

LGFA An overview

Business Description

The New Zealand Local Government Funding Agency (LGFA) is an agency specialised in financing the New Zealand local government sector. LGFA was established to raise debt on behalf of local authorities (“councils”) on terms that are more favourable to them than if they raised the debt directly.

LGFA was incorporated as a limited liability company under the Companies Act 1993 on 1 December 2011, following the enactment of the Local Government Borrowing Act 2011. As LGFA is majority owned by councils, it constitutes a “council-controlled organisation” under the Local Government Act 2002.

Credit Ratings

Domestic Currency AAA/ Foreign Currency AA+ (Stable Outlook) – Standard & Poor’s
Domestic Currency AA+ / Foreign Currency AA (Stable/Positive) – Fitch Ratings
These credit ratings are the same as the New Zealand sovereign ratings.

Ownership

As at 20 October 2021 LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. There are currently 31 shareholders, comprising the New Zealand Government at 20% and 30 councils at 80%. Any councils wanting to become new shareholders are required to purchase shares from existing council shareholders.

Capital Structure

The capital structure of LGFA comprises fully paid shares, unpaid shares, retained earnings and borrower notes.

Borrower Notes

Borrower Notes are subordinated convertible debt instruments which each council that borrows from LGFA must subscribe for (in an amount equal to 2.5% of the total borrowing from LGFA by that council) LGFA will redeem Borrower Notes when the councils’ related borrowings are repaid or no longer owed to LGFA. Currently there are NZ\$241 million of Borrower Notes on issue.

Guarantee Structure

LGFA’s obligations in relation to its Securities issued 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 council that borrows in aggregate NZ\$20 million or more from LGFA must be a Guarantor. The guarantee will be in favour of 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.

Liquidity Facility

The New Zealand Debt Management Office provides LGFA with a committed liquidity facility. The facility has an expiry date of December 2031. The facility’s maximum aggregate principal amount is set at NZ\$1.5 billion unless LGFA selects a lower amount; and will vary depending on LGFA’s credit rating (the available facility may reduce if LGFA’s credit rating decreases). LGFA has selected a maximum aggregate principal amount of NZ\$500 million for the period to February 2022.

As at 20 October 2021

- Enabled by Local Government Borrowing Act 2011
- Owned by 30 Local Authorities and New Zealand Government
- Same credit rating as New Zealand Sovereign
- Supported by New Zealand Government liquidity facility
- RBNZ Repo Eligible
- NZD Bonds are listed on the NZX Debt Market

Year to June 30	Funding p.a. (NZ\$m)	Securities on issue (NZ\$m)
FY 2015	1,500	4,955
FY 2016	1,265	6,220
FY 2017	1,285	7,535
FY 2018	1,229	8,119
FY 2019	2,485	9,335
FY 2020	2,905	10,890
FY 2021	3,270	12,680
FY 2022	2,900 est.*	13,975 est.*
FY 2023	2,875 est.*	15,190 est.*
FY 2024	2,850 est.*	17,202 est.*

*SOI FORECAST

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

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Funding

LGFA operates with the primary objective of optimising the debt funding terms and conditions for participating councils. To date this has been undertaken via tender operations and mainly issuing bonds with identical coupons and maturities as NZ Government Bonds. As at 20 October 2021 there are NZ\$15.64 billion of LGFA bonds on issue across ten maturities. These bonds are listed on the NZX Debt market and to date LGFA has only issued in NZD.

LGFA also issues 3 month and 6 month LGFA Bills via monthly tenders and private placements. As at 20 October 2021 there are \$565 million LGFA Bills on issue.

About New Zealand Local Government

There are 78 local authorities in New Zealand comprising:

11 Regional Councils – 7 in the North Island and 4 in the South Island;

12 City Councils – 8 in the North Island and 4 in the South Island;

54 District Councils – 34 in the North Island and 20 in the South Island;

1 Unitary Territorial Authority – Auckland Council

Councils in New Zealand provide water, wastewater, storm water, regional transport and rubbish collection services, local amenities and parks.

Councils typically borrow to fund infrastructure investment in those areas.

Summary financial statistics for the sector at June 2020 are:

Total sector assets of \$162.6 billion

Total sector debt of \$16.6 billion

Total sector revenue of \$20.7 billion

Total rates (property tax) revenue of \$6.5 billion

LGFA participants

- As at 20 October 2021 there are 74 Participating Local Authorities and 1 CCO.
- There are 65 Guarantors of LGFA. The only non-Guarantors (due to their small amount of borrowing) are West Coast Regional Council, Opotiki, Buller, Rangitikei, Wairoa, Mackenzie, Kawerau, Carterton and Kaikoura District Councils.
- There are 31 shareholders, comprising 30 councils (80% shareholding) and the New Zealand government (20% shareholding).
- Auckland Council is limited to a maximum of 40% of LGFA's total Local Authority assets.
- The 74 council members cover 97% of New Zealand local government sector debt.

New Zealand Statistics

Population 5.1 million as at June 2021

Nominal GDP \$340 billion as at June 2021

Nominal GDP growth 5.1% as at June 2021

Nominal GDP per capita \$66,666 as at June 2021

CPI inflation 4.9% as at September 2021

Unemployment rate 4% as at June 2021

Total merchandise exports \$61.1 billion as at August 2021

Total merchandise imports \$64.1 billion as at August 2021

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Borrowers as at 20 October 2021

Lending	NZ\$m	%
Auckland	3,372	25.5
Christchurch	2,138	16.2
Wellington	971	7.4
Tauranga	575	4.4
Hamilton	530	4.0
Greater Wellington	526	4.0
Kapiti Coast	260	2.0
Rotorua	247	1.9
Hutt	241	1.8
Hastings	228	1.7
59 others	4,122	31.2
Total	13,209	100

LGFA Bonds on Issue as at 20 October 2021

Coupon	Maturity	NZ\$m
2.75%	14/04/2022	1,705
5.5%	15/04/2023	1,850
2.25%	15/04/2024	1,678
2.75%	15/04/2025	1,669
1.50%	15/04/2026	1,440
4.5%	15/04/2027	1,631
2.25%	15/05/2028	800
1.5%	20/04/2029	1,372
2.25%	15/05/2031	830
3.5%	14/04/2033	1,360
3%	15/05/2035	500
2.0%	15/04/2037	800
Total		15,635

Shareholders as at 20 October 2021

Shareholders	%
New Zealand Government	20.00
Auckland	7.46
Christchurch	7.46
Hamilton	7.46
Bay of Plenty	7.46
Greater Wellington	7.46
Tasman	7.46
Tauranga	7.46
Wellington	7.46
Western Bay of Plenty	7.46
21 Others	12.86
Total	100