



LGFA Quarterly Report to Shareholders



March Quarter 2023

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A. March Quarter highlights

Quarter	Total	Bespoke Maturity	April 2023	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2031	April 2033	May 2035	April 2037
Bonds issued \$m	390	n/a		110		50	70		50	60			50
Term Loans to councils \$m	689.7	409.0		9.5	62.5	39.0	62.7	64.0	43.0				
Term Loans to councils #	94	45		3	8	8	11	6	8				

2022-23 Year	Total	Bespoke Maturity	April 2023	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2031	April 2033	May 2035	April 2037
Bonds issued \$m	2153	n/a		220	730	290	200	103	250	210	60		90
Term Loans to councils \$m	2513.3	1285.9		68.0	114.6	153.0	208.6	258.0	124.2	251.0	50.0		
Term Loans to councils #	236	107		8	18	19	31	26	22	4	1		

Key points and highlights for the March quarter:

- The LGFA bond yield curve fell and moved to a flat shape during the March quarter as the RBNZ tightened monetary policy with a 50-bps hike in the OCR to 4.75% in February (and a subsequent 50 bps hike in early April). LGFA bond yields fell as offshore bond markets posted strong declines in yield as inflation appears to be peaking and the global economy is softening. 2025 LGFA bond yields fell 31 bps to 5.17% while the 2037 LGFA bond yield fell by 47 bps to 5.20%.
- LGFA issued \$390 million of bonds during the quarter through two bond tenders in what remained a difficult environment for issuance. We have issued \$2.153 billion of LGFA bonds over the nine-month period to 31 March 2023. The average term of issuance during the quarter was 5.35 years and 4.63 years for the nine-month period to 31 March 2023.
- LGFA borrowing margins to swap were mixed with a narrowing in spreads out to the 2026 maturities (by 2 bps) but longer dated borrowing spreads widened by up to 14 bps. LGFA spreads to NZGB reversed the prior quarter losses as they narrowed between 2 bps (2024s) and 15 bps (2037s).
- Long dated lending to councils during the quarter of \$690 million was strong considering the quarter is typically a quieter period. We have lent \$2.45 billion for the nine-month period to 31 March 2023 compared to a full year SOI forecast of \$2.95 billion. The average term of lending during the quarter was 5.02 years and 5.62 years for the nine-month period to 31 March 2023.
- LGFA has an estimated market share of 86% of total council borrowing for the rolling twelve-month period to March 2023 compared to a historical average of 76% since 2012.
- Short-term lending increased over the quarter by \$34 million to \$532 million of short-term loans outstanding on 31 March 2023 to thirty-one councils and CCOs.
- LGFA Net Operating Gain (unaudited management estimate) for the nine-month period to 31 March 2023 of \$2.152 million was \$49k above budget, comprising total operating income at \$184k below budget and expenses at \$233k below budget.
- We are on track to achieve fifteen out of our seventeen performance objectives after the first nine months of the financial year. We are still establishing our carbon reduction plan and we are likely to incur additional expenses above budget during Q4 relating to sustainability initiatives and Sustainable Financing Bond issuance.
- There were no new council or CCO members during the quarter with membership remaining at seventy-seven Councils and three CCOs. There were no changes to the guarantor group of seventy-one councils.
- We lent \$25 million of Green Social and Sustainability (GSS) Loans to Hutt City Council and Whangarei District Councils. Total GSS loans outstanding as at 31 March 2023 was \$195.5 million.
- We approved our first Climate Action Loans (CALs) for Auckland and Hutt City Councils and for Dunedin City Treasury Limited.
- The Sustainable Financing Bond Framework was completed and that enables us to issue Sustainable Financing Bonds to investors.

B. LGFA bond issuance over quarter

We issued \$390 million of bonds via two bond tenders (February and March). Issuance conditions remained difficult with significant market volatility. We responded to these uncertain times by issuing bonds with a shorter duration than normal.

The February bond tender result was a mixed outcome with strong demand for the 2024 bond in terms of volume bid and the successful yield/issuance spread but the further along the curve we went, the more difficult the result. We offered a normal sized tender of \$190 million of bonds across three maturities but just covered the 2027 and 2031 bond maturities with demand.

