



NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

ANNUAL Report

30 JUNE 2015





CONTENTS

Governance structure	05
Chairman's report	06
Statement of service performance	09
Primary objective	10
Additional objectives.....	15
Financial statements	19
Directors' declaration	21
Statement of comprehensive income	22
Statement of changes in equity	22
Statement of financial position	23
Statement of cash flows	24
Notes to financial statements	25
Auditor's report	46
Board of Directors	48
Directory	49



GOVERNANCE STRUCTURE

Shareholders, governance and management structure for the LGFA as at 30 June 2015.

LGFA Shareholders

Auckland Council	Otorohanga District Council
Bay of Plenty Regional Council	Palmerston North City Council
Christchurch City Council	Selwyn District Council
Gisborne District Council	South Taranaki District Council
Greater Wellington Regional Council	Tasman District Council
Hamilton City Council	Taupo District Council
Hastings District Council	Tauranga City Council
Hauraki District Council	Thames-Coromandel District Council
Horowhenua District Council	Waimakariri District Council
Hutt City Council	Waipa District Council
Kapiti Coast District Council	Wanganui District Council
Manawatu District Council	Wellington City Council
Marlborough District Council	Western Bay of Plenty District Council
Masterton District Council	Whakatane District Council
New Plymouth District Council	Whangarei District Council
	New Zealand Government

LGFA Shareholders Council

Alan Adcock, Whangarei District Council <i>Chairman</i>	Matt Potton, Western Bay of Plenty District Council
Richard Briggs, Hamilton City Council	Martin Read, Wellington City Council
Mohan De Mel, Tauranga City Council	Mat Taylor, Bay of Plenty Regional Council.
Mike Drummond, Tasman District Council	Mike Timmer, Greater Wellington Regional Council
Douglas Marshall, Selwyn District Council	Bryn Griffiths, New Zealand Government

LGFA Board

Craig Stobo, Independent Chairman	John Avery, Independent
Paul Anderson, (Formerly Christchurch City Council)	Philip Cory-Wright, Independent
	Abigail Foote, Independent

LGFA Executive

Mark Butcher, Chief Executive
Neil Bain, Chief Financial Officer

Left: Kaiapoi Civic Centre, opened February 2015. Waimakariri District Council.

CHAIRMAN'S REPORT

Directors of the New Zealand Local Government Funding Agency (LGFA) are pleased to report a strong performance for the financial year to June 2015. During the last financial year we have overseen an increase in eligible council borrowers, total council borrowings and operating profits, while reducing the base margin for borrowers and providing a steady dividend for shareholders.

Continued investor support over the past year has resulted in a reduction in the interest rate margins over benchmark government bonds for the Agency's bonds, the issuance of \$1.5 billion of bonds and enabled the issuance of new 2020 and 2027 maturities.

Our investor base continues to diversify as offshore investors have doubled their holdings of LGFA bonds in the past year to \$1.4 billion and now represent over 28% of the Agency's investor register. Directors consider the growing support of non-resident investors to be critical to the continued success of the Agency's future borrowing programme, increasing the liquidity of our bonds and leading to further margin reduction.

The ongoing strong performance of the Agency reflects the support from the local authority sector. Lending to the sector over the year was \$1.443 billion and our total nominal loans outstanding as at 30 June 2015 was \$4.979 billion [\$3.696 billion 2013-14]. We are pleased that we were able to support council borrowers by further reducing the base lending margin and extending the longest dated available borrowing tenor from nine years to twelve years.

It has been a busy year for LGFA with a number of milestones including:

- Introduction of bespoke lending to provide our council borrowers with the flexibility to select their preferred date for borrowing and date of loan drawdown. This has proven successful with ten transactions completed between March and June 2015.

- Reviewing our capital structure and governance structure to ensure both are keeping up with the significant growth in assets since establishment. The results were shared with shareholders during the year.
- Refinancing of the April 2015 LGFA bond maturity.
- Implementation of the new Treasury Management System on time and ahead of budget.
- Transitioning the front, middle and back office services previously undertaken by the NZ Debt Management Office (NZDMO) to LGFA.

The Agency's larger borrowing programme during the year resulted in net interest income of \$13.87 million as at year-end [\$10.22 million 2013-14]. Net operating profits for the year to 30 June 2015 rose to \$9.2 million from \$6.9 million in the previous financial year. The financial position has enabled an annual dividend of \$1.6075 million for the 2014-15 year to be declared for our thirty local authority and Crown shareholders. The dividend is calculated as our cost of funds plus a margin of 200 basis point (bps).

The Agency's work cannot be implemented without the support of our staff, fellow directors and the NZDMO, all of whose efforts should be acknowledged. I would like to also thank Mark Butcher, our Chief Executive, for his leadership of the organisation over the past year. Directors believe the Agency's future remains positive and look forward to working with all stakeholders in the year ahead.

Craig Stobo,
Chairman, LGFA Board

Below: Raumati South Beach Accessway. Kapiti Coast District Council.



STATEMENT OF SERVICE PERFORMANCE



The IZONE Southern Business Hub, Rolleston, home to more than 30 businesses. 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.

While we have yet to meet our primary objective of 30 bps of savings, we have achieved improvement in the pricing of our four benchmark bonds over the past twelve 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 twelve months ended 30 June 2015:

- LGFA margins to NZGB improved by 25 bps, 28 bps, 22 bps and 20 bps respectively for the December 2017, March 2019, May 2021 and April 2023 maturities.
- LGFA margins to swap improved by 8 bps, 12 bps, 18 bps and 24 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 June 2015 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	61	36	(25)
NZGB margin to swap	(46)	(29)	17
LGFA margin to swap	15	7	(8)

Margins – 15 March 2019	As at 30 June 2014 (bps)	As at 30 June 2015 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	72	44	(28)
NZGB margin to swap	(49)	(33)	16
LGFA margin to swap	23	11	(12)

Margins – 15 May 2021	As at 30 June 2014 (bps)	As at 30 June 2015 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	80	58	(22)
NZGB margin to swap	(46)	(42)	4
LGFA margin to swap	34	16	(18)

STATEMENT OF SERVICE PERFORMANCE

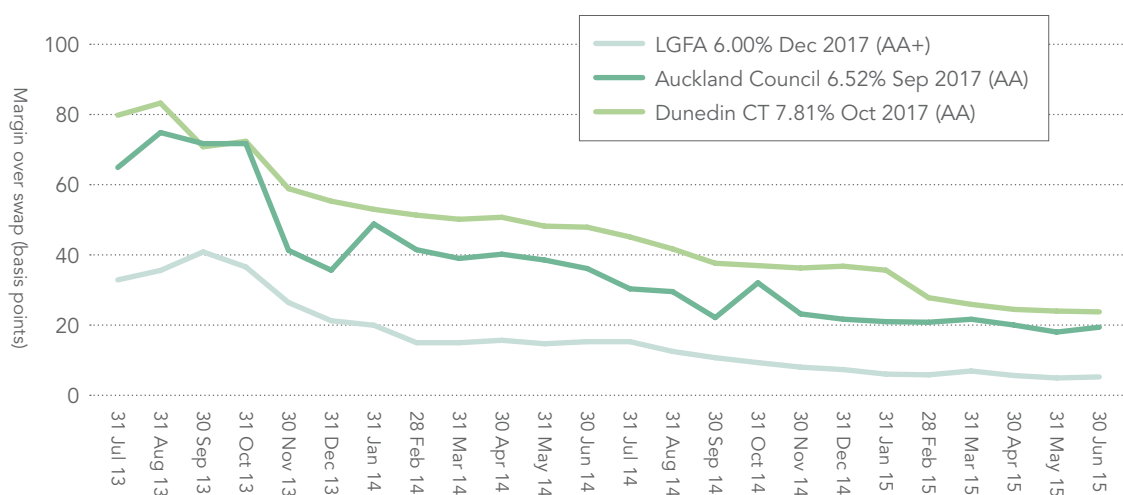
Margins – 15 April 2023	As at 30 June 2014 (bps)	As at 30 June 2015 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	87	67	(20)
NZGB margin to swap	(43)	(47)	(4)
LGFA margin to swap	44	20	(24)

There was a substantial improvement in our margin to swap and NZGB over the financial year due to stronger credit market conditions and growing offshore investor interest in LGFA bonds. Margins on all LGFA issues to NZGB or swap are at, or near, historic lows.

