

AN OVERVIEW AND UPDATE



- ❑ Important Information
- ❑ Developments July 2015 to October 2016
- ❑ LGFA Debt Market Activities
- ❑ LGFA Overview
- ❑ Credit Update on NZ Local Government Sector
- ❑ Appendix and Contacts



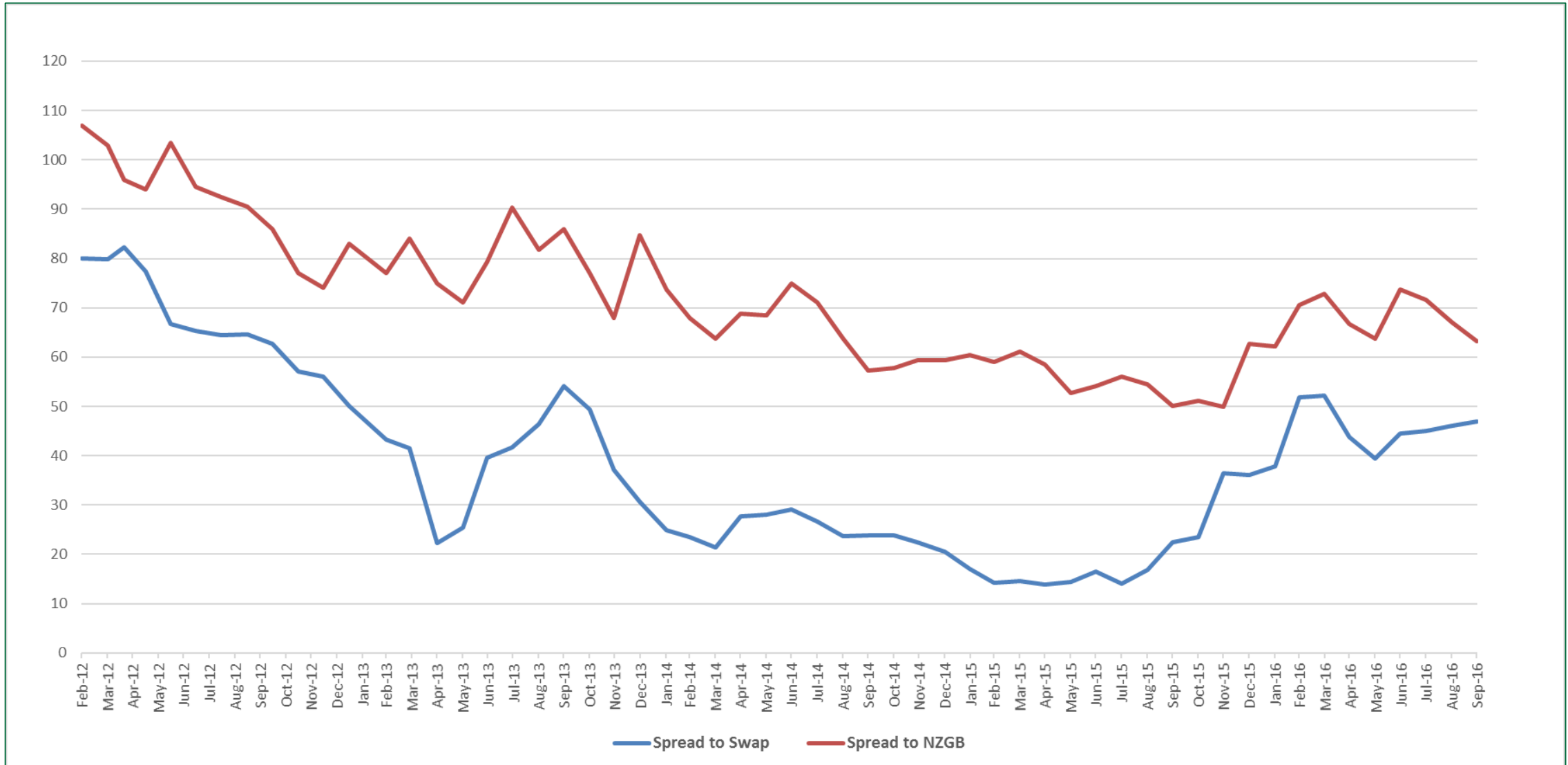
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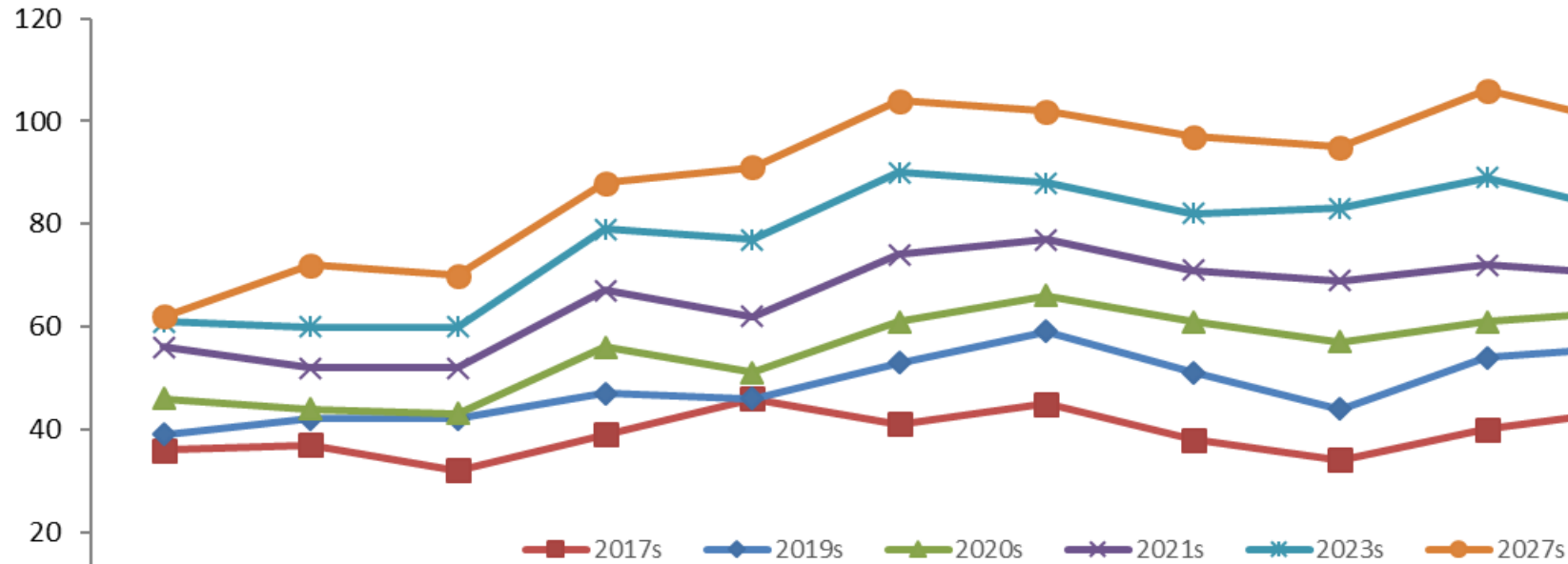
- Commenced LGFA Bill issuance October 2015
- LGFA Bonds listed on NZX Debt Market November 2015
- Commenced short term lending to councils November 2015
- Governance change – 2 new directors , one retirement November 2015
- INFINZ Excellence in Treasury Award May 2016
- Transitioned to Financial Markets Conduct Act May 2016
- Bond lending facility established October 2016
- NZ\$6.73 billion of loans outstanding to forty-nine councils as at 10 October 2016
- S&P and Fitch affirm LGFA ratings at AA+ (but Fitch lowered outlook to stable)
- Lending book quality improved – four councils received credit rating or outlook upgrade
- Six new council members join taking total membership to fifty-one councils
 - South Wairarapa, Kaipara, Gore, Buller and Central Hawkes Bay District Councils and Canterbury Regional Council
- Bespoke lending increasingly popular – in excess of 30% of new loans
- Support of councils boosts LGFA market share to 70% and 75% (excluding Auckland)

LGFA SPREADS TO NZGB AND SWAP (bps)



Secondary market levels as at end of each month : Average of all LGFA Bonds outstanding

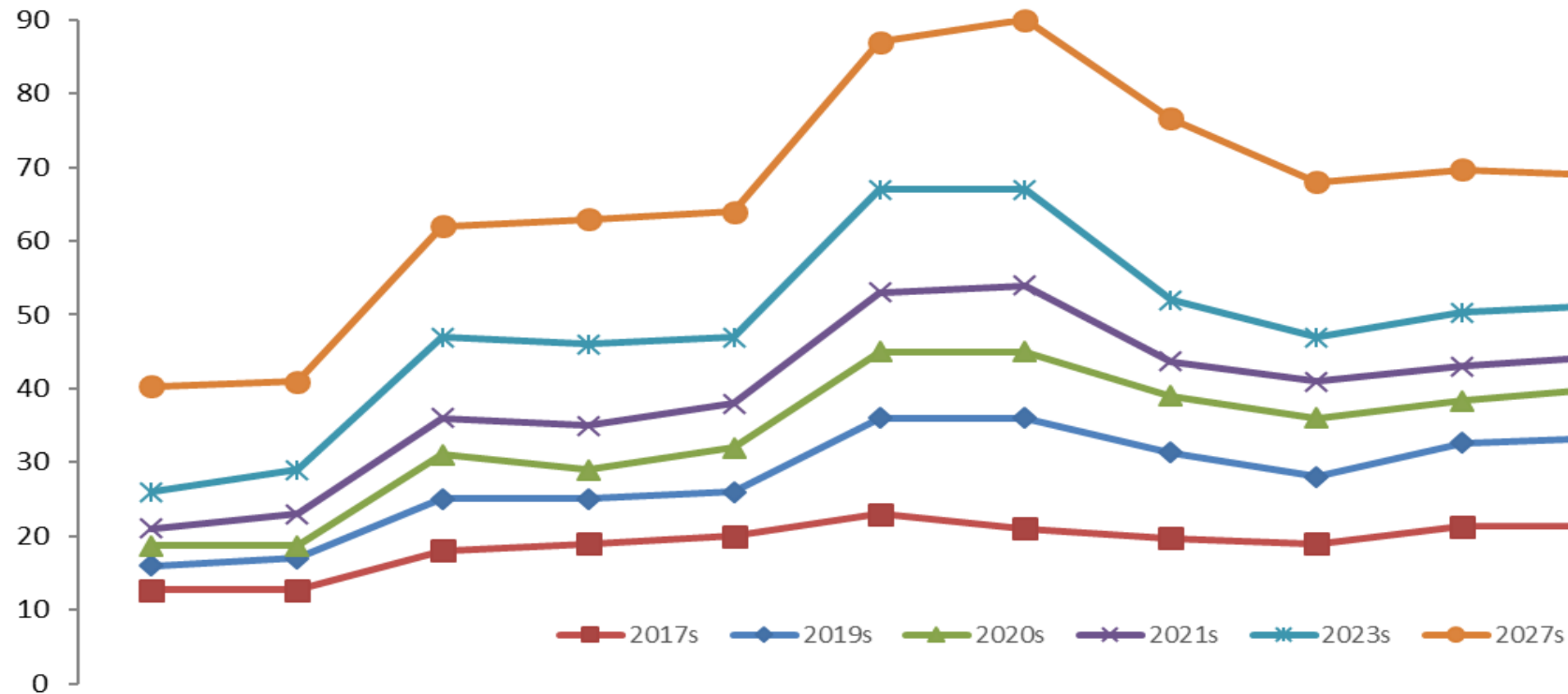
Source: LGFA



	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
2017s	36	37	32	39	46	41	45	38	34	40	44	44	44
2019s	39	42	42	47	46	53	59	51	44	54	56	50	56
2020s	46	44	43	56	51	61	66	61	57	61	63	59	63
2021s	56	52	52	67	62	74	77	71	69	72	70	68	70
2023s	61	60	60	79	77	90	88	82	83	89	82	77	82
2027s	62	72	70	88	91	104	102	97	95	106	99	90	99

Secondary market levels as at end of each month

Source: LGFA



	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
2017s	13	13	18	19	20	23	21	20	19	21	21	22	21
2019s	16	17	25	25	26	36	36	31	28	33	33	33	33
2020s	19	19	31	29	32	45	45	39	36	38	40	40	40
2021s	21	23	36	35	38	53	54	44	41	43	44	44	44
2023s	26	29	47	46	47	67	67	52	47	50	51	52	51
2027s	40	41	62	63	64	87	90	77	68	70	69	70	69

Secondary market levels as at end of each month

Source: LGFA

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- ❑ LGFA Debt Market Activities
 - LGFA Bond Programme
 - LGFA and NZGB Curves
 - LGFA Spreads to NZGB and Swap
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NEW ZEALAND DOLLAR DOMESTIC BENCHMARK PROGRAMME – BONDS AND BILLS

LGFA BONDS OUTSTANDING as at 10 October 2016

Maturity	Coupon	Amount on Issue (NZ\$ million)	Date of initial Issuance
15-Dec-2017	6.00%	1,015	15/02/2012
15-Mar-2019	5.00%	1,180	6/06/2012
15-Apr-2020	3.00%	590	13/08/2014
15-May-2021	6.00%	1,400	15/05/2013
15-Apr-2023	5.50%	1,380	2/04/2014
15-April-2025	4.50%	325	20/06/2016
15-April-2027	4.50%	865	16/03/2015
	Total	6,775	

Average bond tender sizes – calendar years

2012: NZ\$171 million 2013: NZ\$189 million
 2014: NZ\$187 million 2015: NZ\$150 million
 2016: NZ\$127 million

Average bond tender bid cover ratio : 3.2 times

LGFA BILLS OUTSTANDING as at 10 October 2016

Maturity	Amount on Issue (NZ\$ million)
12-October-2016	50
16-November-2016	50
14-December-2016	50
11-January-2017	25
16-February-2017	25
15-March-2017	25
Total	225

The LGFA securities constitute unsecured debt obligations of LGFA

Source: LGFA

LGFA Bonds Issued by Financial Year (NZ\$ millions)

Maturity	2011-12 (4 months)	2012-13	2013-14	2014-15	2015-16	2016-17 (ytd)
15-Apr-15	155	10	75			
15-Dec-17	605	245	110	55		
15-Mar-19	75	900	95	40	70	
15-Apr-20				365	200	25
15-May-21		445	625	100	150	80
15-Apr-23			355	655	275	95
15-Apr-25					100	225
15-Apr-27				285	470	110
	835	1600	1260	1500	1265	535