The tender size of \$190 million was in line with recent tender amounts and we had tried to offer as many short- dated bonds as possible but did have to issue some longer dated tenors to match council borrowing.

Price support was strong for the 2024 bond maturity as it was issued at the prevailing mid- market. Both the 2027s and 2031s were issued approx. 5 bps above the mid-rate at the time of the tender. Bidding volume was mixed with the overall bid coverage ratio of 2.37x respectable but that was disguised by the 4.75x demand for the 2024s compared to just covering the 2027s and 2031s with bidders. Successful bid ranges varied between 3 bps (2024s) and 12 bps (2027s and 2031s).

The average maturity of the LGFA bonds issued was a short 4.52 years. We offered the 2024s to appeal to bank balance sheets and offshore investors and the longer bonds were offered as we had a large amount of loans pricing beyond 2028.

We issued \$190 million of LGFA bonds and on-lent \$232 million to thirteen councils with predominantly new lending. Hamilton City Council (\$60 million) was the largest borrower followed by Wellington City Council and Wellington Regional Council with \$30 million each. We undertook one GSS loan to Hutt City Council as a further drawdown for their green building. The average term of lending to councils at just below 6.42 years (77 months) was in line with the long-term average of 78 months.

Tender 96 – 1 February 2023	15 Apr 2024	15 Apr 2027	15 Apr 2031
Total Amount Offered (\$million)	60	70	60
Total Amount Allocated (\$million)	60	70	60
Total Number of Bids Received	21	15	14
Total Amount of Bids Received (\$million)	285	84.5	80
Total Number of Successful Bids	8	15	12
Highest Yield Accepted (%)	5.320	4.700	4.800
Lowest Yield Accepted (%)	5.290	4.580	4.680
Highest Yield Rejected (%)	5.390	4.700	4.810
Lowest Yield Rejected (%)	5.320	4.700	4.810
Weighted Average Accepted Yield (%)	5.306	4.648	4.775
Weighted Average Rejected Yield (%)	5.348	4.700	4.810
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield	9.3	100	70
Coverage Ratio	4.75	1.21	1.33
NZGB Spread at Issue (bps)	58.00	61.00	74.00
Swap Spread at Issue (bps)	9.00	36.00	56.00
Swap Spread: AA council (bps)	28.4	55.5	69.25
Swap Spread: AA- council (bps)	33.4	60.5	74.25
Swap Spread: A+ council (bps)	38.4	65.5	79.25
Swap Spread: Unrated council (bps)	48.4	75.5	89.25
Coverage Ratio	4.75	1.21	1.33

The March bond tender was a great outcome with strong demand for all four bond maturities and tight pricing. This was positive given the volatile market backdrop and the announcement by the NZDM on the tender day that they were likely to proceed with a syndication of a new May 2030 NZGB the following week.

We offered \$200 million of bonds across four bond maturities with each tranche achieving a successful outcome. We decided to offer four bond maturities that spanned the yield curve to capture as much investor and bank demand as possible.

Price support was strong for the 2024 and 2026 bond maturities with weighted average yields 2 bps under prevailing mid- market while the 2029s and 2037s were issued 1 bps above mid-rate. This contrasted to previous tenders where we issued bonds up to 5 bps wider. Bidding volume was strong with an overall bid coverage ratio of 3.26x with the strongest support for the 2024s and 2029s. Successful bid ranges varied between zero bps (2026s) and 3.5 bps (2037s). The average maturity of the LGFA bonds issued was longer than recent tenders at 6.13 years when compared to the average for the 2022-23 financial year to date of 4.63 years.

Of interest was the curve shape with the 2024s issued at 5.534% vs the 2037s at 5.513%.