In the past twelve months, our estimate of annual interest cost savings for AA rated councils have marginally reduced and remain below the 30 bps target for our two LGFA maturities that we have issued since 2012. This is because swap margins for our two 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. The positive credit market conditions have also seen a narrowing of credit spreads in general that mean 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 June 2015, LGFA was saving AA rated councils approximately 16 to 19 bps for a 2017 (two year) and 2019 (four year) maturity.

LGFA December 2017 secondary market credit margin over swap

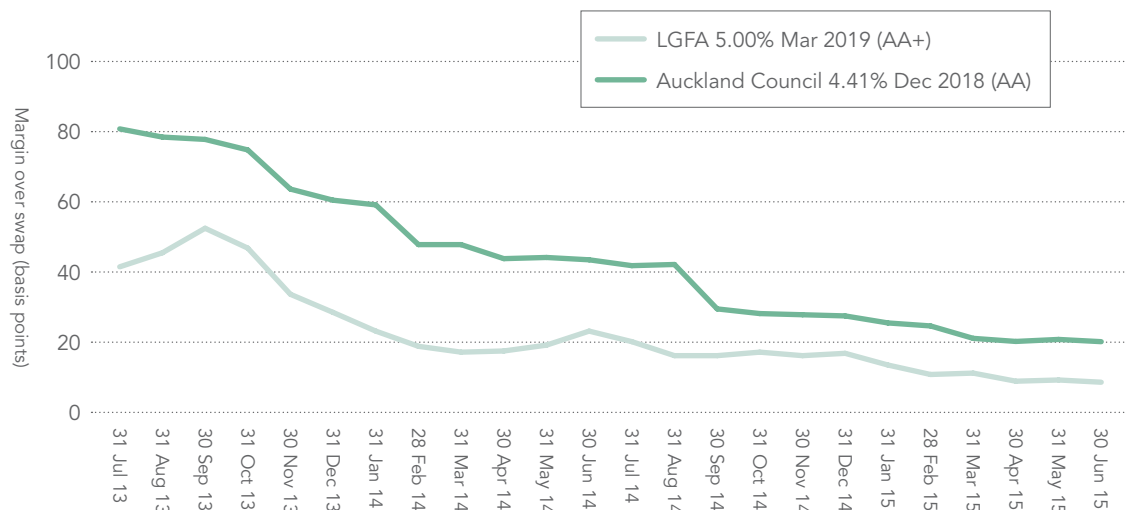


Source: ANZ, BNZ, Westpac, Bloomberg and LGFA



STATEMENT OF SERVICE PERFORMANCE

LGFA December 2019 secondary market credit margin over swap



Source: ANZ, BNZ, Westpac, Bloomberg and LGFA



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

Margins as at 30 June 2015	December 2017 maturity (bps)	March 2019 maturity (bps)
AA rated councils margin to swap*	22 to 25	27
Less: LGFA margin to swap	(7)	(11)
LGFA Gross Funding Advantage	15 to 18	16
Less: LGFA Base Margin	(9)	(9)
LGFA Net Funding Advantage	6 to 9	7
Add: 'LGFA Effect' **	10	10
Total saving for AA rated councils	16 to 19	17

* For the 2017 bond, the benchmark councils are Auckland (22 bps) and Dunedin (25 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.

STATEMENT OF SERVICE PERFORMANCE

Given the LGFA focus on issuance of longer dated debt it is also relevant to consider the interest cost savings for a 7 year and 10 year maturity. We have used for comparative purposes two bonds issued by Dunedin and Auckland councils and the interest cost savings (23 bps to 25 bps) are greater for these longer dated borrowings than the 2017s and 2019s.

Margins as at 30 June 2015	Dunedin City Council Nov 2021 maturity (bps)	Auckland Council Mar 2025 maturity (bps)
AA rated council margin to swap	40	55
Less: LGFA margin to swap	(16)	(27)
LGFA Gross Funding Advantage	24	28
Less: LGFA Base Margin	(11)	(13)
LGFA Net Funding Advantage	13	15
Add: 'LGFA Effect'	10	10
Total saving for AA rated council	23	25

1.2 Making longer-term borrowings available to participating local authorities

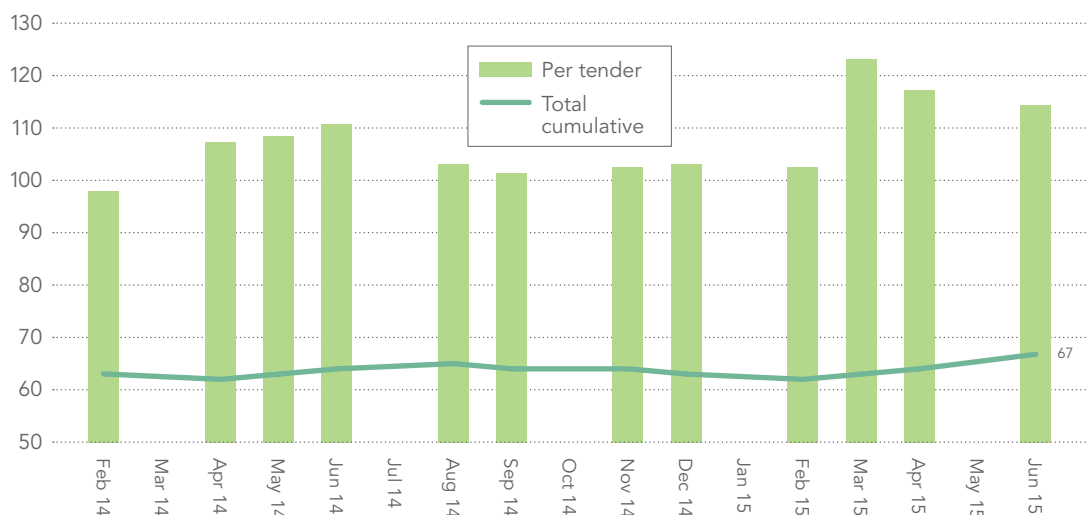
Over the past twelve months, LGFA offered two maturity dates for borrowing in excess of eight years to participating councils:

- 15 April 2023 bond (eight years) and this maturity has comprised 44% of total issuance in the past twelve months and
- 15 April 2027 (eleven years) and since this maturity was first offered in March 2015 it has comprised 54% of our issuance.

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

The following chart shows the average months to maturity for LGFA bonds issued at each tender, and the average months to maturity for all LGFA bonds outstanding at each tender. Over the past year the average maturity of LGFA bonds has lengthened by three months to 67 months (despite a natural 12-month shortening in time)

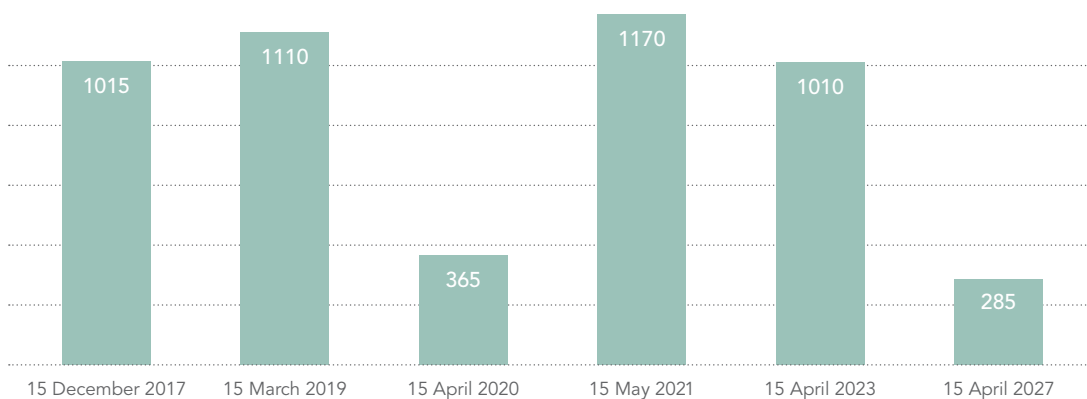
LGFA Bonds – Average total months to maturity



STATEMENT OF SERVICE PERFORMANCE

The following chart shows the total LGFA bond outstandings by maturity as at 30 June 2015:

LGFA bond outstandings (\$ million)



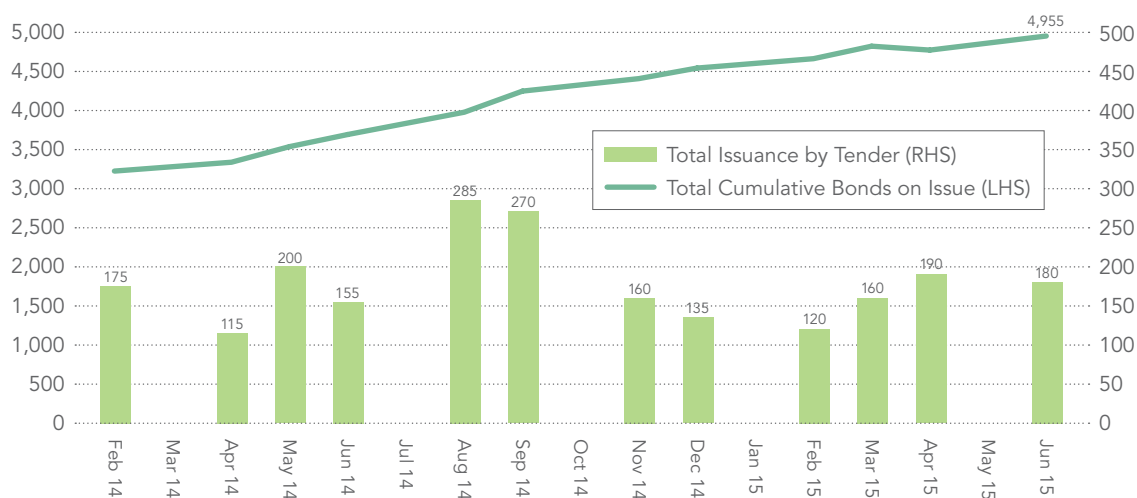
Over the 2014-15 year LGFA issued \$1.5 billion of debt with a weighted average maturity of 7.9 years.

LGFA Bond issuance by maturity 2014-15 (\$ million)						
Dec 17	Mar 19	Apr 20	May 21	Apr 23	Apr 27	Total
55	40	365	100	655	285	1500

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 eight tenders during the past year, with an average tender volume of \$188 million. The volume offered at each tender ranged from \$120 million to \$285 million and all tenders were successful and fully subscribed. Total issuance during the financial year was \$1.5 billion.

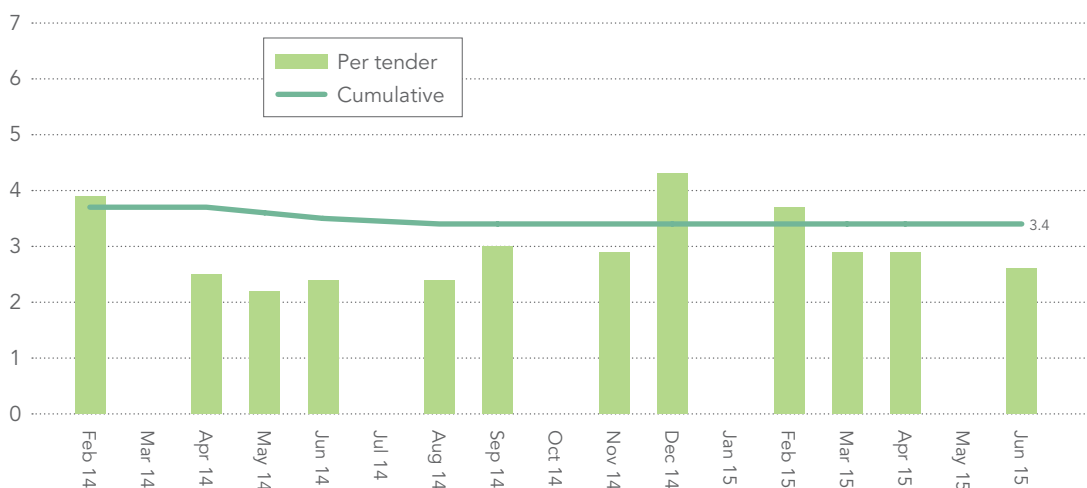
LGFA bond issuance by tender (\$ million)



STATEMENT OF SERVICE PERFORMANCE

Over the twelve month period, total bids received across the eight tenders was \$4.4 billion for the \$1.5 billion of LGFA bonds offered resulting in a coverage ratio of 2.96 times. The LGFA cover ratio for each tender and the cumulative ratio for all tenders is shown in the following chart.

Tender cover ratio



While the coverage ratio for the past year is lower than the average coverage ratio of 3.36 times since LGFA first commenced issuing in February 2012, this is not surprising given the longer duration of LGFA bonds being tendered, the smaller tranche sizes being offered in the shorter dated LGFA maturities and recent tightening in spreads to both NZGB and swap. 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.

Improved certainty of access for councils was achieved with the commencement of bespoke lending. LGFA first offered bespoke lending in February 2015 where council borrowers could select their preferred borrowing maturity date and their preferred date of borrowing drawdown. By June 2015 LGFA had undertaken ten bespoke lending transactions totalling \$79 million.

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, net operating profit for the year ended 30 June 2015 was \$9.204 million (before dividend). On 23 September 2015, the directors of LGFA declared a dividend for the year to 30 June 2015 of \$1,607,500 (\$0.0643 per share). This is calculated on the LGFA cost of funds for the 2014-15 year of 4.43% plus the 2% margin.

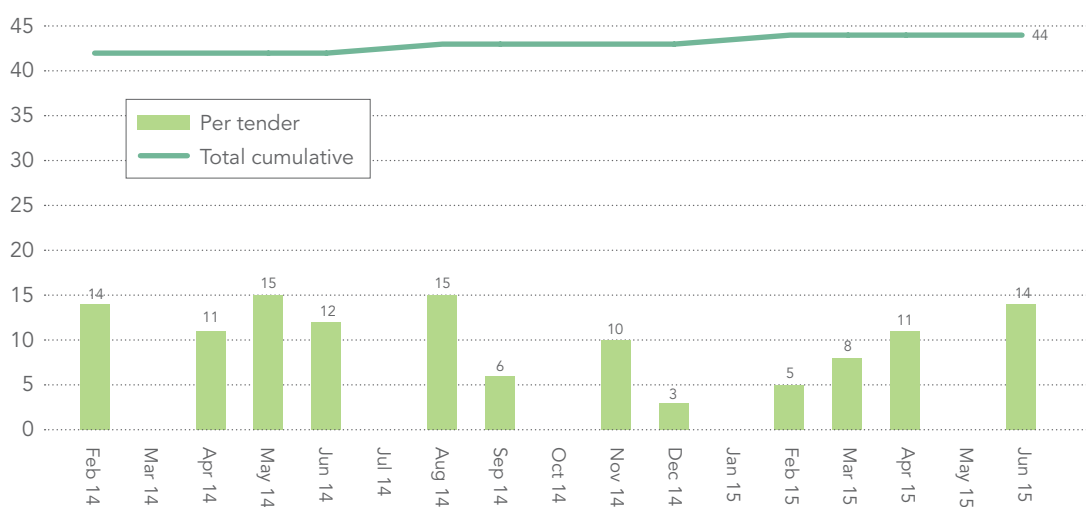
STATEMENT OF SERVICE PERFORMANCE

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

Councils have strongly supported LGFA and by 30 June 2015, 44 (out of 46) participating councils have borrowed from LGFA.