Average term to maturity of issuance

2011-12: 5.34 years

2012-13: 6.57 years

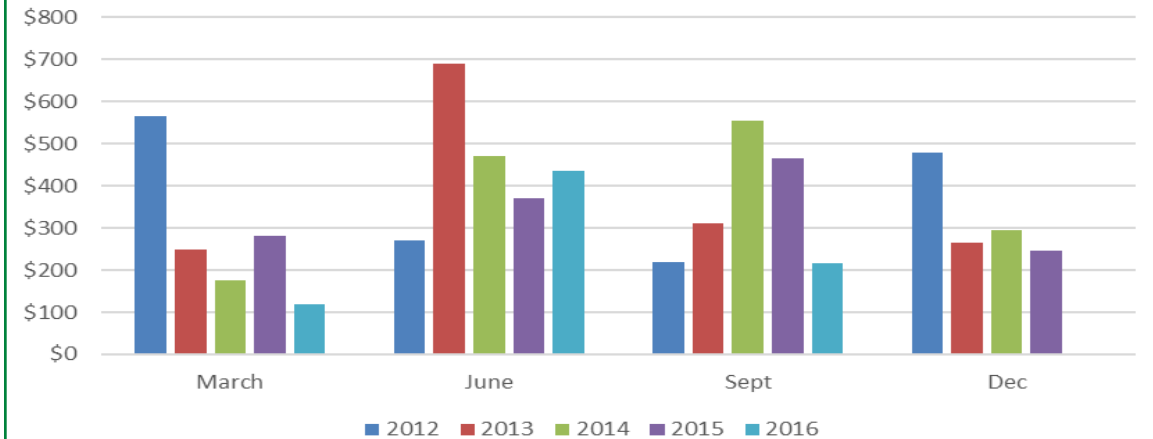
2013-14: 7.04 years

2014-15: 7.92 years

2015-16: 8.10 years

2016-17 year to date: 8.25 years

LGFA issuance by quarter (\$ millions)



Average issuance by quarter

March: NZ\$278 million

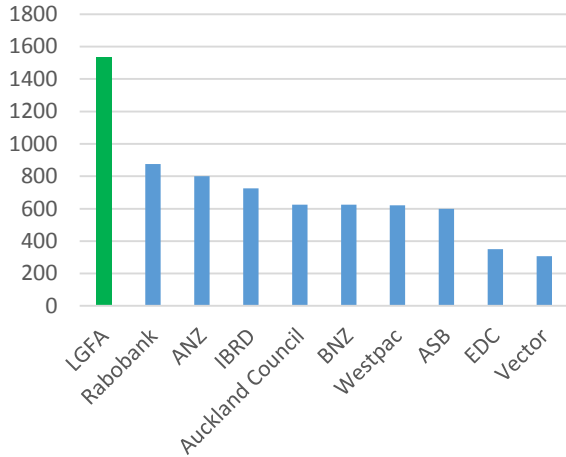
June: NZ\$447 million

September: NZ\$353 million

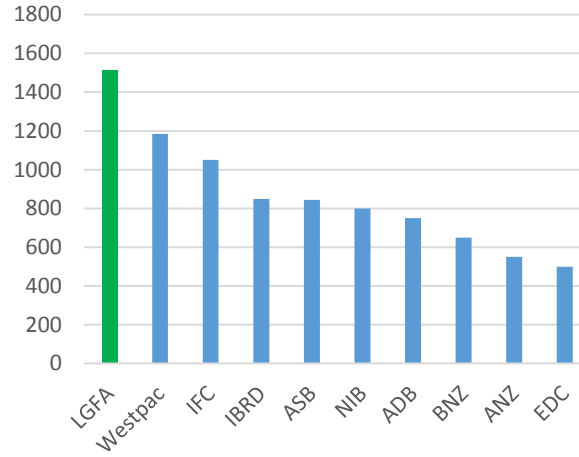
December: NZ\$321 million

A LARGE NON-GOVT ISSUER OF NZD DEBT SECURITIES

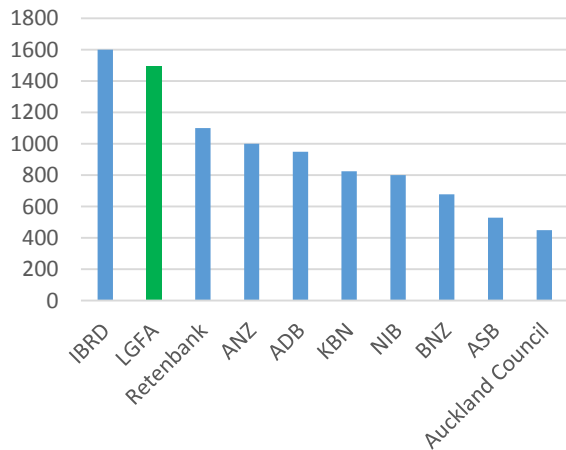
2012



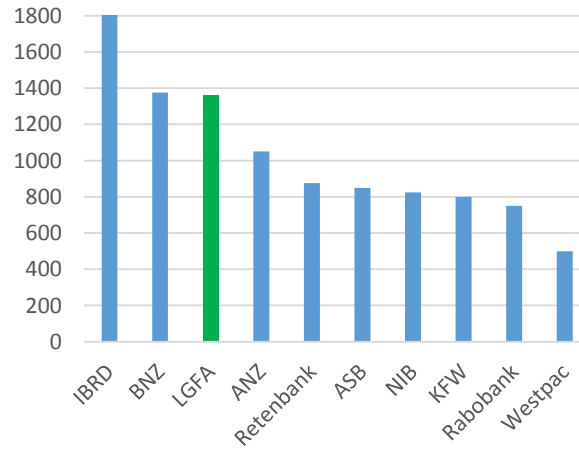
2013



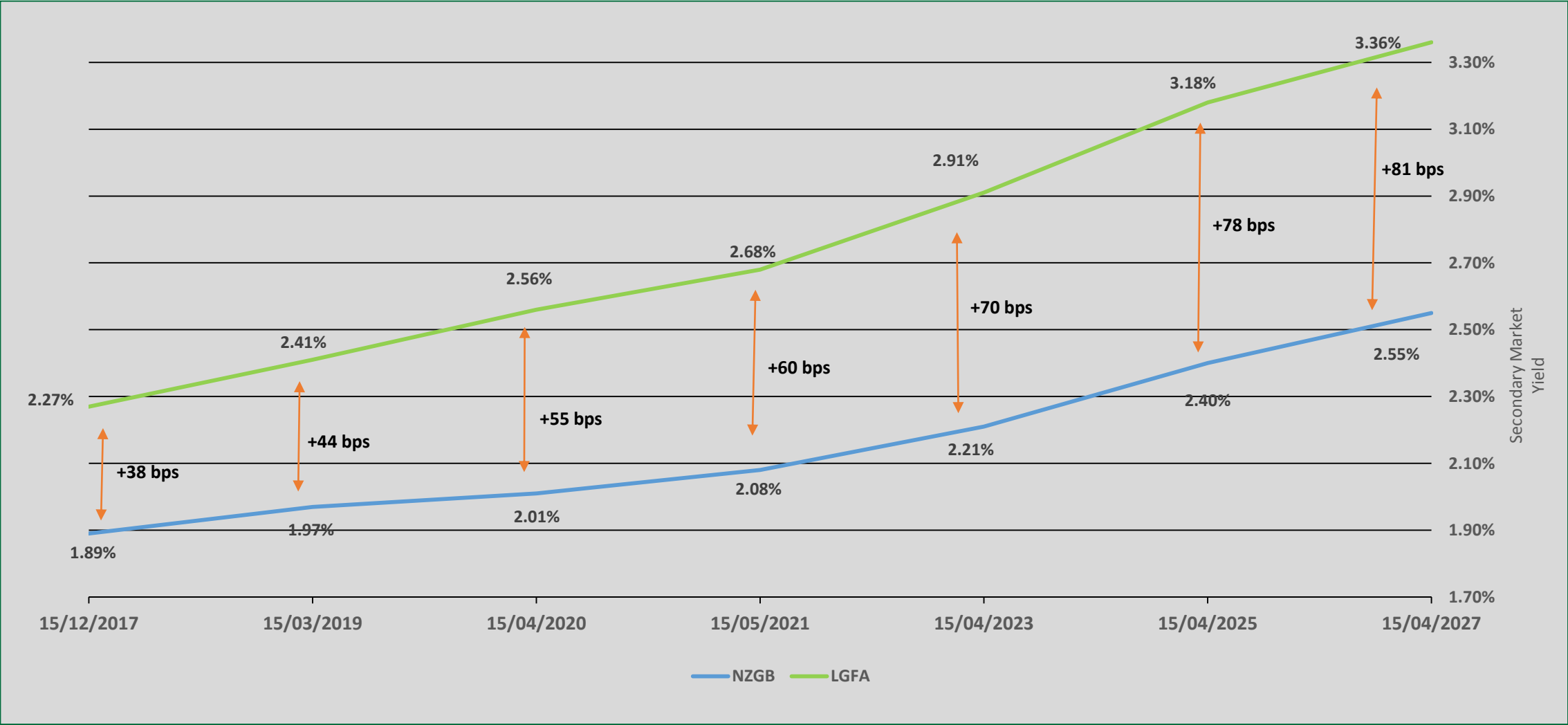
2014



2015

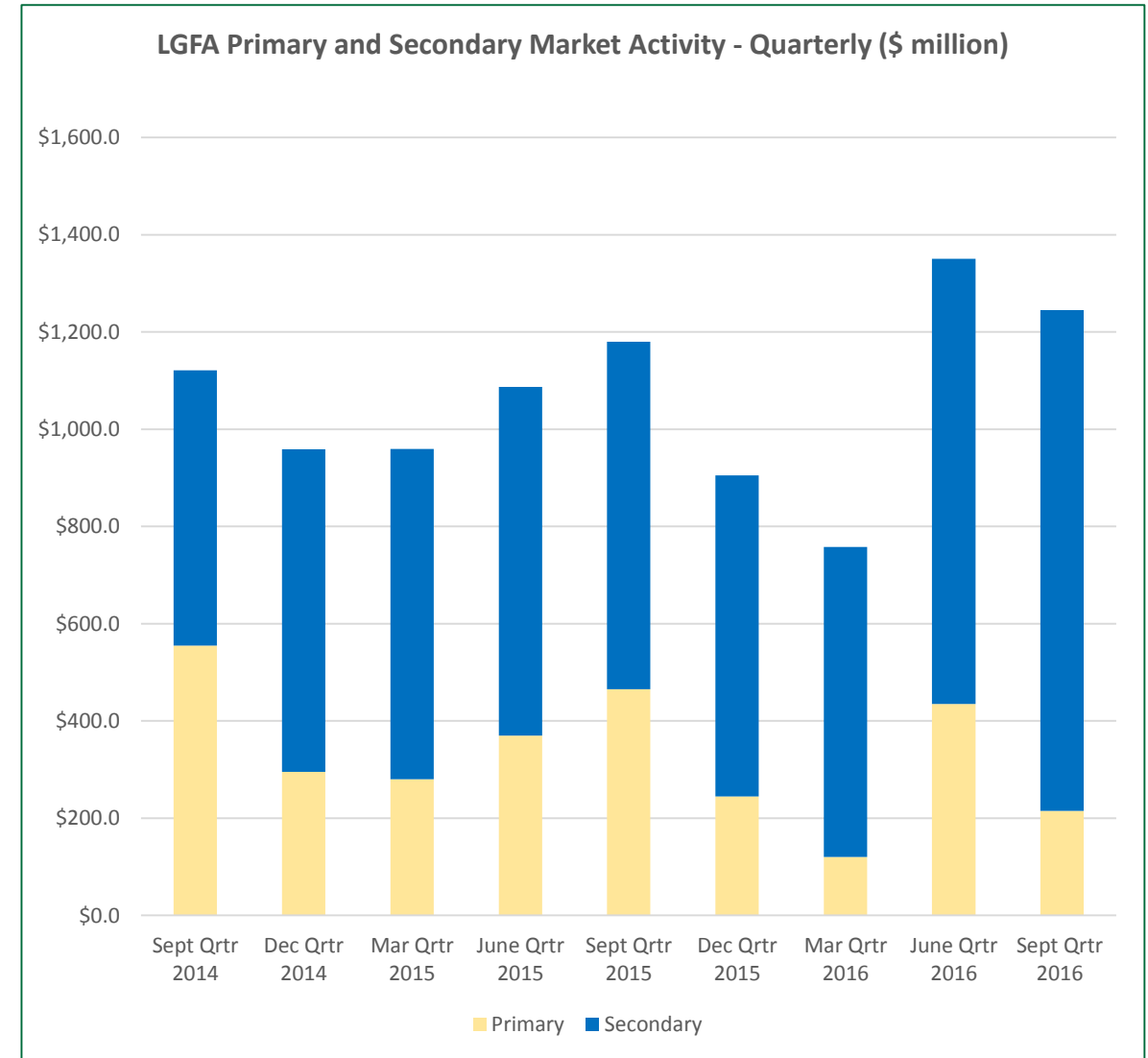
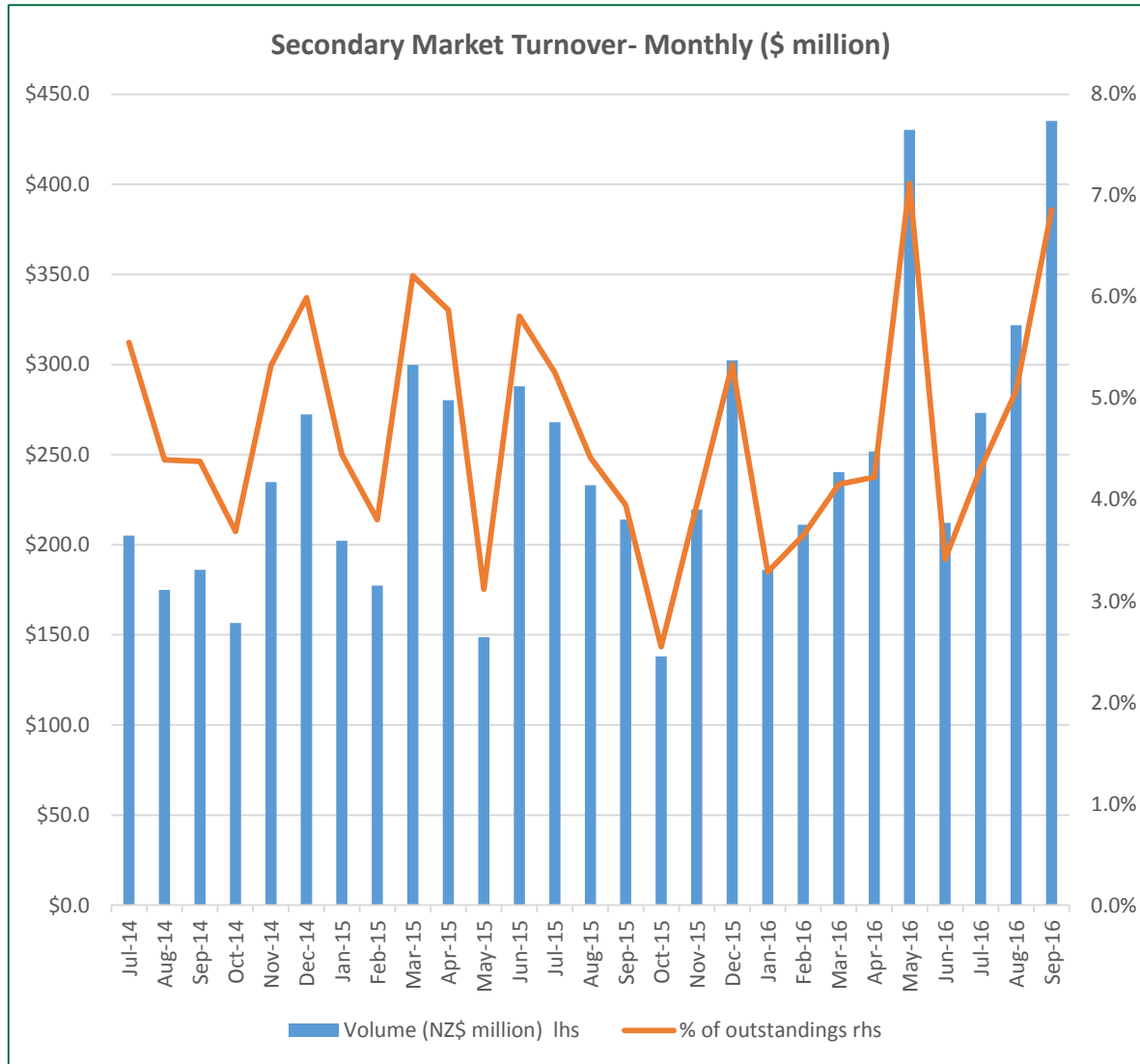


