	613
South Taranaki District Council	752	37	789
Tararua District Council	176	5	181
Tasman District Council	1,440	72	1,512
Taupo District Council	1,680	125	1,805
Tauranga City Council	3,680	218	3,898
Thames-Coromandel District Council	560	23	583
Timaru District Council	816	40	856
Upper Hutt City Council	240	6	246
Waikato District Council	640	34	674
Waimakariri District Council	560	15	575
Waipa District Council	208	10	218
Wanganui District Council	464	24	488
Wellington City Council	1,648	78	1,726
Western Bay of Plenty District Council	1,120	102	1,222
Whakatane District Council	448	21	469
Whangarei District Council	1,536	116	1,652
	<b>72,288</b>	<b>4,174</b>	<b>76,462</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 9 Borrower Notes (continued)

As at 30 June 2014 in \$000s	Face value	Accrued interest	Total
Auckland Council	18,800	1,054	19,854
Ashburton District Council	240	8	248
Christchurch City Council	9,144	368	9,512
Far North District Council	160	6	166
Gisborne District Council	160	4	164
Greater Wellington Regional Council	2,000	99	2,099
Grey District Council	320	11	331
Hamilton City Council	3,680	204	3,884
Hastings District Council	720	28	748
Hauraki District Council	368	13	381
Horizons Regional Council	160	4	164
Horowhenua District Council	528	23	551
Hurunui District Council	128	1	129
Hutt City Council	416	16	432
Kapiti Coast District Council	1,840	82	1,922
Manawatu District Council	464	14	478
Marlborough District Council	224	6	230
Masterton District Council	560	27	587
Matamata-Piako District Council	392	9	401
Nelson City Council	240	6	246
New Plymouth District Council	736	27	763
Otorohanga District Council	144	7	151
Palmerston North City Council	992	29	1,021
Queenstown Lakes District Council	800	32	832
Rotorua District Council	880	36	916
Selwyn District Council	560	41	601
South Taranaki District Council	672	22	694
Tararua District Council	112	2	114
Tasman District Council	1,360	43	1,403
Taupo District Council	1,280	93	1,373
Tauranga City Council	3,520	143	3,663
Thames-Coromandel District Council	560	12	572
Timaru District Council	816	22	838
Upper Hutt City Council	176	2	178
Waikato District Council	560	22	582
Waimakariri District Council	400	5	405
Waipa District Council	208	6	214
Wanganui District Council	384	14	398
Wellington City Council	1,328	45	1,373
Western Bay of Plenty District Council	1,120	77	1,197
Whakatane District Council	448	12	460
Whangarei District Council	1,536	82	1,618
	<b>59,136</b>	<b>2,756</b>	<b>61,892</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 10 Reconciliation of net profit to net cash flow from operating activities

For the six months ended 31 December in \$000s	<b>2014</b> Unaudited	2013 Unaudited
<b>Net profit/(loss) for the period</b>	4,468	3,270
Cash applied to loans to local government	(823,027)	(581,486)
<b>Non-cash adjustments</b>		
Amortisation and depreciation	314	(222)
<b>Working capital movements</b>		
Net change in trade debtors and receivables	39	159
Net change in prepayments	(220)	(268)
Net change in accruals	(172)	8
<b>Net cash flows from operating activities</b>	<b>(818,598)</b>	<b>(578,539)</b>

### 11 Share capital

#### Share capital

As at 31 December 2014 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 2014, the shareholding of the New Zealand Government had been fully paid up. For all other shareholders, 50% of the shareholding had been called.

## NOTES TO THE FINANCIAL STATEMENTS

### 11 Share capital (continued)

Shareholder information	31 December 2014		30 June 2014	
	Unaudited			
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%
	<b>45,000,000</b>	<b>100%</b>	<b>45,000,000</b>	<b>100%</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 12 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.

#### 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 9, 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 provides LGFA with a committed liquidity facility.

OCG was contracted during the financial year to provide recruitment and payroll services.<sup>1</sup>

### 13 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 issued \$120 million in bonds through a tender on 4 February 2015.

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

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Right: Wai Taatari (Filtered Waters) project, construction phase. New Plymouth District Council  
Back Cover: Hauraki Rail Trail, Hauraki District Council





