



RATING ACTION COMMENTARY

Fitch Upgrades New Zealand LGFA's Foreign-Currency IDR to 'AA+' on Sovereign Action; Outlook Stable

Fri 16 Sep, 2022 - 2:25 AM ET

Fitch Ratings - Sydney - 16 Sep 2022: Fitch Ratings has upgraded New Zealand Local Government Funding Agency Limited's (LGFA) Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'AA+' from 'AA'. The Outlook is Stable. The other ratings are not affected by this review.

The upgrade of the Foreign-Currency IDR follows the same action on New Zealand's Foreign-Currency IDR on 9 September 2022 (see "[Fitch Upgrades New Zealand's Foreign-Currency IDR to 'AA+'; Outlook Stable](#)") and results in the alignment of LGFA's Foreign- and Local-Currency IDRs.

A full rationale for the rating equalisation is outlined in the Rating Action Commentary published on 29 October 2021 (see "[Fitch Affirms New Zealand's LGFA at 'AA'/Positive and 'AA+'/Stable](#)").

Derivation Summary

Fitch classifies LGFA as an entity linked to the New Zealand sovereign (AA+/Stable, F1+) under our Government Related Entities (GRE) Rating Criteria and applies a top-down rating approach based on our assessment of the strength of its linkage with and the incentive to support by the New Zealand sovereign. LGFA's 45-point GRE support score reflects the combination of 'Very Strong' and 'Strong' key rating drivers. The score leads to LGFA's IDRs being equalised with those of the sovereign.

The ratings are assigned without an assessment of a Standalone Credit Profile.

Issuer Profile

LGFA began operating as an optional centralised borrowing vehicle for New Zealand's councils in February 2012, following the enactment of the Local Government Borrowing Act 2011. Its main objective is to raise debt for local governments (councils) and optimise their debt funding terms and conditions, which includes minimising interest costs, facilitating access to debt capital and providing borrowing flexibility, such as long-term loans.

LGFA had 18 foundation council shareholders at incorporation, of which nine were considered founding members, as well as the New Zealand government. There are currently 31 shareholders. Membership has increased steadily over the years; a total of 75 of the 78 New Zealand local councils and one Council-Controlled Organisation were eligible LGFA borrowers at 30 June 2022. LGFA borrowings currently account for around 80% New Zealand's local government sector debt.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

LGFA's Long-Term IDRs could be downgraded in the event of negative rating action on the New Zealand sovereign. A weaker assessment of LGFA's linkage to the central government or the government's incentive to support LGFA in a stress scenario that leads to a GRE support score of 42.5 or lower under our GRE criteria could also result in a downgrade.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Positive rating action on the New Zealand sovereign would result in the same action on LGFA's ratings.

ESG Considerations

Fitch does not provide ESG scores for LGFA as its ratings and ESG profile are derived from its parent. ESG relevance scores and commentary for the parent entity - New Zealand - can be found here

<https://www.fitchratings.com/entity/new-zealand-80442275>

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The ratings of LGFA are directly linked to the New Zealand sovereign. A change in Fitch's assessment of New Zealand's ratings would be mirrored in LGFA's ratings.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
New Zealand Local Government Funding Agency Limited (LGFA)	LT IDR AA+ Rating Outlook Stable Upgrade	AA Rating Outlook Positive

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 02 Sep 2021\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

New Zealand Local Government Funding Agency Limited (LGFA)

EU Endorsed, UK Endorsed

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