	Issuer	Amount Outstanding (\$m)
1	World Bank (IBRD)	\$7,075
2	LGFA	\$6,775
3	ANZ	\$5,310
4	ASB	\$4,865
5	BNZ	\$4,125
6	Westpac	\$3,575
7	Nordic Investment Bank (NIB)	\$3,175
8	Rentenbank	\$2,925
9	Rabobank	\$2,880
10	International Finance Corp (IFC)	\$2,700
11	Asian Development Bank (ADB)	\$2,600
12	Kommunalbanken (KBN)	\$2,100
13	Auckland Council	\$1,980
14	Export Development of Canada (EDC)	\$1,800
15	KfW Bankengruppe	\$1,300
16	Transpower	\$1,175
17	Fonterra	\$1,050
18	Infratil	\$1009
19	Queensland Treasury Corporation	\$875
20	Auckland International Airport	\$805

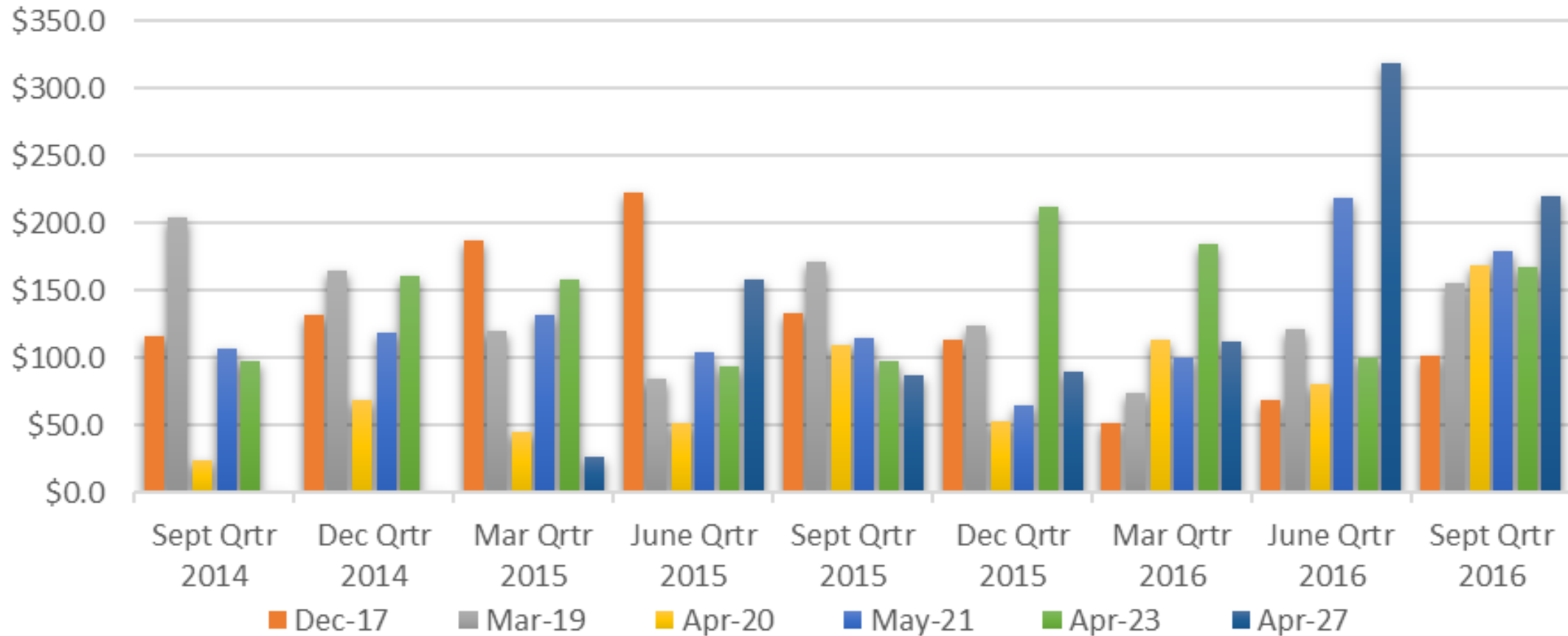


NZLGFA Curve on Bloomberg: GC I737

As at 10 October 2016

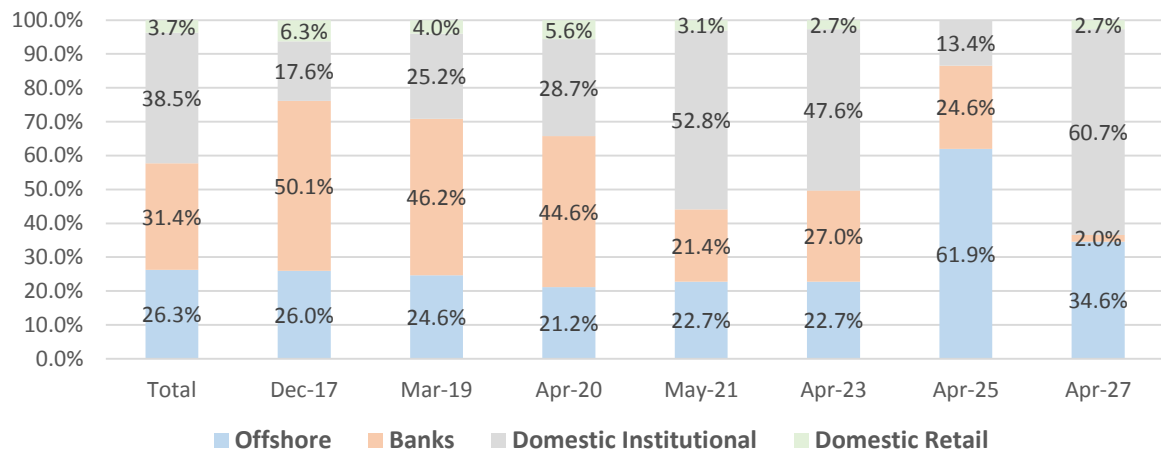


LGFA Secondary Market Turnover by Tranche (NZ\$ million)



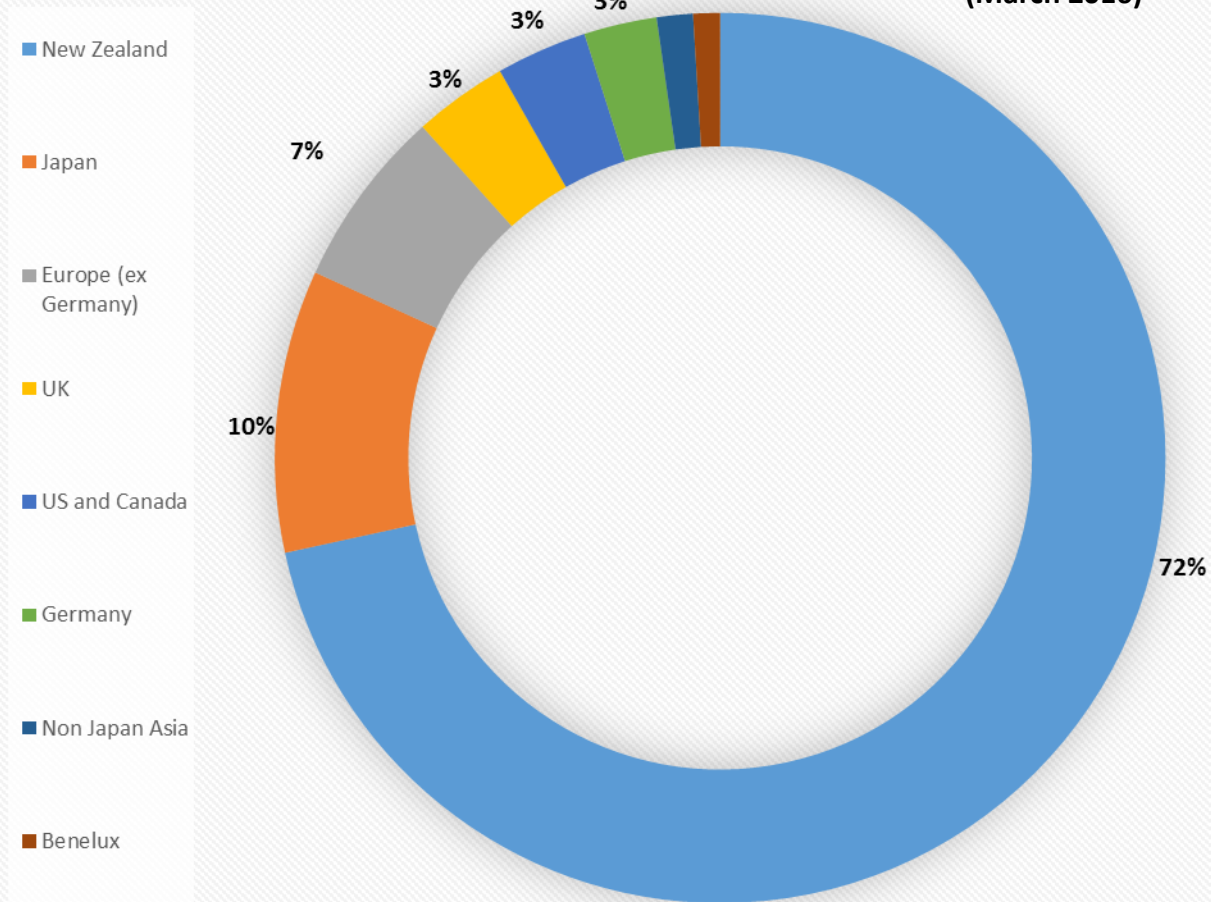
LGFA INVESTORS AS AT 30 SEPTEMBER 2016

Holdings of LGFA Bonds by Investor Group

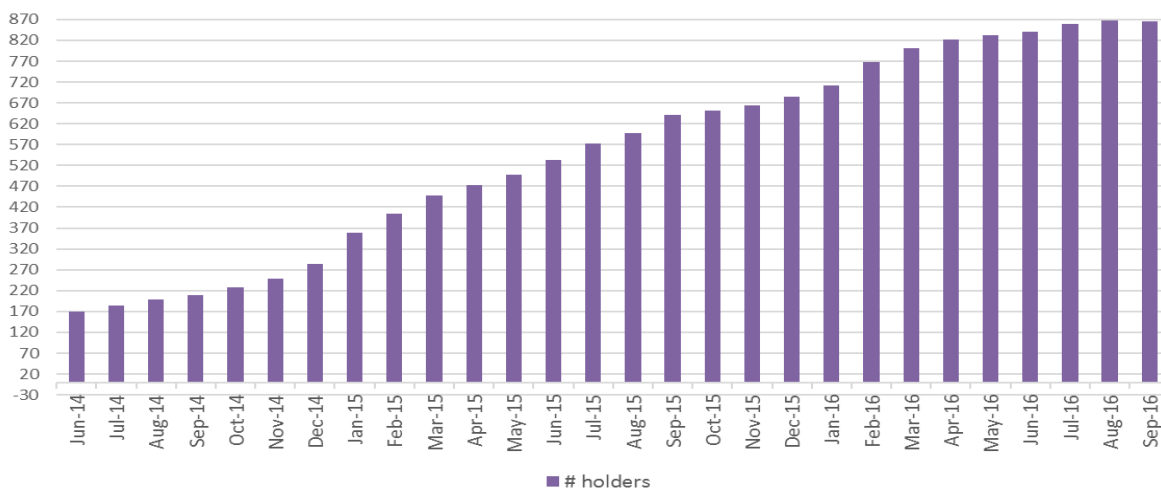


Bond Holders by Country of Residence

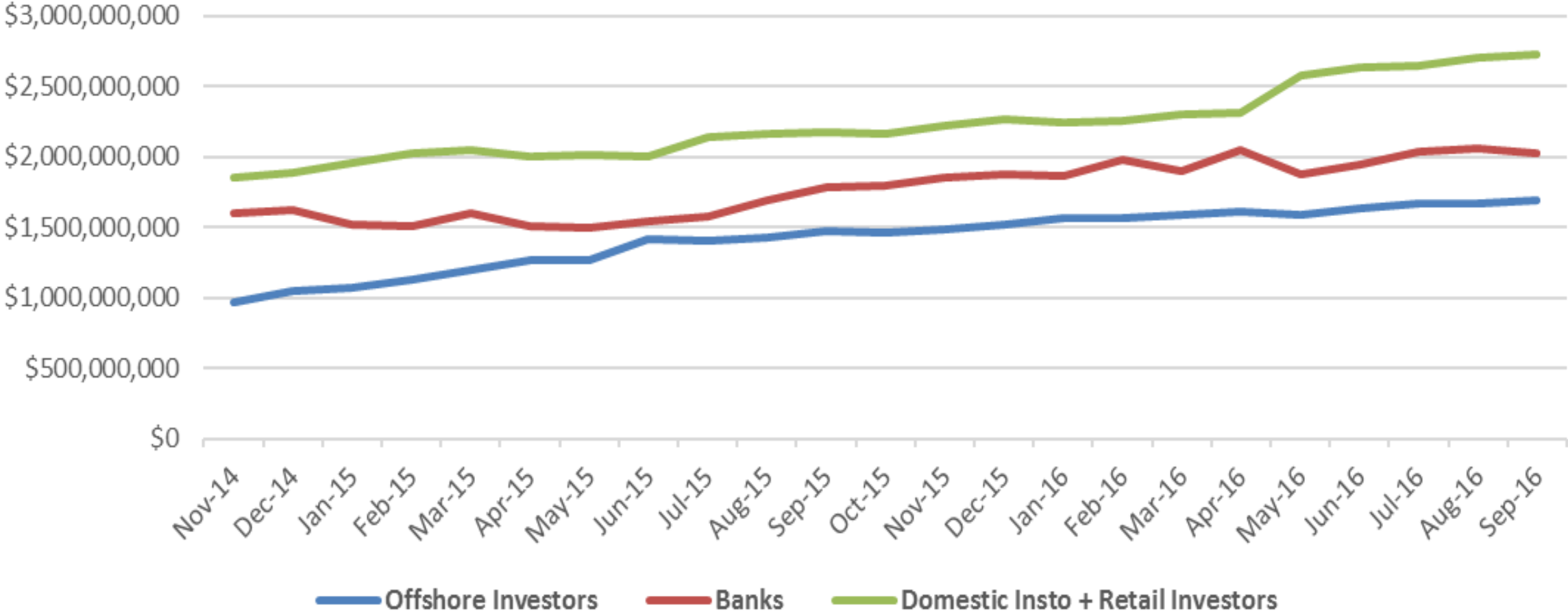
(March 2016)