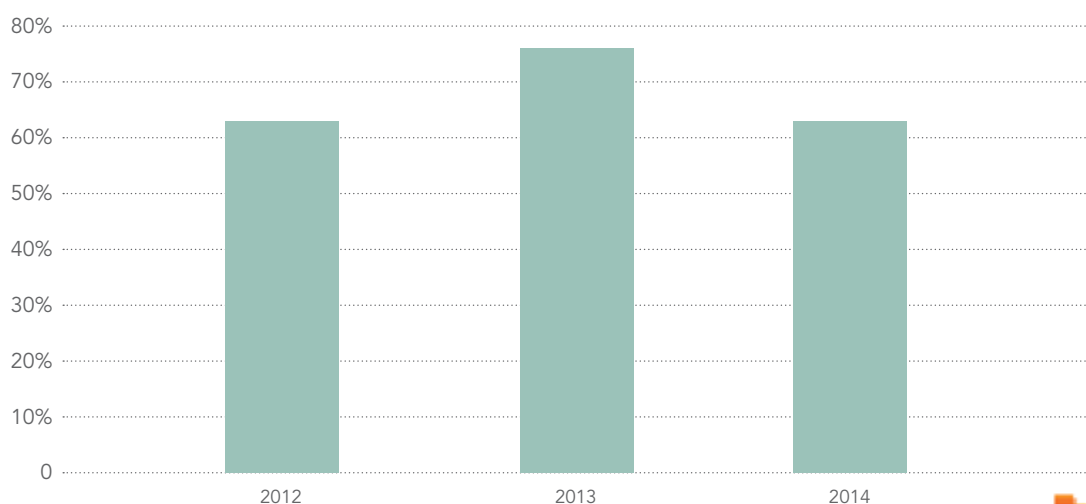
The strong council support for LGFA is demonstrated in the following chart which shows council participation in LGFA's issuance from February 2014.

Participating councils



The following chart shows LGFA's share of new local government debt issuance in the past three calendar years. Our share of new long-term borrowing by the sector including non-members of LGFA was estimated to be 63% for the twelve month period to December 2014. The reduction from our estimated 75% market share in the 2013 calendar year is due to Auckland Council issuing a greater proportion of its debt in the domestic market than in the prior year, and councils wanting to borrow into maturity dates that LGFA could not offer prior to bespoke lending being introduced. If we exclude Auckland Council external borrowing from the data, our estimated market share is 76% for 2014, 87% for 2013 and 86% for 2012.

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



STATEMENT OF SERVICE PERFORMANCE

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 twelve months to June 2015 were \$4.67 million compared to a full year SOI forecast of \$4.67 million.

Over the past year higher Approved Issuer Levy (AIL) payments, legal costs and additional travel expenses were incurred due to servicing the increased offshore investor interest in LGFA bonds. This was offset by a lower than forecast expenditure 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 dependent Public Sector Entity and our Fitch credit rating is now explicitly linked to the New Zealand government credit rating.

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 June 2015 Actual	30 June 2015 SOI Forecast
Total Net Income (net of borrower notes)	13.87	11.97
Overheads	(4.67)	(4.67)
Net Profit	9.20	7.30

Due to the larger than forecast borrowing by councils from LGFA the Total Net Income and Net Profit was higher than forecast for the financial year.

2.6 Meet or exceed the Performance Targets outlined in section 5

Current performance targets	Target	Result as at 30 June 2015	Outcome
1 Average cost of funds relative to NZGS	<0.50%	0.83%	No (i)
2 Average base on-lending margin above LGFA's cost of funds	<0.15%	0.13%	Yes
3 Annualised issuance and operating expenses	<\$4.67 million	\$4.67 million	Yes
4 Lending to participating councils	>\$4,400 million	\$4,979 million	Yes

(i) The average cost of funds of all issuance since February 2012 relative to NZGS has reduced by 1 bps from June 2014 to 0.83%. The margin contraction has occurred despite the disproportionate amount of longer dated LGFA bonds issued (and hence a wider margin) over the past twelve 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.

STATEMENT OF SERVICE PERFORMANCE

A weighted average of LGFA margins to NZGS was 0.52% based on the secondary market levels as at 30 June 2015. The average margin for issuance in the 2014-15 year was 0.69%.

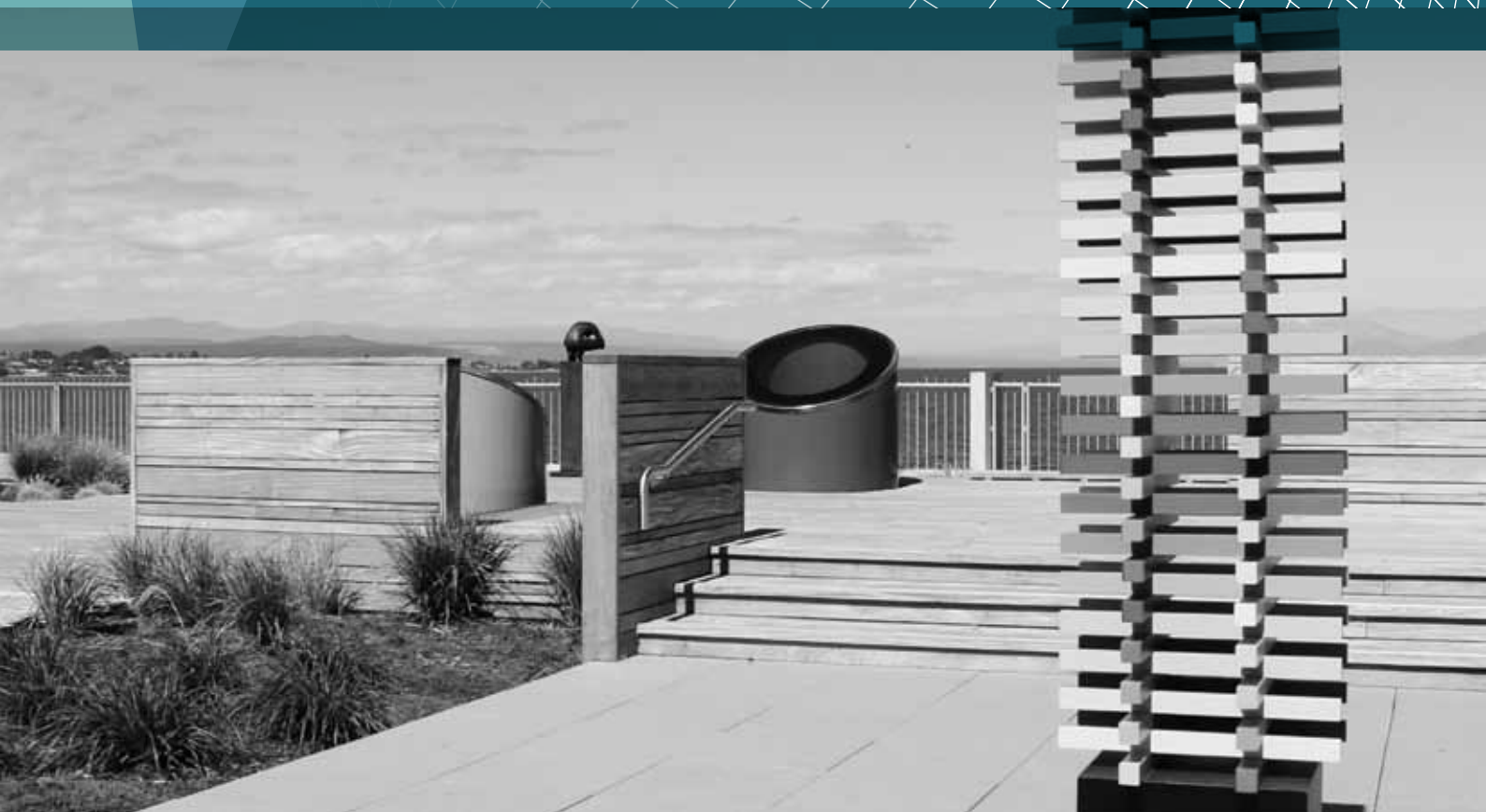
2.7 Comply with its Treasury Policy, as approved by the Board

LGFA was compliant with the Treasury Policy except for the period July 2014 to November 2014 when 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.

These councils' borrowings were non-compliant with the Treasury Policy that stated "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".

This non-compliance was due to LGFA having, until April 2014, only four borrowing maturities available to councils. LGFA shareholders approved a change to the Foundation Policy in November 2014 to increase this limit to 33% of borrowings. Both councils are compliant as at 30 June 2015.

FINANCIAL STATEMENTS



Taupo water treatment plant, located on the Taupo lake front. Taupo District Council.