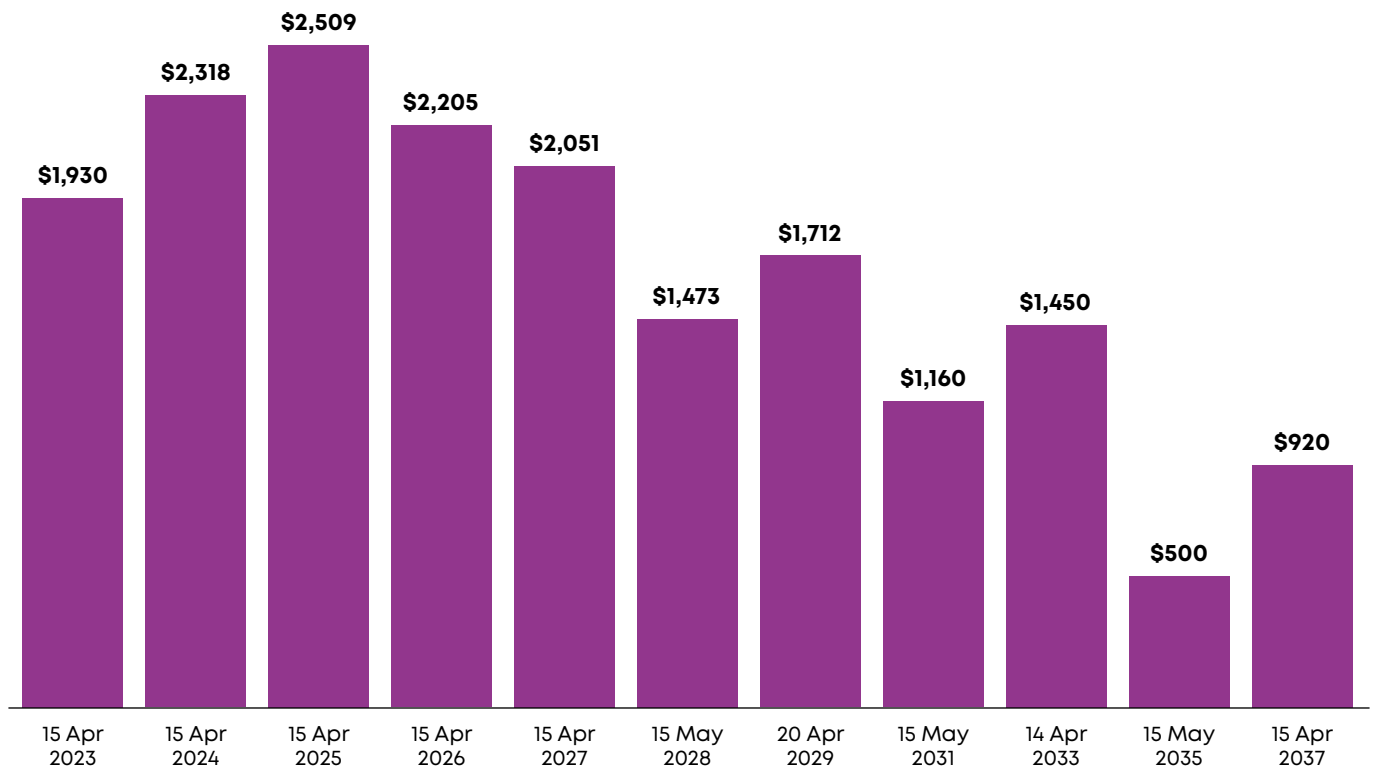
We issued \$200 million of LGFA bonds and on-lent \$289 million to sixteen councils. Christchurch City Council (\$110 million) was the largest borrower followed by Queenstown Lakes District Council (\$30 million). The average term of lending to councils at 5.75 years (69 months). We also undertook \$20 million of Green Loans to Whangarei District Council.

Tender 97 – 1 March 2023	15 Apr 2024	15 Apr 2026	20 Apr 2029	15 Apr 2037
Total Amount Offered (\$million)	50	50	50	50
Total Amount Allocated (\$million)	50	50	50	50
Total Number of Bids Received	14	15	20	15
Total Amount of Bids Received (\$million)	247.5	150	179	75
Total Number of Successful Bids	2	1	7	10
Highest Yield Accepted (%)	5.535	5.300	5.275	5.530
Lowest Yield Accepted (%)	5.530	5.300	5.240	5.495
Highest Yield Rejected (%)	5.680	5.500	5.410	5.670
Lowest Yield Rejected (%)	5.560	5.310	5.275	5.535
Weighted Average Accepted Yield (%)	5.534	5.300	5.256	5.513
Weighted Average Rejected Yield (%)	5.612	5.373	5.306	5.589
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield	100	100	17.2	100
Coverage Ratio	4.95	3.00	3.58	1.50
NZGB Spread at Issue (bps)	36.00	60.00	66.00	81.00
Swap Spread at Issue (bps)	1.20	22.00	50.00	81.00
Swap Spread: AA council (bps)	18.5	40.7	64	82
Swap Spread: AA- council (bps)	23.5	45.7	69	87
Swap Spread: A+ council (bps)	28.5	50.7	74	92
Swap Spread: Unrated council (bps)	38.5	60.7	84	102
Coverage Ratio	4.95	3.00	3.58	1.50