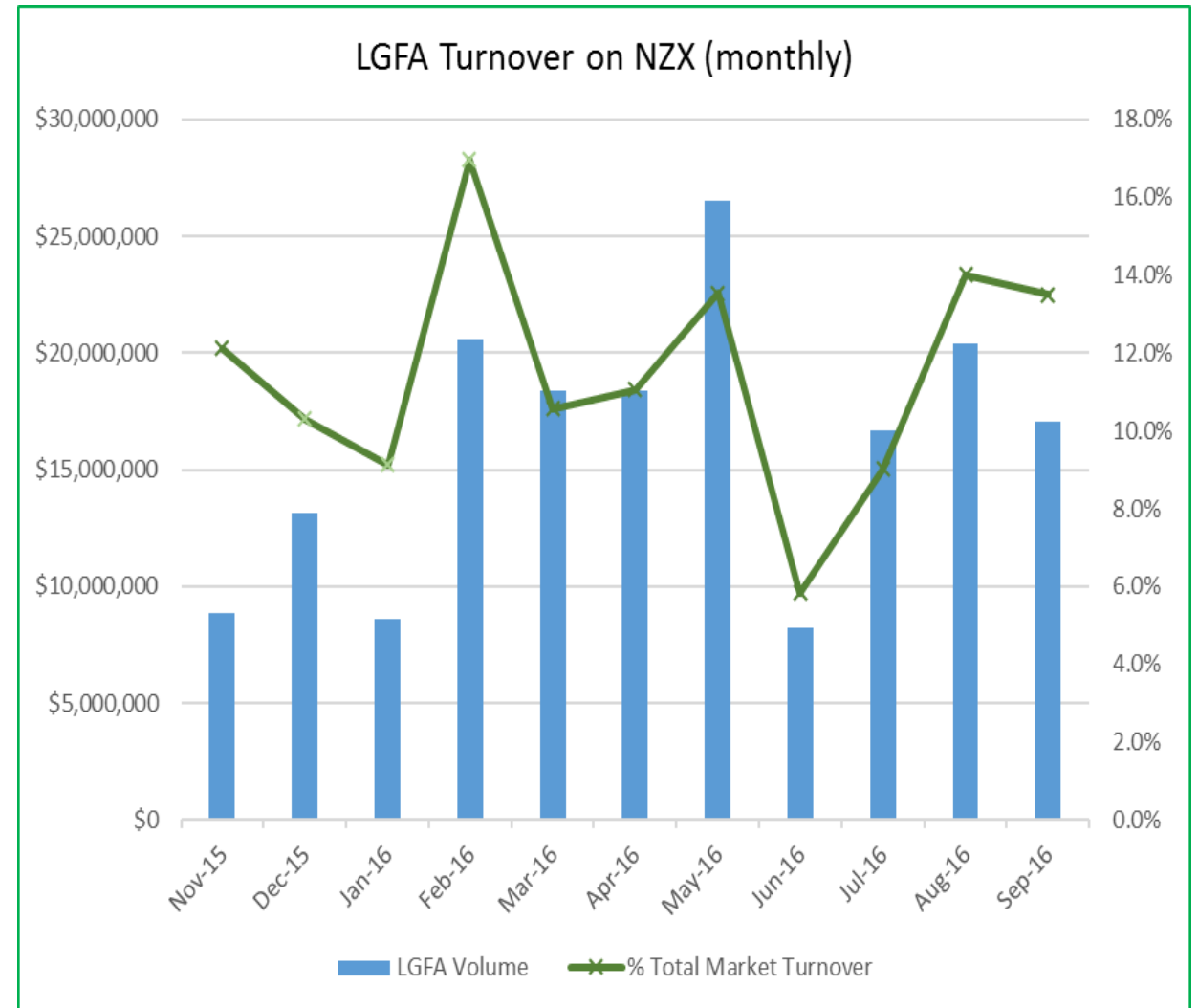
LGFA Bond Holders by number



Holdings by investor group



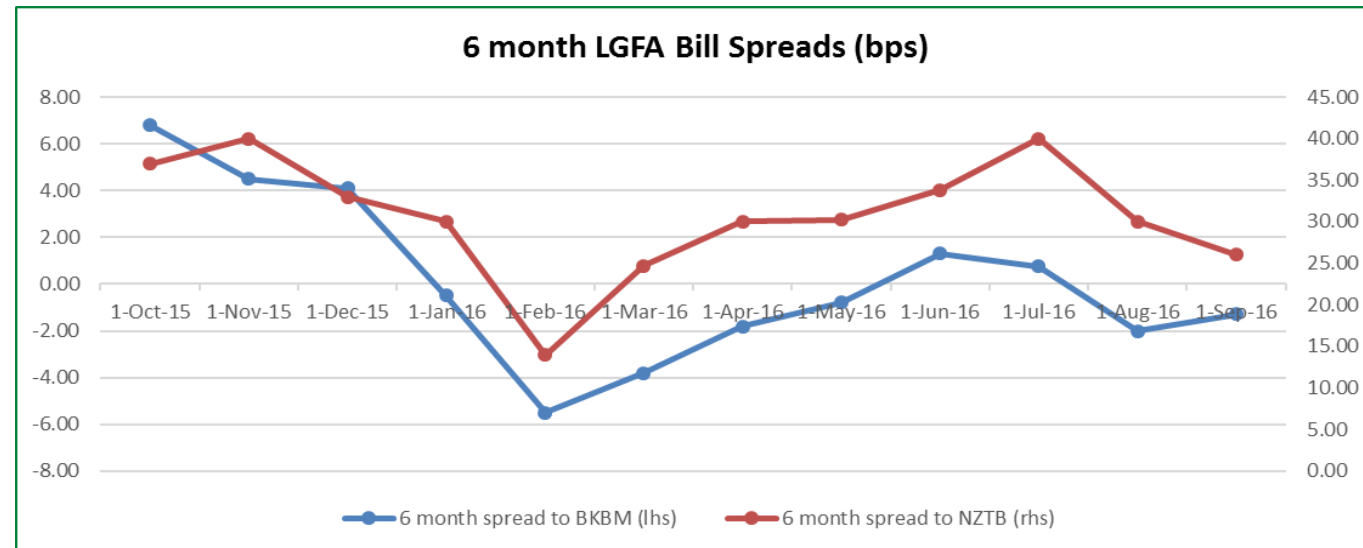
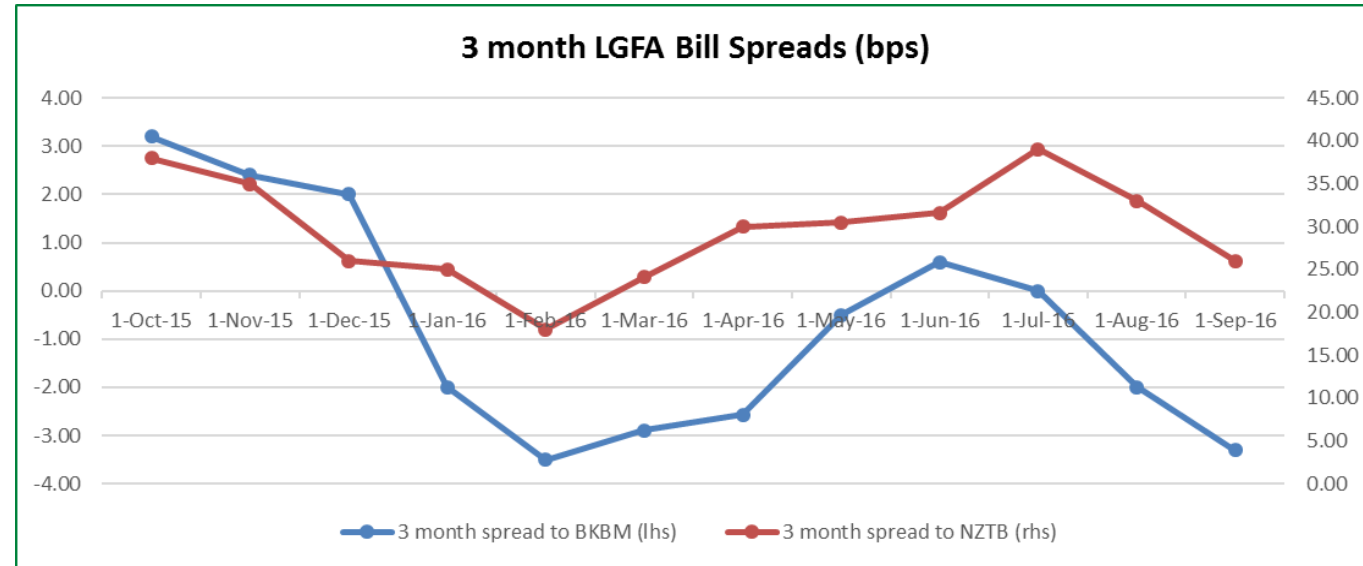
- Listing on NZX Debt Market on 16 November 2015 for LGFA Bonds
- Compliance listing of NZ\$5.56 billion
- All seven LGFA Bond maturities listed and LGFA's current intention is to seek quotation of any future new LGFA Bond maturities ¹
- No intention to list LGFA Bills
- NZX Limited is a licensed market operator and the NZX Debt Market is a licensed market under the Financial Markets Conduct Act 2013
- 2017s (at 19.3% of LGFA turnover on NZX) and 2027s (at 18.9%) most active LGFA maturities
- Listing Objectives include:
 - Increase domestic retail investor holdings
 - Increase offshore holdings
 - Increase liquidity of LGFA curve
 - Best practice from a corporate governance perspective
 - Easier access for ratepayers to invest in sector debt



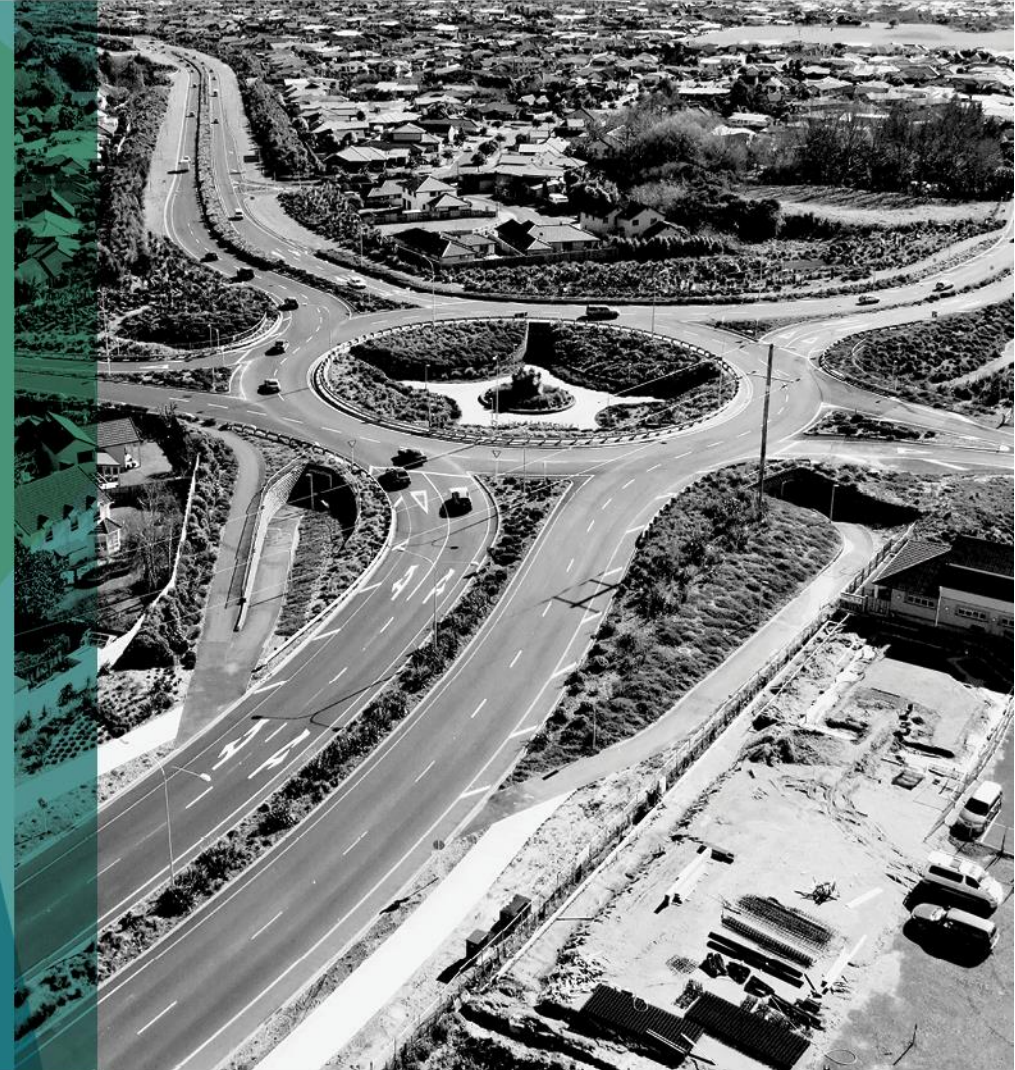
¹ No application has been made to NZX Limited for permission to quote future LGFA Bonds on the NZX Debt Market and such LGFA Bonds have not been approved for trading

Source: NZX, LGFA

- Commenced Issuance in October 2015
- Monthly tenders via YieldBroker
 - \$25 million 3 month Bills
 - \$25 million 6 month Bills
- \$225 million outstanding across 1 month to 6 month maturities as at 10 October 2016
- Issuance yields of current LGFA Bills outstanding 2.17% to 2.35%
- Rated A-1+ by S&P
- Same security as LGFA Bonds
- LGFA pays Approved Issuer Levy (AIL) on behalf of investor as per LGFA bonds
- Any proceeds from LGFA Bill issuance and not on-lent to councils invested as per Treasury Policy in Liquid Asset Portfolio
- Regular issuance under a LGFA Bill Programme will assist with reducing risk associated with
 - LGFA 2017 bond refinancing
 - Any poorly bid LGFA bond tenders



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 - Membership
 - Lending
 - Market share
 - Credit ratings
 - Historical and forecast financial performance
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SHAREHOLDERS

- ❑ LGFA was incorporated on 1 December 2011 with 18 foundation council shareholders and the New Zealand Government.
- ❑ On 30 November 2012 a further 12 new council shareholders joined bringing the total number of council shareholders to 30. (In addition to the New Zealand Government).