CONTENTS

Directors' declaration	21
Financial statements	22
Statement of comprehensive income	22
Statement of changes in equity	22
Statement of financial position	23
Statement of cash flows	24
Notes to financial statements	25
1 Statement of accounting policies	25
a) Reporting entity	25
b) Statement of compliance	25
c) Basis of preparation	25
d) Financial instruments	26
e) Other assets	27
f) Other liabilities	27
g) Revenue and expenses	27
h) Lease payments	27
i) Segment reporting	28
j) Judgements and estimations	28
2 Analysis of financial assets and financial liabilities	28
a) Categories of financial instruments	28
b) Financial risk management	30
c) Hedge accounting	35
d) Offsetting	35
3 Issuance and on-lending expenses	36
4 Operating expenses	36
5 Loans to local government	37
6 Bonds issued	39
7 Borrower notes	39
8 Reconciliation of net profit/(loss) to cash flow from operating activities	42
9 Share capital	42
10 Operating leases	44
11 Property, plant and equipment	44
12 Capital commitments	44
13 Contingencies	44
14 Related parties	45
15 Subsequent events	45
Auditor's report	46
Board of Directors	48
Directory	49

DIRECTORS' DECLARATION

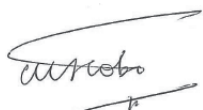
In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 22 to 45:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 30 June 2015, and
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

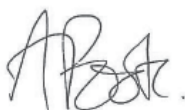
The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial position of the Company and facilitates the compliance of the financial statements with the Financial Reporting Act 1993.

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
23 September 2015



A. Foote, Director
23 September 2015

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015 in \$000s

	Note	Year ended 2015	Year ended 2014
Interest income from			
Cash and cash equivalents		1,472	1,251
Loans to local government		201,352	122,201
Marketable securities		283	-
Deposits		3,467	1,248
Derivatives		16,207	24,415
Fair value hedge ineffectiveness	2(c)	-	-
Total interest income		222,781	149,115
Interest expense on			
Bonds		205,908	137,117
Borrower notes		3,000	1,779
Total interest expense		208,908	138,896
Net interest income		13,873	10,219
Operating expenses			
Issuance and on-lending expenses	3	2,526	1,464
Operating expenses	4	2,143	1,781
Total expenses		4,669	3,245
Net operating profit		9,204	6,974
Total comprehensive income for the year		9,204	6,974

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015 in \$000s

	Note	Share Capital	Retained earnings	Total equity
Equity as at 30 June 2013	9	25,000	(1,611)	23,389
Net operating profit		-	6,974	6,974
Total comprehensive income for the year		-	6,974	6,974
Transactions with owners:				
Dividend paid		-	(1,515)	(1,515)
Equity as at 30 June 2014	9	25,000	3,848	28,848
Net operating profit		-	9,204	9,204
Total comprehensive income for the year		-	9,204	9,204
Transactions with owners:				
Dividend paid	9	-	(1,765)	(1,765)
Equity as at 30 June 2015		25,000	11,287	36,287

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2015 in \$000s

	Note	2015	2014
Assets			
Financial assets			
Cash and cash equivalents		31,708	55,126
Trade and other receivables		38	40
Loans to local government	5	5,031,942	3,742,471
Marketable securities		5,345	-
Deposits		70,896	46,542
Derivatives in gain	2	270,503	73,779
Non-financial assets			
Prepayments		325	226
Other assets	11	1,081	2
Total assets		5,411,838	3,918,187
Equity			
Share capital		25,000	25,000
Retained earnings		11,287	3,848
Total equity		36,287	28,848
Liabilities			
Financial liabilities			
Trade and other payables		444	253
Accrued expenses		344	194
Bonds	6	5,274,319	3,825,301
Borrower notes	7	85,120	61,892
Derivatives in loss	2	15,324	1,699
Total liabilities		5,375,551	3,889,339
Total equity and liabilities		5,411,838	3,918,187

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2015 in \$000s

	Note	Year ended 2015	Year ended 2014
Cash flow from operating activities			
Cash applied to loans to local government		(1,284,042)	(1,223,789)
Interest paid on bonds issued		(231,648)	(159,066)
Interest paid on borrower notes		(292)	-
Interest received from cash and cash equivalents		1,472	1,252
Interest received from loans to local government		195,923	118,464
Interest received from marketable securities		464	-
Interest received on deposits		3,114	1,028
Net interest on derivatives		44,657	47,843
Payments to suppliers and employees		(4,426)	(3,346)
Net cash flow from operating activities		(1,274,778)	(1,217,615)
Cash flow from investing activities			
Maturity (Purchase) of marketable securities		(5,525)	-
Purchase of deposits		(24,000)	(22,000)
Purchase of plant and equipment and intangible assets		(1,081)	-
Net cash flow from investing activities		(30,606)	(22,000)
Cash flow from financing activities			
Dividend paid		(1,765)	(1,515)
Cash proceeds from borrower notes		20,520	19,440
Cash proceeds from bonds issued		1,296,179	1,260,763
Cash applied to derivatives		(32,968)	(25,879)
Net cash flow from financing activities		1,281,966	1,252,809
Net (Decrease) / Increase in Cash		(23,418)	13,194
Cash, Cash Equivalents and Bank overdraft at beginning of year		55,126	41,932
Cash, Cash Equivalents and Bank overdraft at end of year		31,708	55,126

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

NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies

a) 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 8, City Chambers, 142 Featherston Street, Wellington Central, Wellington 6011.

The financial statements are as at and for the year ended 30 June 2015.

These financial statements were authorised for issue by the Directors on 23 September 2015.

b) Statement of compliance

LGFA is an issuer in terms of the Financial Reporting Act 1993. The financial statements comply with the Financial Reporting Act 1993, in accordance with the transitional provisions under Section 55 of the Financial Reporting Act 2013 and Schedule 4 of the Financial Markets Conduct Act 2013.

LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

c) Basis of Preparation

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless separately identified. The functional currency of LGFA is New Zealand dollars.

Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

Changes in accounting policies

There have been no changes in accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

Early adoption standards and interpretations

The following accounting standard has been early adopted by LGFA.

NZ IFRS 9: Financial Instruments. The first two phases of this new standard were approved by the Accounting Standards Review Board in November 2009 and November 2010. These phases address the issues of classification and measurement of financial assets and financial liabilities.

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements. Those which may be relevant to LGFA are as follows:

- NZ IFRS 9: Financial Instruments (2014) – Effective for periods beginning on or after 1 January 2018. This standard aligns hedge accounting more closely with the risk management activities of the entity and adds requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

d) Financial instruments

Financial assets

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents include cash on hand; cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date an assessment is made whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

e) Other assets

Property, plant and equipment (PPE)

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

NOTES TO THE FINANCIAL STATEMENTS

Intangible Assets

Intangible assets comprise acquired and internally developed computer software costs incurred for the implementation of the treasury management system. Capitalised computer software costs are amortised on a straight line basis over the estimated useful life of the software (3 to 7 years). Costs associated with maintaining computer software are recognised as expenses when incurred.

f) Other liabilities

Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

g) Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

h) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

i) Segment reporting

LGFA operates in one segment being funding of participating local authorities in New Zealand.

j) Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. Refer note 2b for fair value determination for financial instruments.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

2 Analysis of financial assets and financial liabilities

a) Categories of financial instruments

Financial instruments recognised in the Statement of Financial Position at fair value

Derivative financial instruments are the only instrument recognised in the Statement of Financial Position at fair value.

Derivative financial instruments are valued under fair value hierarchy level 2, determined according to the following hierarchy:

- *Level 1* – Quoted market prices: Fair value based on quoted prices in active markets for identical assets or liabilities.
- *Level 2* – Valuation techniques using observable market inputs: Fair value based on a valuation technique using other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- *Level 3* – Valuation techniques using significant non-observable market inputs: Fair value based on a valuation technique using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of derivative financial instruments is determined using a discounted cash flow analysis. Interest rates represent the most significant assumption used in valuing derivative financial instruments. The interest rates used to discount estimated cash flows are based on the New Zealand dollar swap curves at the reporting date.

Financial instruments recognised in the Statement of Financial Position at amortised cost

Fair values of financial instruments not recognised in the Statement of Financial Position at fair value are determined for note disclosure as follows:

Cash and bank, trade & other receivables, trade & other payables

The carrying value of cash and bank, trade & other receivables, trade & other payables approximate their fair value as they are short-term instruments.