LGFA NZX-listed bonds on issue (NZ\$ million, face value)

As at 31 March 2023 NZ\$18,228 million

Includes NZ\$1,100 million treasury stock



We have eleven LGFA bond maturities listed on the NZX Debt market that finance our long-term lending to councils. We have a record \$18.228 billion of bonds on issue (including treasury stock) but this will drop next month with the April 2023 LGFA bond maturity.

Our issuance volume on a rolling 12-month basis to March 2023 of \$3.6 billion has fallen from the \$4.35 billion high a year ago but remains large on a historical basis.

Rolling 12 month Issuance (\$ millions)



C. Summary financial information (provisional and unaudited)

The following results are management estimates only and are unaudited.

Financial Year (\$m) – cumulative	YTD as at Q3
Comprehensive income	31 March 2023
Interest income	383,566
Interest expense	375,922
Net interest revenue	7,644
Other operating Income	1,008
Total operating income	8,651
Issuance and On-lending costs	2,532
Approved issuer levy	0,343
Operating expenses	3,624
Issuance and operating expenses	6,500
Net Profit	2,152
Financial position (\$m) – as at	31 March 2023
Retained earnings + comprehensive income	80,496
Total assets (nominal)	18,320,035
Total LG loans (nominal)	16,273.0
Total LGFA bills (nominal)	642.0
Total LGFA bonds (nominal)	17,128
Total borrower notes (nominal)	327,517
Total equity	105,496

D. Strategic priorities. Performance against objectives and performance targets

D1. Governance, capability and business practice

Performance target	2022-23 Target	Performance against target
Comply with the Shareholder Foundation Polices and the Board-approved Treasury Policy at all times.	No breaches	Met – No breaches
Maintain LGFA's credit rating equal to the New Zealand Government's sovereign rating where both entities are rated by the same Rating Agency.	LGFA credit ratings equivalent to NZ Sovereign.	Met – Fitch Ratings upgraded LGFA Foreign Currency Rating to AA+ on 16 Sept 2022
LGFA's total operating income for the period to 30 June 2023.	> \$12.2 million	On Track – \$8.7 million as at 31 March 2023
LGFA's total operating expenses for the period to 30 June 2023.	< \$9.4 million	On Track but likely to exceed at year end – \$6.5 million as at 31 March 2023 but higher costs relating to sustainability and bond issuance expected in Q4

There have been no policy breaches during the quarter, and we are on track to meet our full year operating income target. We are likely to incur additional expenses (consulting, legal and NZX) relating to sustainable lending and the establishment of our Sustainable Finance Bond Framework in the June quarter.

Fitch Ratings upgraded our long-term foreign currency credit rating to AA+ on 16 September 2022. S&P Global Ratings affirmed our domestic currency credit rating at AAA in March 2023. Our ratings remain equivalent to the New Zealand Government for both S&P Global Ratings and Fitch Ratings.

D2. Optimising financing services for local government

Performance target	2022-23 Target	Performance against target
Share of aggregate long-term debt funding to the Local Government sector.	> 80%	Met – 86% as at 31 March 2023
Total lending to Participating Borrowers.	> \$15,004 million	On Track – \$16,273 million as at 31 March 2023
Conduct an annual survey of Participating Borrowers who borrow from LGFA as to the value added by LGFA to the borrowing activities.	> 85% satisfaction score	Met – 100% satisfaction score in Aug 2022 Stakeholder Survey
Successfully refinance existing loans to councils and LGFA bond maturities as they fall due.	100%	Met
Meet all lending requests from Participating Borrowers, where those requests meet LGFA operational and covenant requirements.	100%	Met

Objectives:

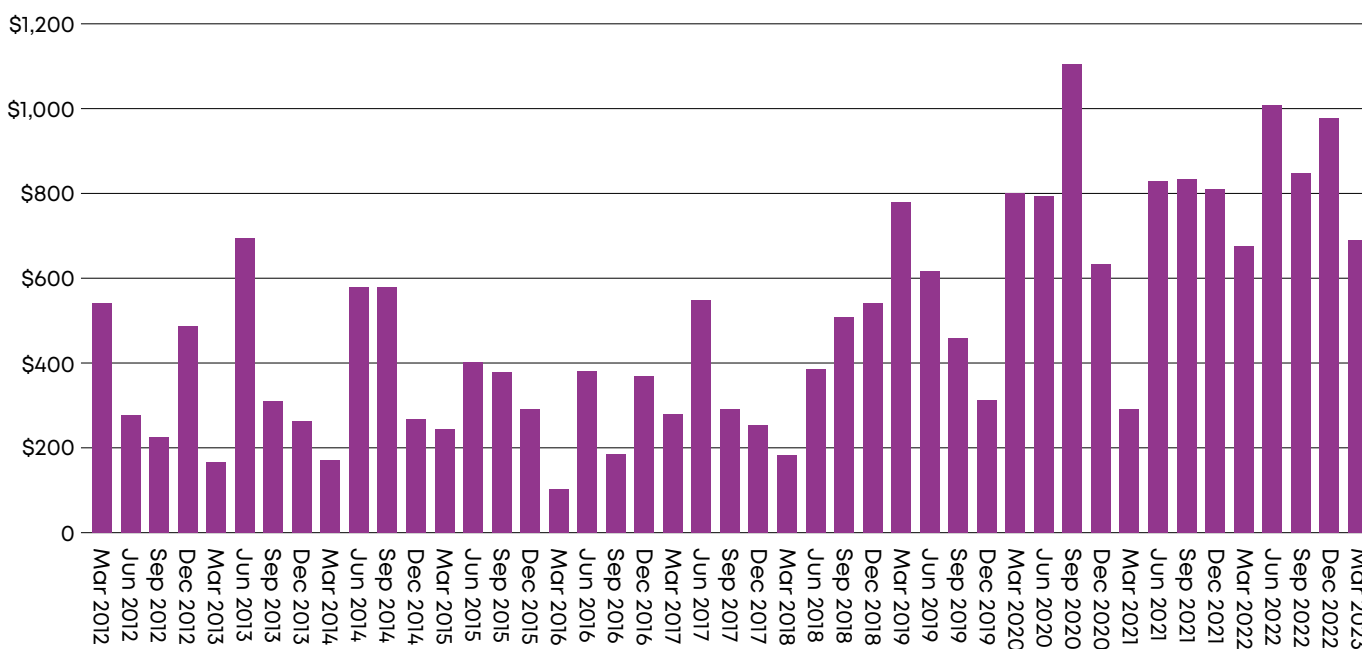
- Provide interest cost savings relative to alternative sources of financing.
- Offer flexible short and long-term lending products that meet the borrowing requirements for borrowers.
- Deliver operational best practice and efficiency for lending services.
- Ensure certainty of access to debt markets, subject always to operating in accordance with sound business practice.

LGFA provides short term loans (less than one year maturity), long term loans (between one year and April 2037), Green Social and Sustainable (GSS) Loans, Climate Action Loans (CALs) and standby facilities to councils and CCOs. Long term loans, GSS loans and CALs can be on a floating or fixed rate basis.

We have lent \$689.7 million to thirty-three councils during the March quarter with Christchurch and Wellington City Councils being the largest borrowers. The average term of borrowing over the quarter at 5.02 years was shorter than the 2021-22 financial year average term of 6.22 years.

Long term lending to councils for the nine-month period to 31 March 2023 of \$2.513 billion is tracking above the forecast \$2.95 billion of council borrowing for the 2022-23 financial year.