BORROWERS

- ❑ As of 10 October 2016 there are 51 councils who eligible borrowers.
- ❑ As at 10 October 2016, 49 councils had borrowed from LGFA with Bay of Plenty Regional and Central Hawkes Bay District the only non-Borrowers.
- ❑ As at 10 October 2016 , the 51 councils comprised 97% of the sector debt.

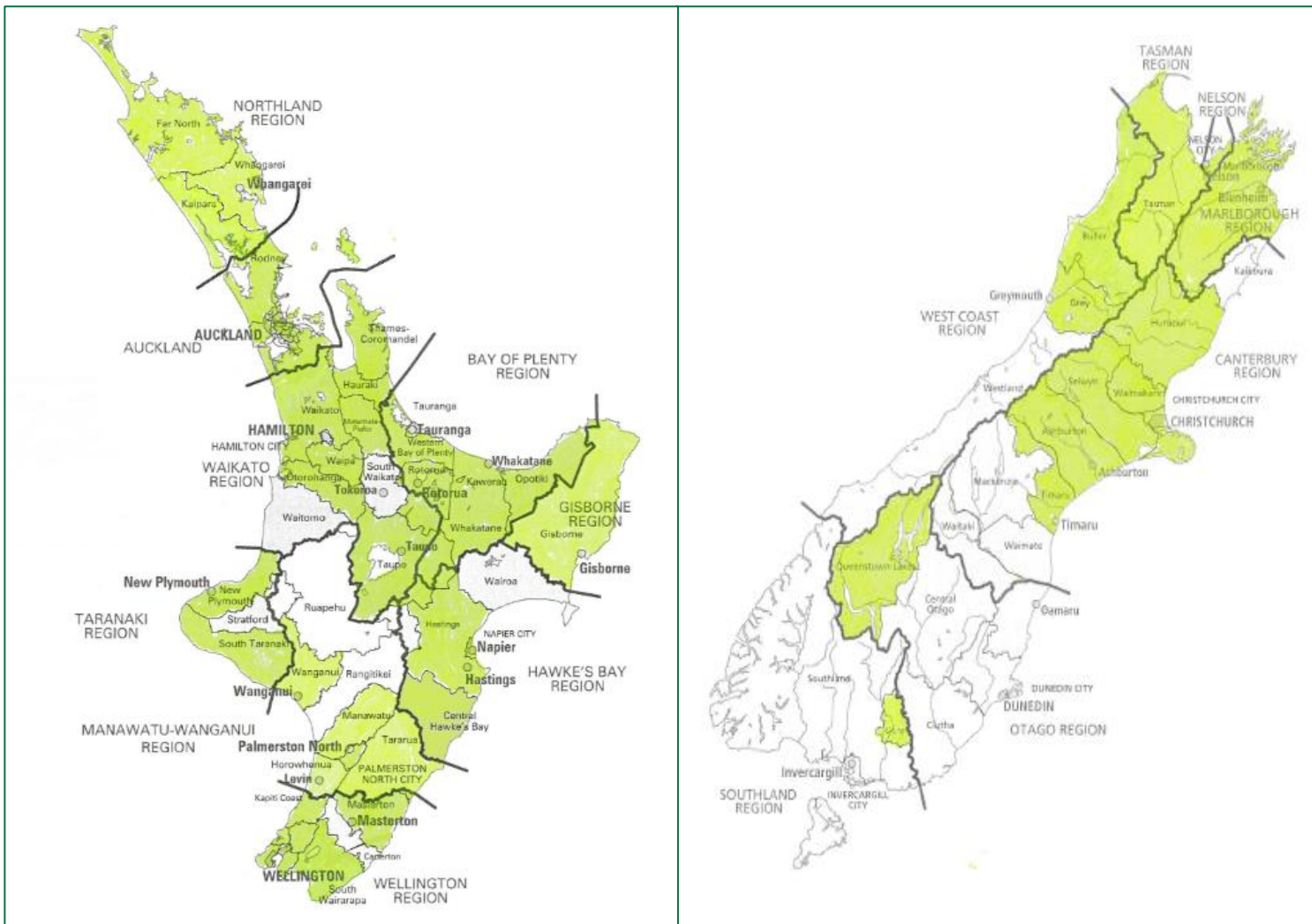
GUARANTORS

- ❑ There are 43 Guarantors of LGFA.
- ❑ Guarantors comprise:
 - All shareholders except the NZ Government
 - Any non shareholder who may borrow more than NZ\$20 million
- ❑ The only borrowers who are non-Guarantors are:
 - Buller District Council
 - Central Hawkes Bay District Council
 - Gore District Council
 - Grey District Council
 - Horizons Regional Council
 - Opotiki District Council
 - South Wairarapa District Council
 - Tararua District Council
- ❑ The security granted by each of the Guarantors under their respective Debenture Trust Deeds secures their obligations under the Guarantee.

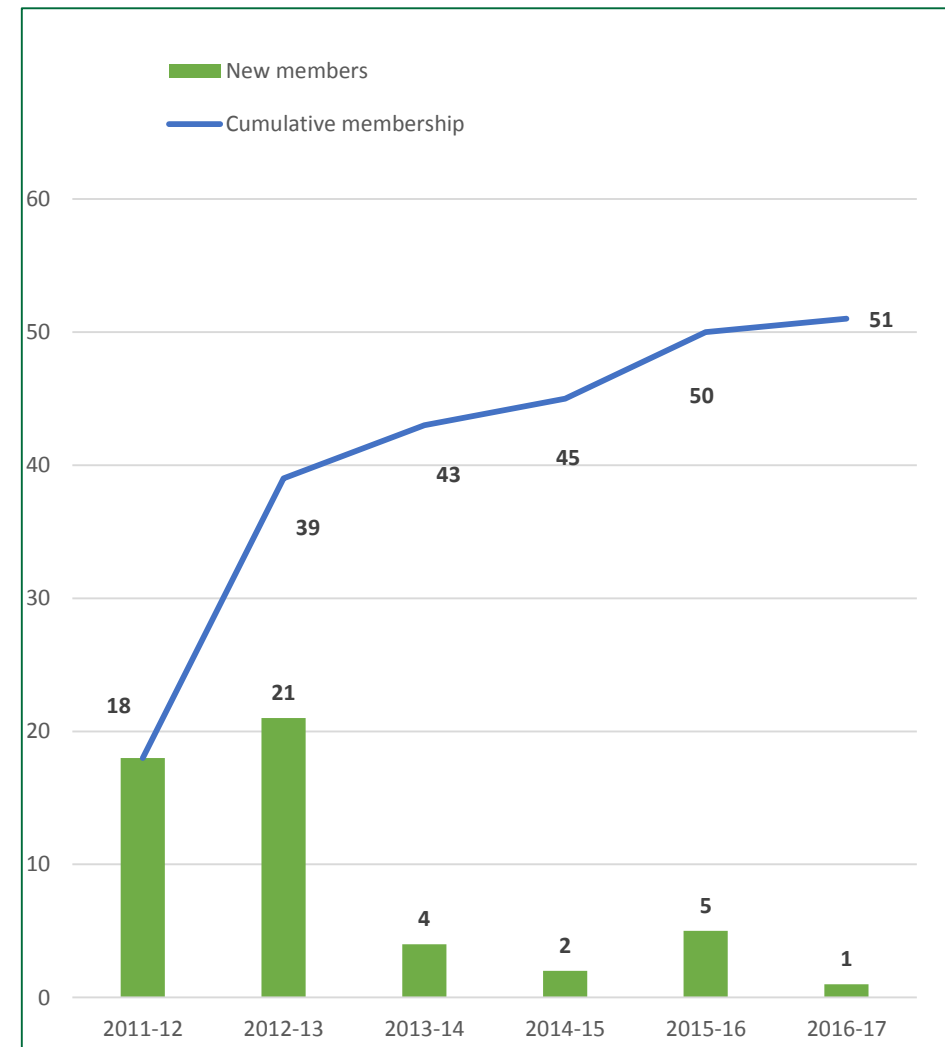
There are 78 local authorities in New Zealand comprising:

- 11 Regional Councils
- 12 City Councils (including 1 unitary)
- 54 District Councils (including 3 unitary)
- 1 Unitary Territorial Authority

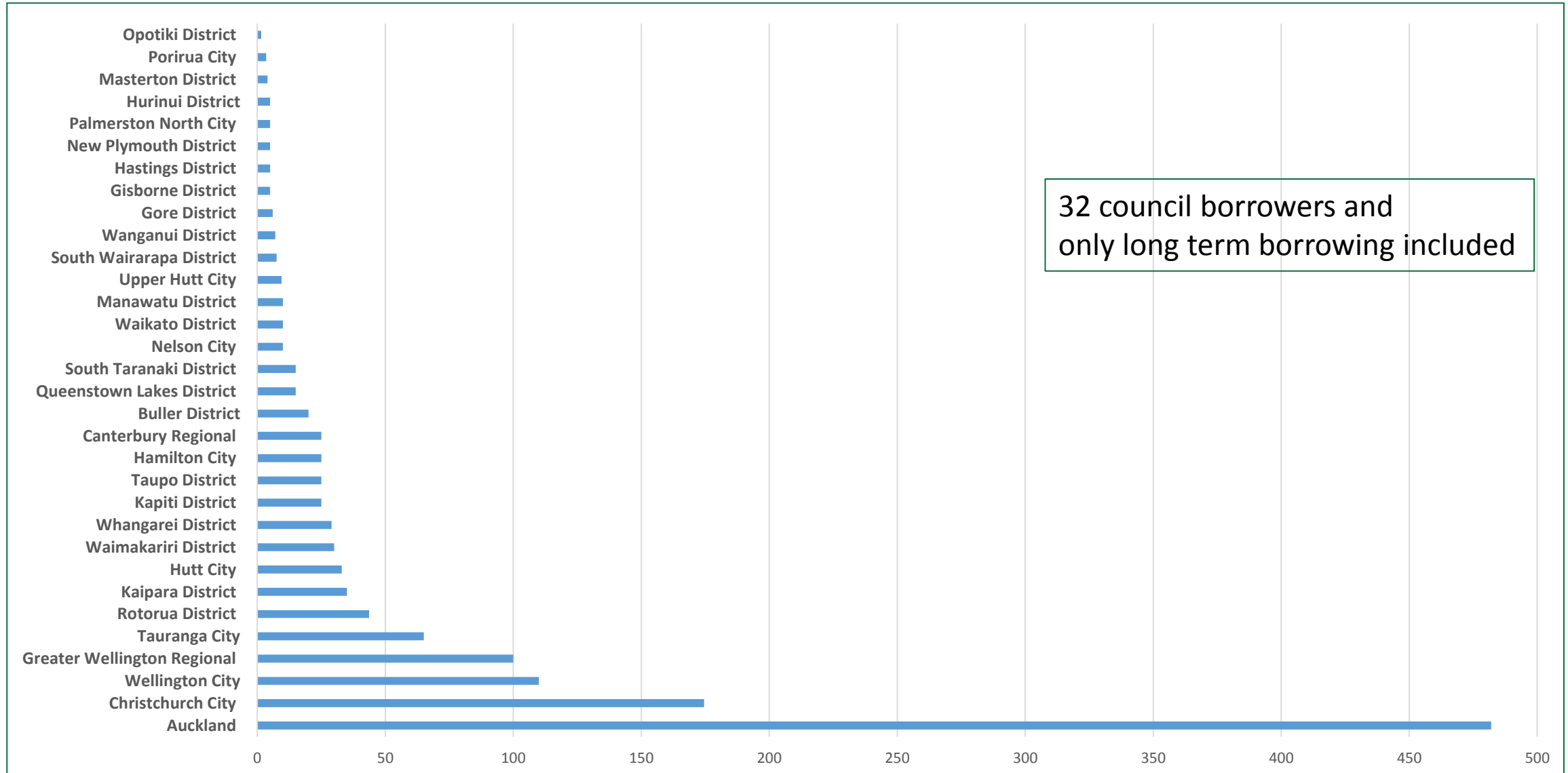
LGFA council members highlighted



Council membership by number



COUNCIL BORROWERS 2015-16 (\$ millions)



LGFA MEMBERS (As at 10 October 2016)

Shareholders	Total Shares (NZ\$)	Shareholding (%)	Amount borrowed (NZ\$ million)	Borrowing (%)	Share of Guarantee (%)
New Zealand Government	5,000,000	11.1%			
Auckland Council	3,731,960	8.3%	2,282.0	33.9	33.9
Christchurch City Council	3,731,960	8.3%	1,301.9	19.4	8.4
Hamilton City Council	3,731,960	8.3%	245.0	3.6	3.3
Bay of Plenty Regional Council	3,731,958	8.3%	-	0.0	0.7
Wellington Regional Council	3,731,958	8.3%	255.0	3.8	2.9
Tasman District Council	3,731,958	8.3%	90.0	1.3	1.5
Tauranga City Council	3,731,958	8.3%	305.0	4.5	3.0
Wellington City Council	3,731,958	8.3%	253.0	3.8	5.9
Western Bay of Plenty District Council	3,731,958	8.3%	70.0	1.0	1.4
Whangarei District Council	1,492,784	3.3%	132.0	2.0	1.8
Hastings District Council	746,392	1.7%	50.0	0.7	1.6
Marlborough District Council	400,000	0.9%	28.0	0.4	1.4
Selwyn District Council	373,196	0.8%	35.0	0.5	0.9
Gisborne District Council	200,000	0.4%	22.0	0.3	1.2
Hauraki District Council	200,000	0.4%	34.0	0.5	0.6
Horowhenua District Council	200,000	0.4%	59.0	0.9	0.7
Hutt City Council	200,000	0.4%	79.0	1.2	2.2
Kapiti Coast District Council	200,000	0.4%	170.0	2.5	1.2
Manawatu District Council	200,000	0.4%	51.0	0.8	0.6
Masterton District Council	200,000	0.4%	47.0	0.7	0.6
New Plymouth District Council	200,000	0.4%	61.0	0.9	1.7
Otorohanga District Council	200,000	0.4%	9.0	0.1	0.3
Palmerston North City Council	200,000	0.4%	77.0	1.1	1.9
South Taranaki District Council	200,000	0.4%	62.0	0.9	0.8
Taupo District Council	200,000	0.4%	125.0	1.9	1.4
Thames-Coromandel District Council	200,000	0.4%	35.0	0.5	1.3
Waimakariri District Council	200,000	0.4%	75.0	1.3	1.1
Waipa District Council	200,000	0.4%	34.8	0.5	1.2
Whanganui District Council	200,000	0.4%	41.0	0.6	1.2
Whakatane District Council	200,000	0.4%	34.0	0.5	0.9
Total	45,000,000		6,077.9	90.3	85.5

Note: Total shares includes called and uncalled shares
Share of guarantee in proportion to share of rates revenue