NOTES TO THE FINANCIAL STATEMENTS

Marketable securities and bonds

The fair value of bonds is determined using the quoted price for the instrument (Fair value hierarchy level 1).

Deposits

The fair value for deposits is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on current market interest rates (Fair value hierarchy level 2).

Loans to local government

The fair value of loans to local government authorities is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date plus an appropriate credit spread to reflect the counterparty's credit risk (Fair value hierarchy level 2).

Borrower notes

The fair value of borrower notes is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date (Fair value hierarchy level 2).

Fair value of financial assets and financial liabilities

The fair value of financial assets and financial liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

As at 30 June 2015 in \$000s	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with NZIFRS 9	Fair value
Financial assets				
Cash and bank	-	31,708	-	31,708
Trade & other receivables	-	38	-	38
Loans to local government	-	5,031,942	-	5,163,921
Marketable securities		5,345		5,383
Deposits	-	70,896	-	70,986
Derivatives	-	-	270,503	270,503
		5,139,929	270,503	5,542,539
Financial liabilities				
Trade & other payables	444	-	-	444
Bonds	5,274,319	-	-	5,379,311
Borrower notes	85,120	-	-	85,776
Derivatives	-	-	15,324	15,324
	5,359,883	-	15,324	5,480,855

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2014 in \$000s	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with NZIFRS 9	Fair value
Financial assets				
Cash and bank	-	55,126	-	55,126
Trade & other receivables	-	40	-	40
Loans to local government	-	3,742,471	-	3,786,785
Marketable securities	-	-	-	-
Deposits	-	46,542	-	46,516
Derivatives	-	-	73,779	73,779
		3,844,180	73,779	3,962,246
Financial liabilities				
Trade & other payables	253	-	-	253
Bonds	3,825,301	-	-	3,853,808
Borrower notes	61,892	-	-	61,403
Derivatives	-	-	1,699	1,699
	3,887,446	-	1,699	3,917,163

b) Financial risk management

The Board of Directors has overall responsibility for carrying out the business of LGFA in accordance with risk management policies, including those relating to investing, lending, borrowing and treasury activities. The use of financial instruments exposes LGFA to a number of financial risks, the most significant being market risk, credit risk, and liquidity risk. The exposure and management of these risks is outlined below.

Market risk

Market risk is the risk that changes in market prices will affect LGFA's income or value of financial instruments. The most significant market risk which LGFA is exposed to is interest rate risk. LGFA has no significant exposure to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that future cash flows or the fair value of financial instruments will decrease because of a change in market interest rates. LGFA is exposed to interest rate risk through its interest-bearing financial assets and liabilities. Interest rate risk is managed by matching the interest rate repricing profile of its assets against the repricing profile of its liabilities. Where mismatches occur, interest rate swaps are used to economically convert the repricing profile of financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

The table below indicates the effective interest rate and the earliest period in which interest-bearing financial instruments reprice.

As at 30 June 2015 in \$000s	Face value	Less than 6 months	6 months to 1 year	1 year to 2 years	2 years to 5 years	More than 5 years
Financial assets						
Cash and bank balances	31,708	31,708				
Loans to local government	4,978,500	4,037,000	-	-	439,500	502,000
Marketable securities	5,000	-	-	-	5,000	-
Deposits	70,000	70,000	-	-	-	-
Financial liabilities						
Bonds	(4,955,000)	-	-	-	(2,490,000)	(2,465,000)
Borrower notes	(79,656)	(64,592)	-	-	(7,032)	(8,032)
Derivatives	-	(4,015,700)	-	-	2,045,450	1,970,250
Total	50,552	58,416	-	-	(7,082)	(782)

As at 30 June 2014 in \$000s	Face value	Less than 6 months	6 months to 1 year	1 year to 2 years	2 years to 5 years	More than 5 years
Financial assets						
Cash and bank balances	55,126	55,126	-	-	-	-
Loans to local government	3,696,000	2,805,500	28,000	-	432,500	430,000
Marketable securities	-	-	-	-	-	-
Deposits	46,000	46,000	-	-	-	-
Financial liabilities						
Bonds	(3,695,000)	-	(240,000)	-	(2,030,000)	(1,425,000)
Borrower notes	(59,136)	(44,888)	(448)	-	(6,920)	(6,880)
Derivatives	-	(2,812,700)	212,000	-	1,601,200	999,500
Total	42,990	49,038	(448)	-	(3,220)	(2,380)

Interest rate sensitivity

Changes in interest rates impact the fair value of fixed rate assets and liabilities, cash flows on floating rate assets and liabilities, and the fair value and cash flows of interest rate swaps. A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss and equity by the amounts shown in the following table. This analysis assumes that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2015 in \$000s	2015 Profit and loss		2014 Profit and loss	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
Fair value sensitivity analysis				
Fixed rate assets	-	-	-	-
Fixed rate liabilities	188,425	(201,409)	(116,912)	123,459
Derivative financial instruments	(188,425)	201,409	116,912	(123,459)
	-	-	-	-
Cash flow sensitivity analysis				
Variable rate assets	40,370	(40,370)	28,055	(28,055)
Variable rate liabilities	(646)	646	(449)	449
Derivatives	(40,157)	40,157	(28,127)	28,127
	(433)	433	(521)	521

Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. LGFA is exposed to credit risk through its lending and investing activities.

Credit risk associated with lending activities is managed by requiring local authorities that borrow from LGFA to meet specific credit lending criteria and to provide security against the borrowing. The LGFA's credit risk framework restricts credit exposures to specific counterparties.

Credit risk associated with investing activities, excluding on-lending, is managed by only investing with New Zealand Government Agencies or counterparties that meet a minimum credit rating of A (Standard & Poor's equivalent). The LGFA's credit risk framework limits concentrations of credit risk for any particular counterparty.

Exposure to credit risk

LGFA monitors the concentration of credit risk by the type of counterparty. The carrying value and maximum exposure to credit risk at the reporting date, before taking account of collateral or other credit enhancements, for significant counterparty types are shown in the table below.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2015 <i>in \$000s</i>	NZ Government agencies	NZ local authorities	NZ registered banks	Other counter- parties	Total carrying value
Financial assets					
Cash and bank balances	31,078	-	630	-	31,708
Trade & other receivables	-	-	-	38	38
Loans to local government	-	5,031,942	-	-	5,031,942
Marketable securities	5,345	-	-	-	5,345
Deposits	-	-	70,896	-	70,896
Derivatives	270,503	-	-	-	270,503
	306,926	5,031,942	71,526	38	5,410,432

As at 30 June 2014 <i>in \$000s</i>	NZ Government agencies	NZ local authorities	NZ registered banks	Other counter- parties	Total carrying value
Financial assets					
Cash and bank balances	54,566	-	560	-	55,126
Trade & other receivables	-	-	-	40	40
Loans to local government	-	3,742,471	-	-	3,742,471
Marketable securities	-	-	-	-	-
Deposits	-	-	46,542	-	46,542
Derivatives	73,779	-	-	-	73,779
	128,345	3,742,471	47,102	40	3,917,959

Collateral and credit enhancements

LGFA holds collateral against borrowings from local authorities in the form of debenture securities and guarantees.

Credit quality of financial assets

All financial assets are neither past due or impaired. The carrying value of the financial assets is expected to be recoverable.

Liquidity risk

Liquidity risk is the risk that LGFA will encounter difficulty in meeting the obligations of its financial liabilities. LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations when they fall due.

The New Zealand Debt Management Office (NZDMO) also provide a committed liquidity facility that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2015, the undrawn committed liquidity facility was \$400 million (2014: \$400 million).

NOTES TO THE FINANCIAL STATEMENTS

Contractual cash flows of financial instruments

The contractual cash flows associated with financial assets and liabilities are shown in the table below.