Source: LGFA

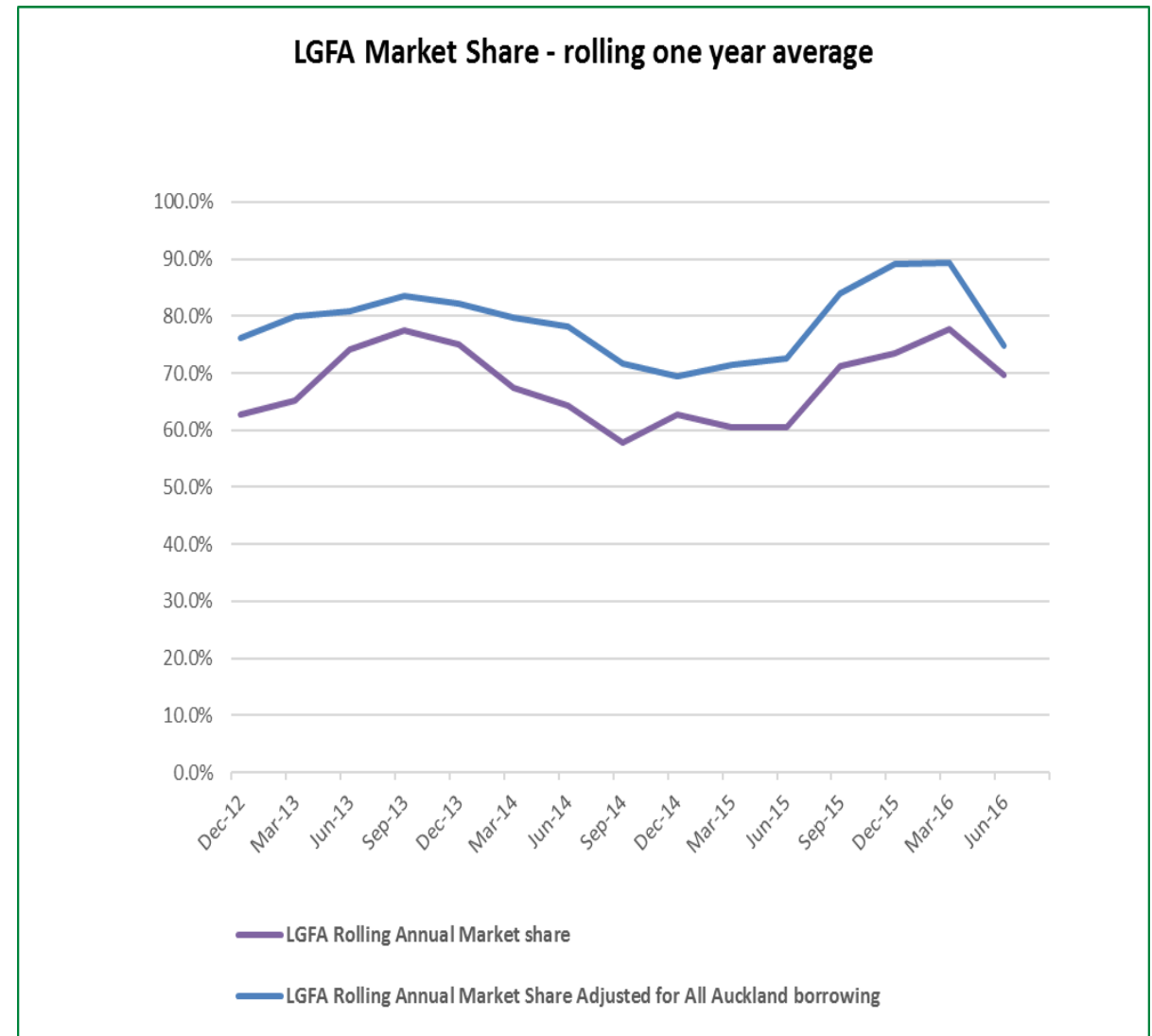
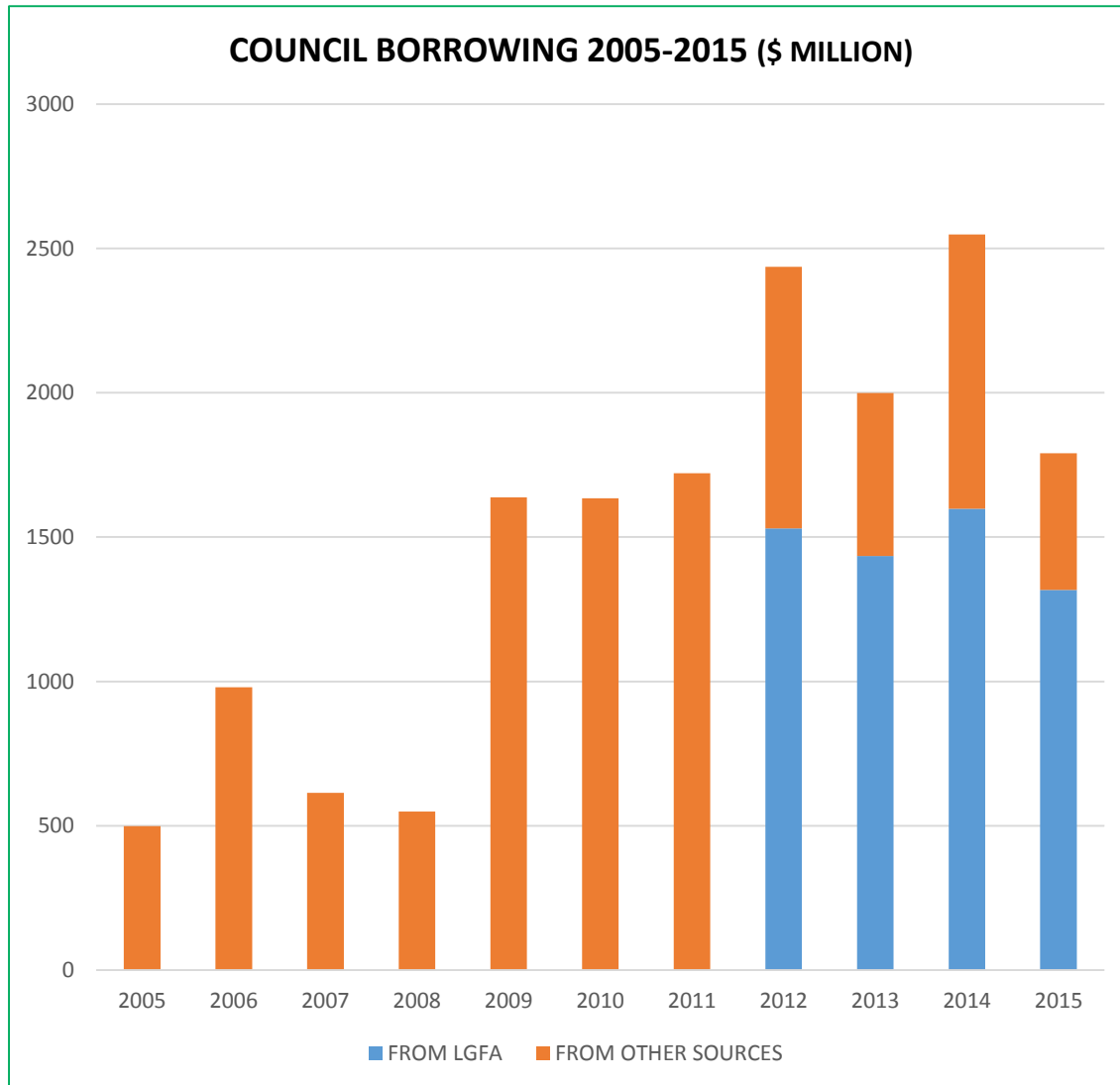
Borrowers and Guarantors	Amount borrowed (NZ\$ million)	Borrowing (%)	Share of Guarantee (%)
Ashburton District Council	25.1	0.4	0.7
Canterbury Regional Council	25.0	0.4	2.0
Far North District Council	20.0	0.3	1.7
Hurunui District Council	19.0	0.3	0.4
Kaipara District Council	48.0	0.7	0.6
Matamata-Piako District Council	24.5	0.4	0.8
Nelson City Council	45.0	0.7	1.4
Porirua City Council	23.5	0.3	1.2
Queenstown-Lakes District Council	82.0	1.2	1.3
Rotorua District Council	103.7	1.5	1.7
Timaru District Council	56.1	0.8	1.0
Upper Hutt City Council	31.5	0.5	0.8
Waikato District Council	65.0	1.0	1.5
Total	568.5	8.4	14.5
Borrowers Only			
Grey District Council	20.0	0.3	
Gore District Council	12.0	0.2	
Horizons Regional Council	10.0	0.1	
Buller District Council	20.0	0.3	
Opotiki District Council	5.0	0.1	
South Wairarapa District Council	7.5	0.1	
Tararua District Council	10.0	0.1	
Total	84.5	1.3	
Total Borrowing from LGFA	6,725.9	100.0	

External Credit Rating (S&P, Fitch)	Lending (NZ\$ million)	Lending (%)	Number of Councils
AA	\$3,445.6	51.2%	12
AA-	\$549.7	8.2%	5
A+	\$1,898.0	28.2%	5
Unrated	\$832.6	12.4%	27
Total	\$6,725.9	100%	49

As at 10 October 2016

Note: Two council members have yet to borrow from LGFA
Includes long and short term lending

Source: LGFA



❑ **Fitch Ratings - November 2015** (Note: Refer to the full report for a comprehensive analysis of LGFA)

Local Currency AA+ / Stable/ F1+

Foreign currency rating AA / Stable / F1+

Fitch notes:

- strong links to the sovereign – classified as a credit linked Public Sector Entity;
- sound underlying asset quality of its shareholders, local councils;
- long-term rating is capped by the ratings of the sovereign;
- support of a joint and several liability guarantee;
- **ratings outlook revised from “positive” to “stable” in February 2016 following the same change to the sovereign outlook.**

❑ **Standard and Poor’s Ratings Services – November 2015** (Note: Refer to the full report for a comprehensive analysis of LGFA)

Local Currency AA+ / Stable / A-1+

Foreign Currency AA / Stable / A-1+

Strengths:

- strong market position as a lender to New Zealand local government;
- extremely high likelihood of extraordinary support from the New Zealand Government in a distress scenario
- exceptional credit quality of the New Zealand local government sector.

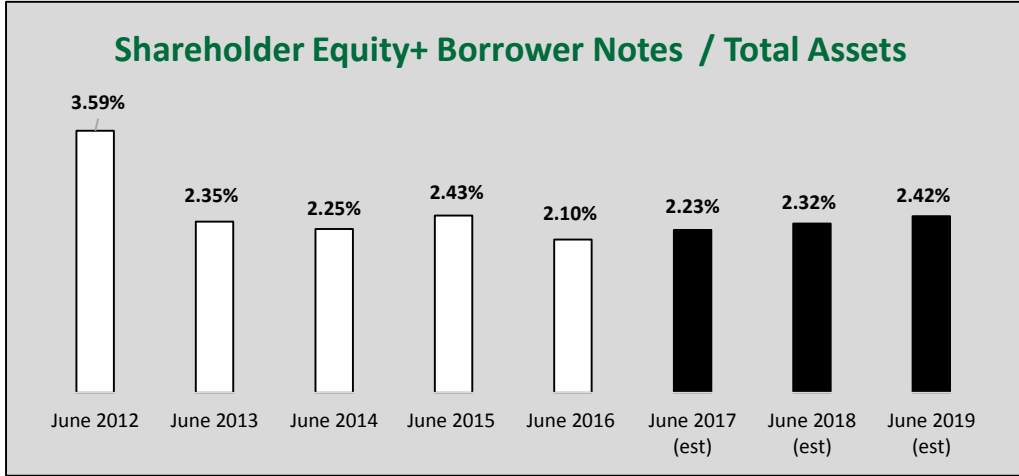
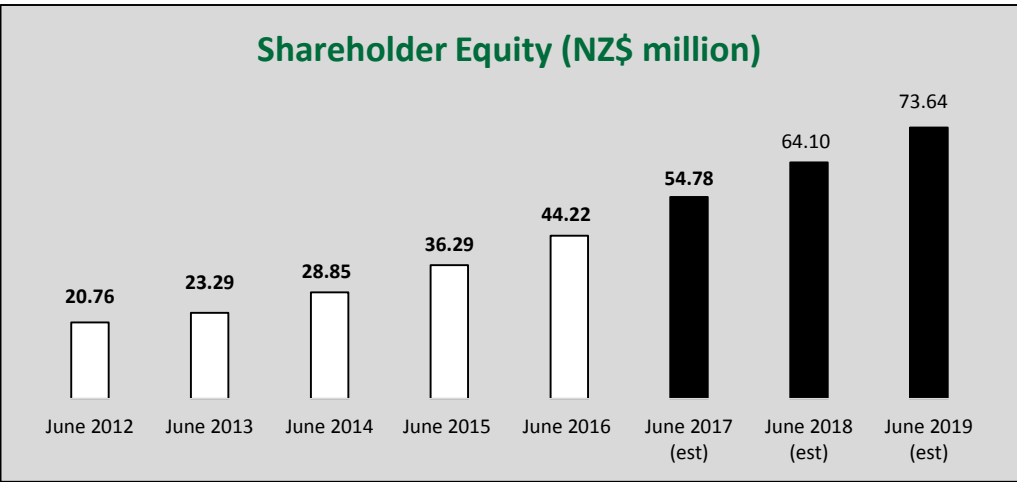
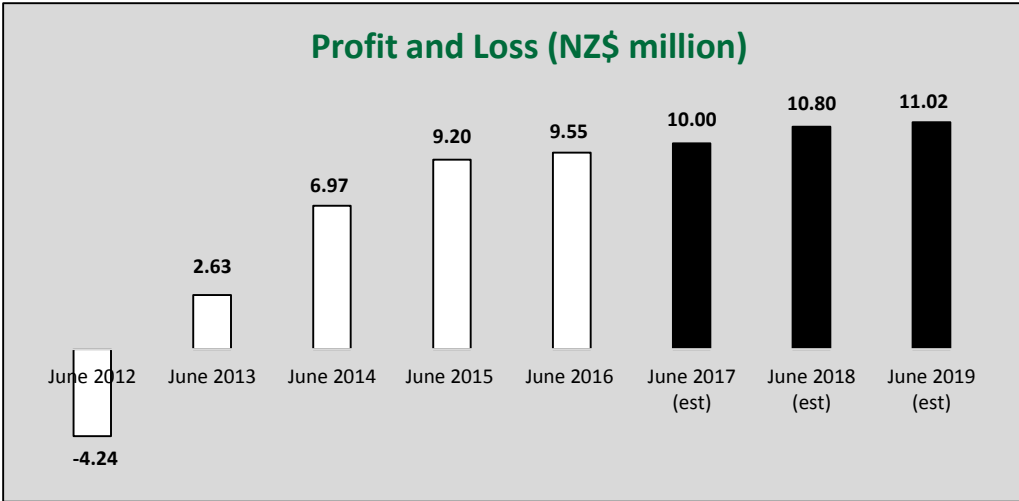
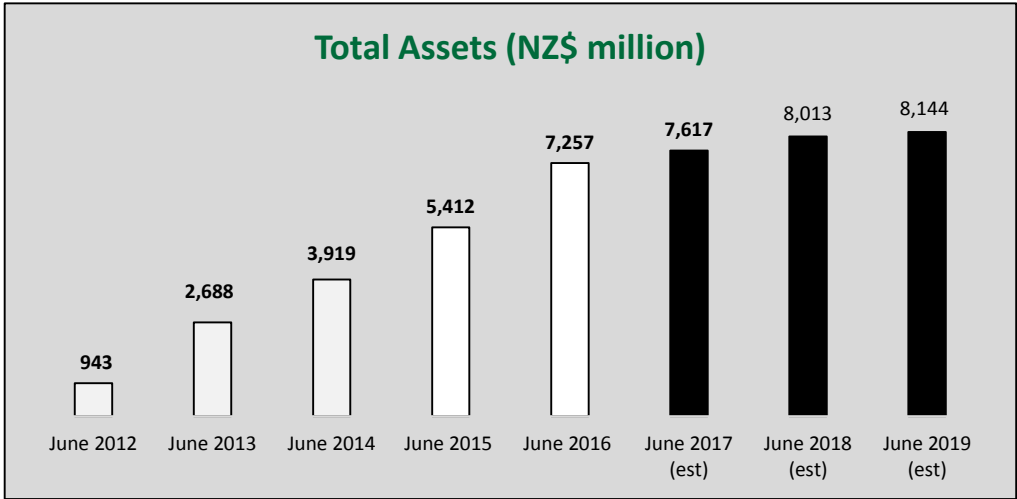
Weaknesses:

- reliance upon wholesale funding with some maturity and borrower concentration.

Additional S&P research:

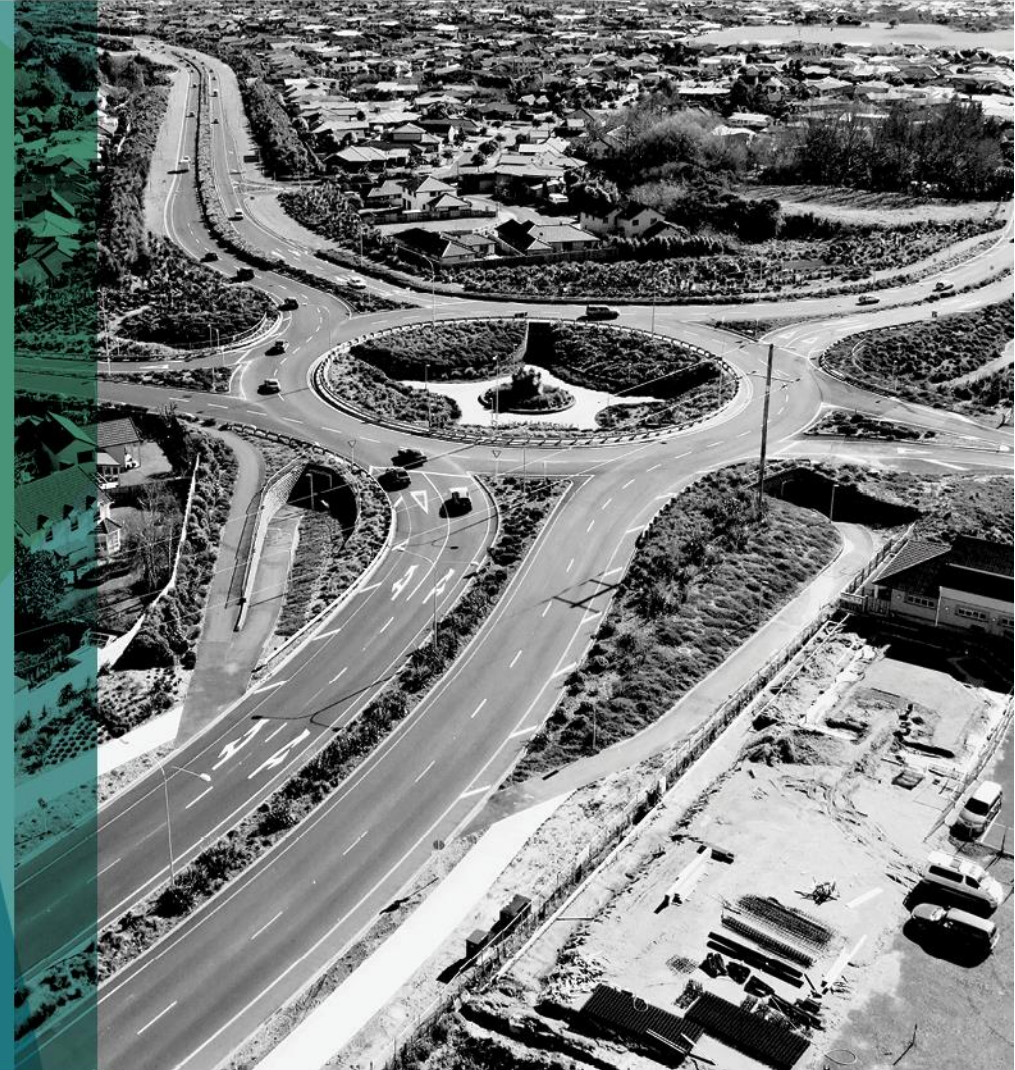
- New Zealand’s Reforms Are Strengthening Council’s Financial Management and Long-Term Planning – 24 November 2014;
- New Zealand Councils: How the Ratings Capture Qualitative Differences – 9 April 2014;
- New Zealand Councils’ Generally Well-Managed Liquidity Positions Support Their Credit Quality – 3 February 2014;
- New Zealand’s Reforms Are Likely to Strengthen Councils’ Governance – 26 November 2013;
- New Zealand Councils Cluster within a Narrow Investment-Grade Band – 8 April 2013.

HISTORIC AND FORECAST FINANCIAL PERFORMANCE



Forecast performance based upon assumptions outlined in LGFA SOI 2016-17. The principal assumption is \$600 million to \$1.0 billion of net issuance per year in each of 2016-17, 2017-18 and 2018-19 financial years.

- ❑ Important Information
- ❑ Developments July 2015 to October 2016
- ❑ LGFA Debt Market Activities
- ❑ LGFA Overview
- ❑ Credit Update on NZ Local Government Sector
 - External credit ratings
 - LGFA internal credit ratings
 - Compliance with financial covenants
 - Sector debt outlook
- ❑ Appendix and Contacts



Council	S&P	Fitch	Moodys
Auckland Council	AA		Aa2
Dunedin City Council	AA		
Greater Wellington Regional Council	AA		
Hutt City Council	AA		
Invercargill City Council		AA	
Marlborough District Council	AA		
Nelson City Council	AA		
New Plymouth District Council	AA		
Palmerston North City Council	AA		
Porirua City Council	AA		
Taupo District Council	AA		
Waimakariri District Council	AA		
Wellington City Council	AA		
Whangarei District Council	AA		
Hamilton City Council		AA-	
Rotorua Lakes District Council		AA-	
Tasman District Council	AA-		
Wanganui District Council	AA-		
Western Bay of Plenty District Council	AA- Positive		
South Taranaki District Council	A+ Positive		
Horowhenua District Council	A+		
Kapiti Coast District Council	A+		
Tauranga City Council	A+		
Christchurch City Council	A+		

24 councils in New Zealand have credit ratings – 22 are members of LGFA

Over 2014, 2015, 2016

- **Taupo, Nelson, Western Bay of Plenty and Whangarei District Councils were upgraded**
- **South Taranaki and Western Bay of Plenty District Councils were placed on positive outlook**
- **Christchurch removed from negative outlook**
- **No Council ratings were downgraded**

S&P RATING CHANGES OVER THE PAST THREE YEARS

Council	Action	Date
Christchurch City Council	Outlook Revised from Stable to Negative	Jul 8, 2013
Western Bay of Plenty District Council	Outlook Revised from Stable to Positive	Oct 14, 2013
Nelson City Council	Outlook Revised from Stable to Positive	Dec 13, 2013
Taupo District Council	Outlook Revised from Stable to Positive	May 30, 2014
Western Bay of Plenty District Council	Upgraded from A+ to AA-	Oct 14, 2014
Whangarei District Council	Outlook Revised from Stable to Positive	May 19, 2015
Taupo District Council	Upgraded from AA- to AA	May 25, 2015
South Taranaki District Council	Outlook Revised from Stable to Positive	May 29, 2015
Christchurch City Council	Outlook Revised from Negative to Stable	Dec 7, 2015
Nelson City Council	Upgraded from AA- to AA	Nov 23, 2015
Whangarei District Council	Upgraded from AA- to AA	May 19, 2016
Western Bay of Plenty District Council	Outlook Revised from Stable to Positive	Oct 26, 2016

Over past three years, four councils upgraded, no councils downgraded

LGFA undertakes own internal credit assessment and rating process for all council borrowers

Primary Criteria

- Debt levels relative to population – affordability
- Debt levels relative to asset base
- Ability to repay debt
- Ability to service debt – interest cover
- Population trend

Secondary Criteria

- 30 Year Infrastructure Strategy
 - Quality of Assets
 - Capital Expenditure Plan
- Risk Management
 - Insurance
- Governance
- Financial flexibility
- Cashflow
- Budget performance (balanced budget)
- Affordability of rates / Deprivation Index
- Natural hazards
- Group activities (CCO's)

LGFA members by internal rating category

LGFA Internal Ratings	2012	2013	2014	2015
AA+	1	2	2	4
AA	12	12	12	10
AA-	13	13	16	15
A+	8	6	3	11
A	6	10	11	6
A-	5	2	1	1

Source: LGFA

LGFA Financial Covenants – member councils as at 30 June 2015 with an external credit rating (20)

Foundation Policy Covenant	Net Debt / Total Revenue <250%	Net Interest / Total Revenue <20%	Net Interest / Rates <30%
Range of councils compliance	-142.3% to 217.4%	-15.0% to 11.7%	-23.3% to 16.3%

LGFA Financial Covenants – member councils as at 30 June 2015 without an external credit rating (25)

Lending Policy Covenant	Net Debt / Total Revenue <175%	Net Interest / Total Revenue <20%	Net Interest / Rates <25%
Range of councils compliance	-236.2% to 159.5%	-13.0% to 8.9%	-33.0% to 12.2%

- Note some negative outcomes due to some councils having negative Net Debt i.e. financial assets and investments > borrowings
- LGFA councils operating within financial covenants
- Ranges highlights the differences between councils
- Sufficient financial headroom for most councils
- Improvement from 2014 for most councils
 - Revenue increased
 - Interest rates lower
 - Capex and debt restrained

Source: LGFA using data from individual council annual reports

LGFA Member Councils with an external credit rating (20 in 2015 and 17 in 2010 to 2014)

Financial Covenant	2015	2014	2013	2012	2011	2010
Net Debt to Revenue < 250%	96.1%	104.7%	111.8%	99.9%	92.1%	85.9%
Net Interest to Revenue <25%	5.6%	6.6%	7.3%	7.0%	6.5%	6.8%
Net Interest to Rates <30%	8.1%	9.6%	11.1%	11.0%	10.4%	11.1%

LGFA Member Unrated Councils (25 in 2015, 26 in 2014 and 21 in 2010 to 2013)

Financial Covenant	2015	2014	2013	2012	2011	2010
Net Debt to Revenue <175%	38.2%	42.6%	52.5%	48.9%	41.9%	32.7%
Net Interest to Revenue <20%	2.4%	2.9%	3.2%	2.4%	2.2%	1.8%
Net Interest to Rates <25%	3.1%	4.0%	4.1%	1.5%	1.1%	0.9%

Source: LGFA using data from individual council annual reports

2012-22 AND 2015-25 LTP GROSS DEBT FORECASTS FOR LOCAL GOVERNMENT SECTOR

NZ\$ millions

2012-22 LTP	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Gross Debt	10,073	11,755	13,584	14,967	15,659	16,641	17,499	18,266	19,240	19,653	20,135
% Change		16.7%	15.6%	10.2%	4.6%	6.3%	5.2%	4.4%	5.3%	2.2%	2.5%

2015-25 LTP	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross Debt	14,119	14,941	16,527	17,440	17,821	18,445	18,943	19,554	19,913	20,031	20,036
% Change		5.8%	10.6%	5.5%	2.2%	3.5%	2.7%	3.2%	1.8%	0.6%	0.0%

	2015	2016	2017	2018	2019	2020	2021	2022
Gross Debt Difference between the two LTPs	-848	-718	-114	-59	-445	-795	-710	-581

Note: 2016-2022 numbers adjusted to incorporate Christchurch which only produced a 3 year plan

Source: LGFA using data from individual council Long Term Plans (LTPs)

2015-2025 LTP SECTOR GROSS DEBT FORECAST BY COUNCIL GROUP

NZ\$ millions

Group	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
All Councils	14,119	14,941	16,527	17,440	17,821	18,445	18,943	19,554	19,913	20,031	20,036
Rural	420	446	485	511	520	523	503	489	472	459	457
Provincial	2,267	2,227	2,436	2,595	2,671	2,731	2,741	2,703	2,630	2,540	2,454
Metro	10,755	11,444	12,719	13,343	13,568	14,066	14,543	15,207	15,683	15,941	16,075
Regional	302	428	450	514	553	603	641	643	640	632	624
Unitary	373	395	434	476	507	520	513	511	485	456	423

Metro Councils : typically city councils and population > 90k e.g. Auckland

Provincial Councils: typically district councils and population 20k to 90k e.g. Queenstown

Rural Councils: population <20k e.g. Gore

Regional Councils: undertake flood protection, civil defence, public transport and in some cases own seaport, airport e.g. Wellington Regional Council

Unitary Councils: performs both city/district and regional council functions e.g. Nelson

Source: LGFA using data from individual council LTPs

All Councils (78)	41.9%
Rural (26)	9.0%
Provincial (27)	8.3%
Metro (10)	49.5%
Regional (11)	106.5%
Unitary (4)	13.5%

- Unsurprisingly, the Metro councils with higher growth requirements are forecasting greatest increases in debt
- Councils debt levels need to be considered alongside their infrastructure plans
- 7 of the 11 Regional Councils have no debt in 2025 (% change influenced by low debt starting point)

Metro Councils Historical Performance

Financial Covenant	2012	2013	2014
Net Debt to Revenue	105.8%	100.5%	108.9%
Net Interest to Rates	9.7%	9.3%	9.5%