As at 30 June 2015 in \$000s	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total contract cash flows	Total carrying value
Financial assets							
Cash	31,708	-	-	-	-	31,708	31,708
Trade & other receivables	-	38	-	-	-	38	38
Loans to local government	-	48,627	160,884	3,148,926	2,859,955	6,218,392	5,031,942
Marketable securities	-	-	300	5,450	-	5,750	5,345
Deposits	-	40,813	30,855	-	-	71,668	70,896
Financial liabilities							
Trade & other payables	-	(444)	-	-	-	(444)	(444)
Bonds	-	(27,750)	(238,175)	(3,345,950)	(2,791,625)	(6,403,500)	(5,274,319)
Borrower notes	-	-	-	(47,647)	(55,358)	(103,005)	(85,120)
Derivatives	-	(18,294)	86,213	185,705	25,604	279,228	255,180
	31,708	42,990	40,077	(53,516)	38,576	99,835	35,226

As at 30 June 2014 in \$000s	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total contract cash flows	Total carrying value
Financial assets							
Cash	55,126	-	-	-	-	55,126	55,126
Trade & other receivables	-	40	-	-	-	40	40
Loans to local government	-	35,894	337,460	2,740,879	1,664,510	4,778,742	3,742,471
Marketable securities	-	-	-	-	-	-	-
Deposits	-	36,730	10,221	-	-	46,950	46,542
Financial liabilities							
Trade & other payables	-	(253)	-	-	-	(253)	(253)
Bonds	-	(26,750)	(422,475)	(2,722,900)	(1,631,500)	(4,803,625)	(3,825,301)
Borrower notes	-	-	(3,384)	(41,497)	(32,640)	(77,521)	(61,892)
Derivatives	-	(7,045)	44,638	39,597	3,566	80,756	72,080
	55,126	38,616	(33,540)	16,079	3,936	80,215	28,813

NOTES TO THE FINANCIAL STATEMENTS

c) 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 year ended 30 June 2015 in \$000s	2015 Gain/(loss)	2014 Gain/(loss)
Hedging instruments – interest rate swaps	178,578	(37,102)
Hedged item attributable to the hedged risk – fixed rate bonds	(178,578)	37,102
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.

d) Offsetting

NZ IAS 32: Financial Instruments Presentation allows financial assets and liabilities to be offset only when there is a current legally enforceable right to set off the amounts and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. LGFA does not offset any amounts. The following table shows amounts subject to an enforceable master netting arrangement or similar agreement that are not offset in the statement of financial position:

As at 30 June 2015 in \$000s	Derivative assets	Derivative liabilities
Gross amounts	270,503	15,324
Amounts offset	-	-
Carrying amounts	270,503	15,324
Amounts that don't qualify for offsetting		
Financial assets & liabilities	(15,324)	(15,324)
Collateral	-	-
Net amount	255,179	-

As at 30 June 2014 in \$000s	Derivative assets	Derivative liabilities
Gross amounts	73,779	1,699
Amounts offset	-	-
Carrying amounts	73,779	1,699
Amounts that don't qualify for offsetting		
Financial assets & liabilities	(1,699)	(1,699)
Collateral	-	-
Net amount	72,080	-

NOTES TO THE FINANCIAL STATEMENTS

3 Issuance and on-lending expenses

For the year ended 30 June 2015 <i>in \$000s</i>	2015	2014
NZDMO facility fee ⁽¹⁾	283	200
NZDMO processing fees	149	154
Rating agency fees	500	515
Legal fees for issuance ⁽²⁾	203	90
Regulatory, registry, other fees	23	20
Trustee fees	101	110
Approved issuer levy ⁽³⁾	1,192	375
Promotion/roadshow	11	-
Information Services ⁽⁴⁾	64	-
	2,526	1,464

(1) The facility fee agreement with NZDMO provided for a contractual increase in cost from .05% pa to .10% pa at the end of LGFA's first three years of operation.

(2) The increase in legal fees is attributable to advice on the Financial Markets Conduct Act 2013 and Approved Issuer Levy.

(3) The increase in Approved Issuer Levy is attributable to increased holdings of LGFA bonds by offshore investors.

(4) Information services costs is attributable to the migration of outsourced services from NZDMO to LGFA. Previously this cost was incorporated within the NZDMO processing fee.

4 Operating expenses

For the year ended 30 June 2015 <i>in \$000s</i>	2015	2014
Consultants	95	82
Directors' fees	257	283
Insurance	63	60
Legal fees	94	104
Other expenses ⁽¹⁾	532	270
Auditor's remuneration		
Statutory audit	80	80
Personnel	998	863
Recruitment	24	39
	2,143	1,781

(1) The increase in operating costs is attributable to treasury system selection, website development and costs associated with establishing new Wellington and Auckland premises.

NOTES TO THE FINANCIAL STATEMENTS

5 Loans to local government

As at 30 June 2015 in \$000s	Face value	Unamortised premium/ (discount)	Accrued interest	Total
Ashburton District Council	15,000	829	113	15,941
Auckland Council	1,725,000	16,818	11,396	1,753,214
Christchurch City Council	932,500	3,219	5,463	941,183
Far North District Council	10,000	-	55	10,055
Gisborne District Council	17,000	-	51	17,051
Greater Wellington Regional Council	155,000	-	741	155,741
Grey District Council	20,000	592	163	20,754
Hamilton City Council	225,000	-	771	225,771
Hastings District Council	50,000	-	204	50,204
Hauraki District Council	34,000	-	184	34,184
Horizons Regional Council	10,000	-	18	10,018
Horowhenua District Council	47,000	618	366	47,985
Hurunui District Council	12,000	-	67	12,067
Hutt City Council	49,000	281	401	49,682
Kapiti Coast District Council	130,000	-	480	130,480
Manawatu District Council	41,000	27	303	41,330
Marlborough District Council	28,000	(129)	175	28,046
Masterton District Council	40,000	-	194	40,194
Matamata-Piako District Council	24,500	-	98	24,598
Nelson City Council	25,000	-	150	25,150
New Plymouth District Council	56,000	-	221	56,221
Opotiki District Council	3,500	49	25	3,574
Otorohanga District Council	9,000	235	73	9,308
Palmerston North City Council	77,000	-	376	77,376
Porirua City Council	20,000	-	140	20,140
Queenstown Lakes District Council	60,000	1,096	444	61,539
Rotorua District Council	55,000	599	573	56,172
Selwyn District Council	35,000	-	66	35,066
South Taranaki District Council	62,000	-	234	62,234
Tararua District Council	9,000	-	45	9,045
Tasman District Council	90,000	-	428	90,428
Taupo District Council	100,000	-	423	100,423
Tauranga City Council	215,000	525	1,062	216,587
Thames-Coromandel District Council	35,000	-	89	35,089
Timaru District Council	51,000	45	334	51,378
Upper Hutt City Council	18,000	-	72	18,072
Waikato District Council	50,000	-	215	50,215
Waimakariri District Council	55,000	324	409	55,733
Waipa District Council	13,000	-	22	13,022
Wanganui District Council	41,000	-	182	41,182
Wellington City Council	138,000	-	712	138,712
Western Bay of Plenty District Council	70,000	-	127	70,127
Whakatane District Council	28,000	-	101	28,101
Whangarei District Council	98,000	43	507	98,550
	4,978,500	25,170	28,272	5,031,942

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2014 in \$000s	Face value	Unamortised premium/ (discount)	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
Opotiki District Council	-	-	-	-
Otorohanga District Council	9,000	297	73	9,370
Palmerston North City Council	62,000	-	256	62,256
Porirua City Council	-	-	-	-
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 District 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
	3,696,000	29,102	17,370	3,742,471

NOTES TO THE FINANCIAL STATEMENTS

6 Bonds issued

As at 30 June 2015 in \$000s		Face value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 December 2017	6% coupon	1,015,000	40,097	2,496		
15 March 2019	5% coupon	1,110,000	33,719	16,137		
15 April 2020	3% coupon	365,000	(21,839)	2,274		
15 May 2021	6% coupon	1,170,000	72,162	8,775		
15 April 2023	5.5% coupon	1,010,000	41,034	11,535		
15 April 2027	4.5% coupon	285,000	8,683	2,663		
Total		4,955,000	173,856	43,880	101,583	5,274,319

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		
Total		3,695,000	174,311	32,986	(76,996)	3,825,301