Metro Councils Forecast Performance

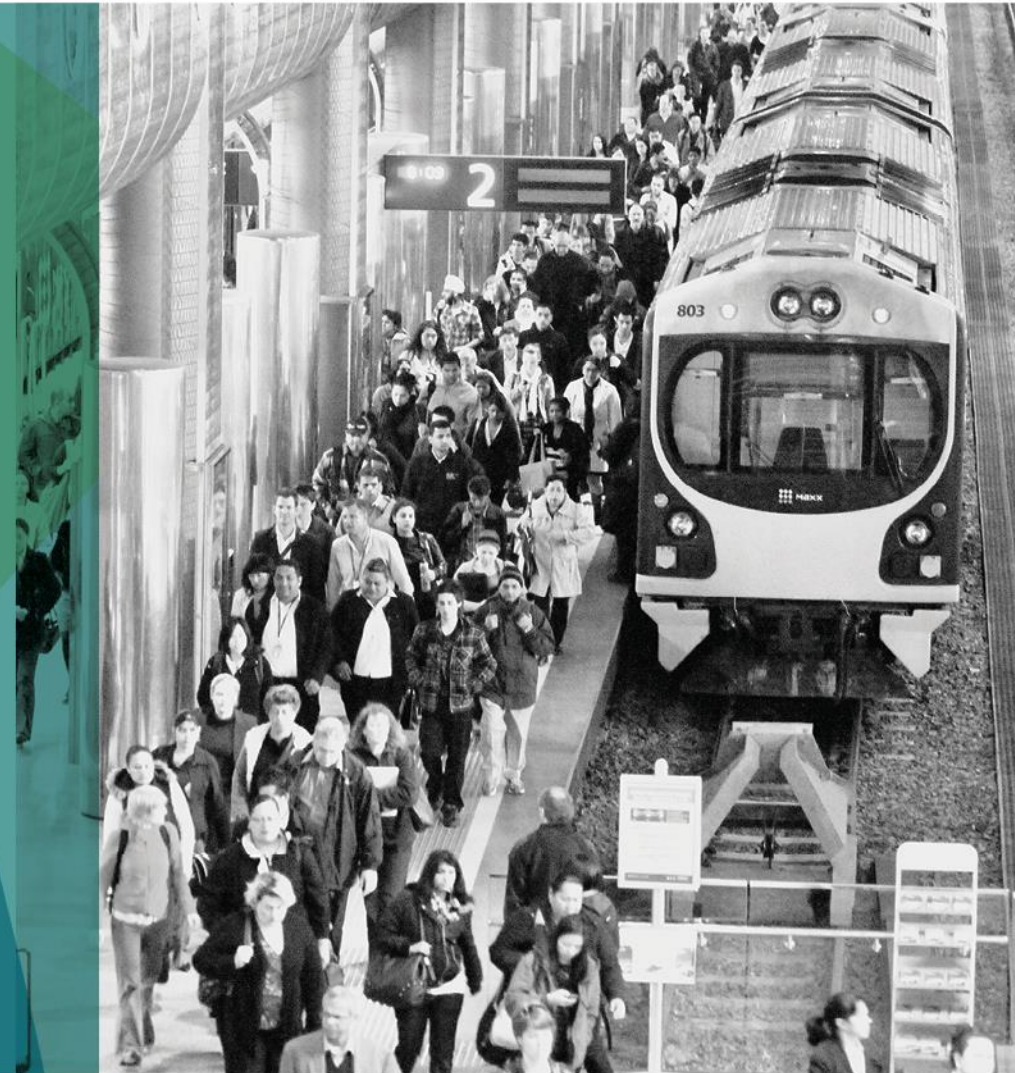
Financial Covenant	2015	2018	2025
Net Debt to Revenue	118.6%	127.7%	120.1%
Net Interest to Rates	12.2%	12.9%	11.3%

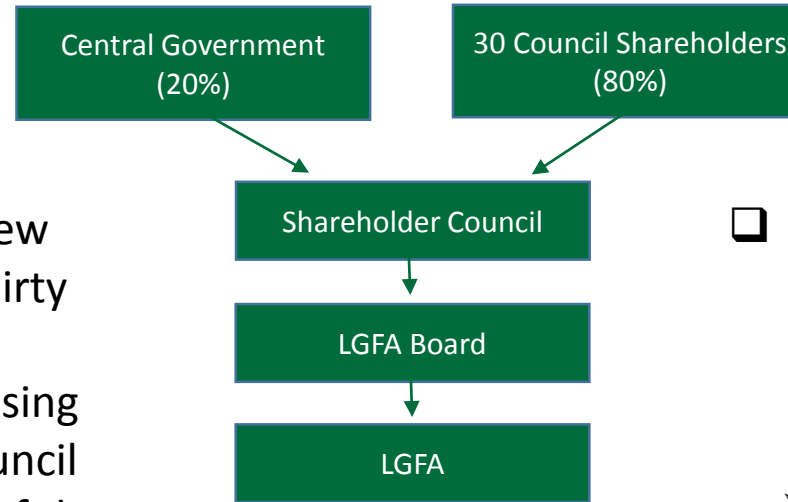
1. Overall the 2016/17 Annual Plans were consistent with the 2015-2025 LTP's.
2. A few councils produced amended LTP's.
3. Gross debt levels slightly lower than forecast in the LTP's.
4. Revenue is also lower.
5. Key themes:
 - Interest costs are lower
 - A large number of councils have elected to have slightly lower level of rate increases
 - Some proportion of capital expenditure has been pushed out (often from 2015/16 to 2016/17)
 - Some councils are benefiting from greater than previously forecast development contributions (however this is generally offset by greater expenses in the building consents area).

Summary: Councils are currently performing in line with their plans. While financial performance generally looks good, higher than expected growth rates may have medium term impacts on councils infrastructure requirements. Better Local Services Legislation may have implications for some council balance sheets.

- Gross debt of the sector is forecast to rise but by a slightly smaller amount than was forecast in the 2012-2022 LTPs
- At June 2025, 11 councils are forecast to have no gross debt while 24 have net assets (similar to the current position)
- Most of the increase in forecast debt is coming from the metro councils (the 10 metro councils plus GWRC account for 96% of the increase in debt in the 2015-2025 LTP)
- Auckland Council account for 69% of the increase in debt forecast in the 2015-2025 LTPs
- Forecast council net debt in 2025 of NZ\$16.559 billion is NZ\$3.504 lower than gross debt
- Debt of the 10 metro councils makes up 80% of the forecast sector debt in 2025
- Performance under LGFA's financial covenants by LGFA member councils is expected to improve over the next 10 years, although metro councils will stay about the same
- Performance of the councils that currently have higher debt (Hamilton, Tauranga) improves while those with less debt (Christchurch, Wellington) deteriorates. Auckland stays the same.
- Debt is not a negative if it is being used to invest in core infrastructure

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- ❑ **31 Shareholders**, comprising the New Zealand Government (20%)¹ and thirty councils (80%).
- ❑ **LGFA Shareholders Council**, comprising five to ten appointees from the Council Shareholders and the Crown. Role of the Shareholders' Council is to:
 - Review and report performance of LGFA and the Board;
 - Recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors;
 - Recommendations to Shareholders as to any changes to policies, or the SOI, requiring their approval;
 - Update Shareholders on LGFA matters and to coordinate Shareholders on governance decisions.

- ❑ **LGFA Board**, is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with:

- Local Government Act 2002;
- Local Government Borrowing Act 2011;
- Companies Act 1993;
- LGFA's Constitution;
- LGFA Shareholder Agreement;
- LGFA Annual Statement of Intent.

The Board will comprise between four and seven directors with a majority of independent directors appointed by shareholders.

¹ NZ Government shareholding reduces to 11.1% if a call is made on uncalled capital of the 30 council shareholders

	Establishment Shares		Borrower Notes		
Subscription Date:	At establishment of the LGFA		At time of borrowing		
Subscribers:	Central Government 20% ; Councils 80%		Councils in relation to borrowings (excluding loans less than 265 days)		
Nature:	Ordinary share (paid and uncalled)		Sub debt convertible (ranks behind other lenders/creditors to LGFA)		
Control:	Voting rights (one vote per paid in share)		Non-voting		
Paid up Amount:	NZ\$25 million in total		1.6% of Council borrowing (excluding short dated borrowing)		
Uncalled Amount:	1 paid up : 1 uncalled for Council shareholders - \$20 million in total		-		
Return:	Discretionary dividend payment LGFA cost of funds + 200bps		Paid on maturity LGFA cost of funds		
Term / Exit:	Permanent capital Exit must be to other Councils or Central Government		Temporary capital – repaid at maturity of associated Council loan In certain limited circumstances can be converted by LGFA into permanent capital		
NZ\$ million	as at 30 June 2012	as at 30 June 2013	as at 30 June 2014	as at 30 June 2015	as at 30 June 2016
Paid up share capital:	25.0	25.0	25.0	25.0	25.0
Retained Earnings:	-4.2	-1.6	3.8	9.75	19.2
Unpaid shares:	20.0	20.0	20.0	20.0	20.0
Borrower Notes:	13.2	40.7	61.9	85.12	108.4
Total:	54.0	87.3	110.7	139.9	172.6
Equity / Total Assets	3.6%	2.4%	2.3%	2.6%	2.4%

Source: LGFA Annual and Half Year Reports

- ❑ LGFA's obligations in relation to the Securities are guaranteed by the councils that are Guarantors under the Guarantee.
 - Other than the New Zealand Government, each shareholder in LGFA must be a Guarantor.
 - In addition any non-shareholder council that borrows in aggregate NZ\$20 million or more from LGFA must be a Guarantor.
- ❑ The guarantee will be in favour of the Security Trustee in relation to the obligations of LGFA.
- ❑ Any call under the guarantee will be allocated across all the guarantors on a pro rata basis in relation to their rates (property tax) revenue.
- ❑ In addition to the guarantee, if there is a 'risk of imminent default' the LGFA Board can decide to make a call on guarantors equal in value to their potential liability under the guarantee (and therefore avoid any default).
- ❑ Parties to the guarantee will be able to exit the arrangement but only after:
 - All the exiting council's borrowings are repaid.
 - All the LGFA's borrowings, current at the time the council notifies of its withdrawal from the guarantee, are repaid.

- ❑ The guarantee is supported by :
 - All borrowers (in aggregate of over NZ\$20 million) must be a party to the guarantee.
 - Any borrower must provide as security a charge over rates (property taxes).
 - LGFA only lends to the Local Government sector - no history of default.

- ❑ Structural Protections:
 - Establishment Capital of NZ\$25 million and uncalled capital of NZ\$20 million.
 - Borrower Notes = 1.6% of total LGFA assets.

	KBN Norway	KommuneKredit Denmark	Kommuninvest Sweden	Municipality Finance Finland
Arrangement	No direct explicit sovereign guarantee. Joint and several guarantee provided by members	Direct, joint and several guarantee from members (Danish Local Governments).	Municipalities and county councils that are members of the Kommuninvest Cooperative Society have signed a joint and several guarantee.	No explicit sovereign guarantee. Has explicit guarantee on funding from the Municipal Guarantee Board (MGB), which is owned and guaranteed by most Finnish municipalities.
Limitation	Local Government borrowers guarantee own obligations only	No limit	No limit	No limit but a pro-rata side agreement
Ownership	100% owned by Kingdom of Norway.	Membership by 100% Danish Local Governments.	100% owned by Swedish local governments through Kommuninvest Cooperative Society.	53.3% owned by Finnish local governments together with the Association of Finnish Local and Regional Authorities. 30.7% owned by the Local Government Pension Institutea and 16% by the central government of Finland.

LGFA’s policy to minimise financial risks and carefully identify, manage and control all risk.

❑ Market Risk

- PDH limit of NZ\$40,000
- VAR limit of NZ\$250,000

❑ Credit Risk

All Councils that borrow from LGFA are obliged to:

- Provide security in relation to their borrowing from LGFA and related obligations.
- Issue securities (bonds/FRNs/CP) to LGFA.
- Comply with their own internal borrowing policies.
- Comply with the LGFA financial covenants within either the Lending Policy or Foundation Policy

Auckland Council is limited to a maximum of 40% of LGFA’s total Local Authority assets.

No more than the greater of NZ\$100 million or 33% of a Local Authority’s borrowings from LGFA will mature in any 12 month period.

❑ Liquidity and Funding Risk

Cash and Investments

- LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations when they fall due.
- Only invest in NZD senior debt securities, money market deposits and registered certificates of deposits within strict counterparty limits.

DMO standby facility

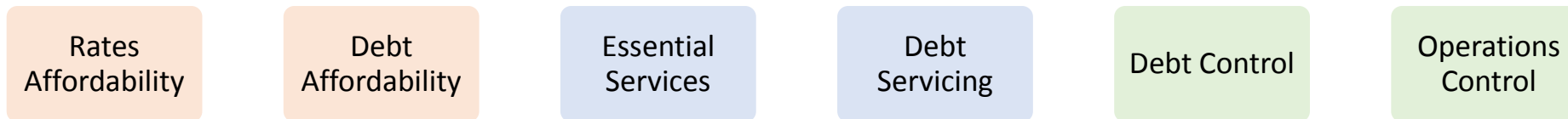
- The New Zealand Debt Management Office provides a committed liquidity facility up to NZ\$1 billion in size that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall.
- Currently the facility size is set by LGFA at NZ\$400 million.

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250%
Net Interest / Total Revenue	<20%	<20%
Net interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

Liquidity position as at 30 June 2016	NZ\$ million
Cash and cash equivalents	\$36.8
Deposits and Marketable Securities	\$229.6
NZDMO Liquidity Facility	\$400.0
Total	\$666.4

Source: LGFA

- Local Government Framework reduces risk of financial distress – no historical default by a council
- Council have own Treasury Management and borrowing policies – most have independent advice
- Council financial oversight by Office of Auditor General (OAG), Audit NZ and Department of Internal Affairs
- Councils under Local Government (Financial Reporting and Prudence) Regulations 2014 Act required to report annually on performance against six benchmarks



Six step intervention process possible by Central Government



- Council required to comply with LGFA lending covenants
 - Annual attestation by council
 - LGFA credit watch-list in place
 - LGFA credit analysis and monitoring performed through the year
 - LGFA not required to lend to council members
- Covenant breach is an Event of Review – after 30 days LGFA can seek repayment of loans

- 21 councils have credit ratings (A+ to AA range)
- LGFA undertakes detailed credit analysis of each council if they apply to join LGFA (and ongoing) - not every council has been accepted as a member
- A council default becomes a timing issue for LGFA

LGFA lends secured against rates revenue under Debenture Trust Deed

Unlikely to be other claimants on rates revenue given LGFA is the dominant lender to councils

Trustee appoints receiver and a special rate (property tax) levied on all properties in the council region to meet obligations (interest + principal) when due

Property taxes unavoidable and first ranking security over property

If council in financial difficulty you would expect some degree of Central Government intervention

- Sources of LGFA liquidity and additional capital

\$1 billion standby facility from NZ Government

Liquid Assets Portfolio

Issuance of additional LGFA Bills and Bonds

Conversion of Borrower Notes into equity

Uncalled capital of \$20 million

- LGFA Board can call upon the guarantee from councils
- **Central Government does not guarantee obligations of either LGFA or council members**

Website: www.lgfa.co.nz

Bloomberg Ticker: NZLGFA

Bloomberg : LGFA

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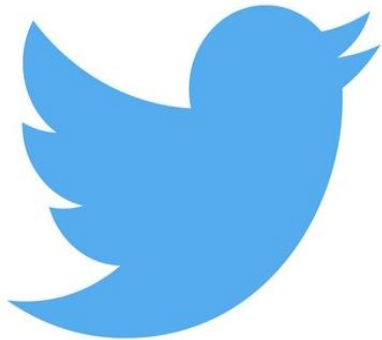
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