7 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

As at 30 June 2015 in \$000s	Face value	Accrued interest	Total
Ashburton District Council	240	19	259
Auckland Council	27,600	1,999	29,599
Christchurch City Council	14,920	920	15,840
Far North District Council	160	12	172
Gisborne District Council	272	11	283
Greater Wellington Regional Council	2,480	153	2,633
Grey District Council	320	24	344
Hamilton City Council	3,600	311	3,911
Hastings District Council	800	58	858
Hauraki District Council	544	26	570
Horizons Regional Council	160	11	171
Horowhenua District Council	752	50	802
Hurunui District Council	192	7	199
Hutt City Council	784	40	824
Kapiti Coast District Council	2,080	161	2,241
Manawatu District Council	656	37	693
Marlborough District Council	448	19	467
Masterton District Council	640	51	691
Matamata-Piako District Council	392	25	417
Nelson City Council	400	22	422
New Plymouth District Council	896	61	957
Opotiki District Council	56	1	57
Otorohanga District Council	144	14	158
Palmerston North City Council	1,232	63	1,295
Porirua City Council	320	11	331
Queenstown Lakes District Council	960	74	1,034
Rotorua District Council	880	77	957
Selwyn District Council	560	66	626
South Taranaki District Council	992	53	1,045
Tararua District Council	144	6	150
Tasman District Council	1,440	101	1,541
Taupo District Council	1,600	117	1,717
Tauranga City Council	3,440	259	3,699
Thames-Coromandel District Council	560	34	594
Timaru District Council	816	57	873
Upper Hutt City Council	288	11	299
Waikato District Council	800	49	849
Waimakariri District Council	880	30	910
Waipa District Council	208	15	223
Wanganui District Council	656	34	690
Wellington City Council	2,208	115	2,323
Western Bay of Plenty District Council	1,120	126	1,246
Whakatane District Council	448	30	478
Whangarei District Council	1,568	102	1,670
	79,656	5,464	85,120

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2014 in \$000s	Face value	Accrued interest	Total
Ashburton District Council	240	8	248
Auckland Council	18,800	1,054	19,854
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
Opotiki District Council	-	-	-
Otorohanga District Council	144	7	151
Palmerston North City Council	992	29	1,021
Porirua City Council	-	-	-
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
	59,136	2,756	61,892

NOTES TO THE FINANCIAL STATEMENTS

8 Reconciliation of net profit/(loss) to net cash flow from operating activities

For the year ended 30 June 2015 in \$000s	2015	2014
Net profit/(loss) for the year	9,204	6,974
Cash applied to loans to local government	(1,284,042)	(1,223,789)
Non-cash adjustments		
Amortisation and depreciation	(185)	(733)
Working capital movements		
Net change in trade debtors and receivables	192	(157)
Net change in prepayments	(98)	12
Net change in accruals	151	78
Net cash flows from operating activities	(1,274,778)	(1,217,615)

9 Share capital

Share capital

As at 30 June 2015 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. Ordinary shares have a face value of \$1 per share.

Shareholder information

Registered holders of equity securities as at 30 June 2015.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2015 in \$000s	2015		2014	
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 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 Coast 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	100%	45,000,000	100%

NOTES TO THE FINANCIAL STATEMENTS

Capital management

LGFA's capital is equity, which comprises share capital and retained earnings. The objective of managing LGFA's equity is to ensure LGFA achieves its goals and objectives for which it has been established, whilst remaining a going concern.

Dividend

During the year LGFA paid a dividend of \$1,765,000 (\$0.0706) per paid up share. (2014: \$1,515,000 (\$0.0606 per paid up share)).

10 Operating leases

The future aggregate minimum lease payments to be made under non-cancellable operating leases are as follows:

As at 30 June 2015 in \$000s	2015	2014
Less than one year	67	84
Between one and five years	133	282
Total non-cancellable operating leases	200	366

The non-cancellable operating lease expense relates to the leases of level 8, City Chambers, 142 Featherston Street, Wellington and level 12, West Plaza Tower, Cnr Albert & Customs Street, Auckland. For the year-ended 30 June 2015, total payments under the leases were \$92,035.

11 Other assets

As at 30 June 2015 in \$000s	2015	2014
Property, plant and equipment	46	2
Intangible Assets	1,035	-
Total Other Assets	1,081	2

The increase in property, plant and equipment is attributable to capitalised software and development costs for the treasury management system.

12 Capital commitments

As at 30 June 2015, there are no capital commitments.

13 Contingencies

There are no material contingent liabilities at balance date.

NOTES TO THE FINANCIAL STATEMENTS

14 Related parties

Identity of related parties

The Company is related to the local authorities set out in the Shareholder Information in note 9.

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 5, and interest income recognised on this lending is shown in the Statement of Comprehensive Income.

The purchase of LGFA borrower notes by participating councils is disclosed in note 7, and the interest expense on these is shown in the Statement of Comprehensive Income.

Up until 30 June 2015, LGFA contracted the NZDMO, an operating unit of the Treasury, to provide outsourced treasury services for LGFA. Services included operational processing associated with debt issuance, lending to local authorities, accounting, settlement services, investments, hedging and measuring risk. Processing fees are disclosed in Note 3.

Transactions with key management personnel

Salaries \$563,231 (2014: \$559,331)

Fees paid to Directors are disclosed in operating overheads in Note 4.

15 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 \$325 million in bonds through two tenders.

Subsequent to balance date, on 23 September 2015, the Directors of LGFA declared a dividend of \$1,607,500 (\$0.0643 per share).



**INDEPENDENT AUDITOR'S REPORT
TO THE READERS OF NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED'S
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED
30 JUNE 2015**

The Auditor-General is the auditor of New Zealand Local Government Funding Agency Limited (the company). The Auditor-General has appointed me, Graeme Edwards, using the staff and resources of KPMG, to carry out the audit of the financial statements and the performance information of the company on her behalf.

We have audited:

- the financial statements of the company on pages 22 to 45, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 10 to 18.

Opinion

Financial statements and performance information

In our opinion:

- the financial statements of the company:
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards;
 - comply with International Financial Reporting Standards;
- give a true and fair view of the company's:
 - financial position as at 30 June 2015; and
 - financial performance and cash flows for the year ended on that date.
- the performance information of the company gives a true and fair view of the company's achievements measured against the performance targets adopted for the year ended 30 June 2015.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 23 September 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.



An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for the preparation of the performance information for the company.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the company.

Graeme Edwards
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

BOARD OF DIRECTORS

Interests Register

Name of Director	Nature and extent of interest	
Craig Stobo (Chair)	Director Precinct Properties New Zealand Ltd OCG Consulting Ltd* Elevation Capital Management Ltd Saturn Portfolio Management Ltd Stobo Group Ltd AIG Insurance NZ Ltd Fliway Group Ltd	General Disclosure Chair, Establishment Board, Local Government Risk Agency
Paul Anderson	Officer CEO, NZSki Ltd Formerly Christchurch City Council	Director Ecocentral Ltd
John Avery	Director Spider Tracks Ltd Fund Managers Auckland Ltd Regional Facilities Auckland Ltd Strategic Pay Ltd Office Products Depot Strategic Pay, Trustee Service Ltd	General disclosure The New Zealand School of Dance (Trustee) Stinger Trust (Trustee)
Philip Cory-Wright	Director South Port New Zealand Ltd Matariki Forests Ltd	
Abigail Foote	Director BNZ Life Insurance Ltd Transpower New Zealand Ltd* Z Energy Ltd Diligent Corporation Livestock Improvement Corporation Ltd	Other Gambling Commissioner*

* Position held during the year, no longer current

Remuneration

Non-Executive Directors	2015 (\$)	Staff Total remuneration	Staff Numbers 2015
Craig Stobo (Chair)	\$78,000	\$170,000 to \$179,999	1
Paul Anderson	\$44,200	\$240,000 to \$249,999	1
John Avery	\$44,200	\$320,000 to \$329,999	1
Philip Cory-Wright	\$44,200	Total staff receiving \$100,000 or more	3
Abigail Foote	\$46,800		
Total	\$257,400		



Left to Right: John Avery, Philip Cory-Wright, Abigail Foote, Craig Stobo, Paul Anderson, Mark Butcher (Chief Executive)

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 **Follow us** twitter.com/nzlgfa

Right: Recently completed upgrade to the Blenheim Sewage Treatment Plant. Commencement of excavation on the landward section of the outfall pipe. Marlborough District Council.

Back Cover: Elginshire Street extension to allow easier access to State Highway 1, improving the efficiency of traffic flow in the expanding Washdyke industrial area. Timaru District Council.





NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