Council Borrowing from LGFA – quarterly (NZ\$ million)



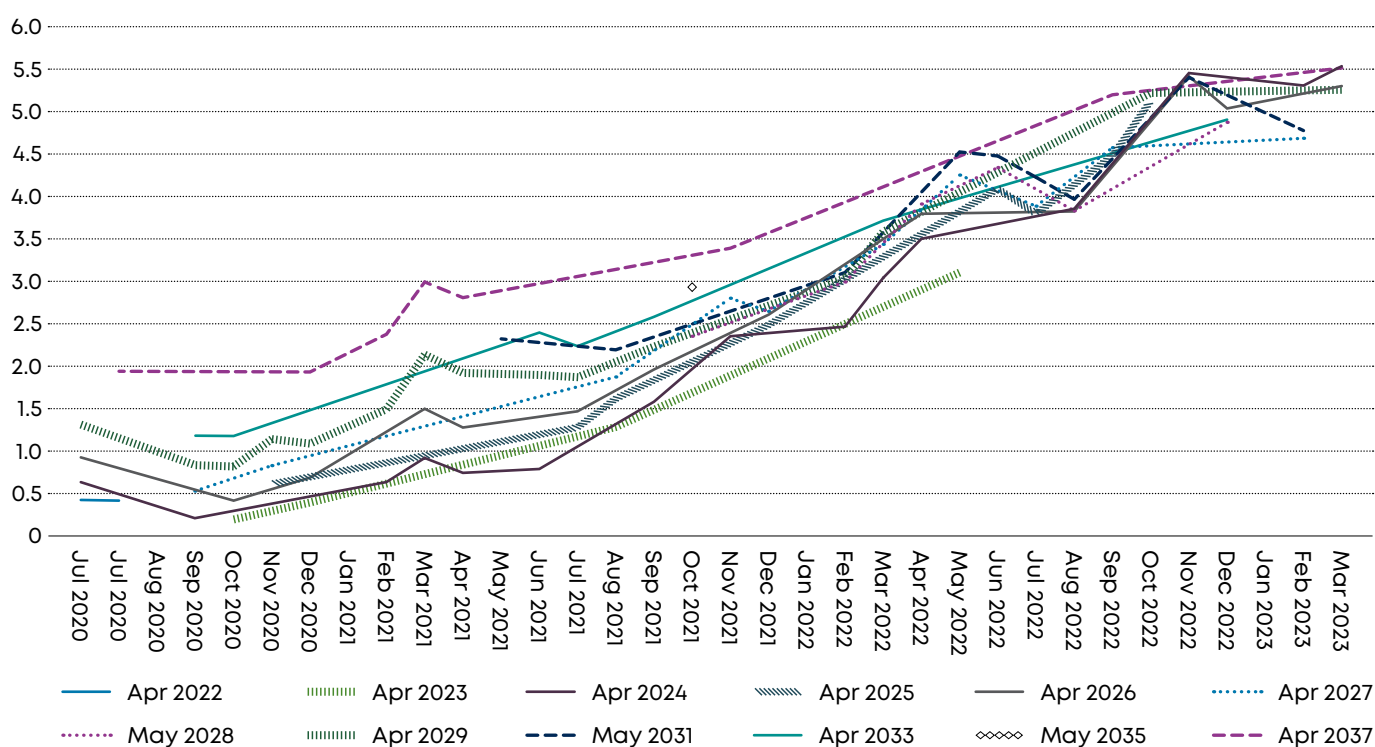
Our borrowing margins are similar to other high-grade issuers in the New Zealand capital markets despite our larger issuance programme. Our borrowing spreads are now higher than Kainga Ora as they are no longer borrowing in their own name but funding through the NZ Treasury.

Comparison to other high-grade issuers – secondary market spread to swap (bps)

31 Mar 23	Comparison to other high-grade issuers – secondary market spread to swap (bps)											
	2024	2025	2026	2027	2028	2029	2030	2031	2033	2033	2035	2037
LGFA (AAA)	5	12	22	33	42	53		62	70	54	79	85
Kainga Ora (AAA)		12	18	27	40		52				61	
Asian Development Bank (AAA)	15	18	22	30	34			48				
IADB (AAA)	21	21	25	31	41		45					
International Finance Corp (AAA)	14	19	22	31		42						
KBN (AAA)	23	27		39			55					
Rentenbank (AAA)	16	22		32		42						
World Bank (AAA)	14	20	25	31	34		45					
Nordic Investment Bank (AAA)		19					44					
ANZ (AA-)	29											
BNZ (AA-)		43	61	79	89							
Westpac Bank (AA-)	38	47	60	82								
SSA Average	17	21	24	32	36	42	47	48				
Bank Average	34	45	61	81	89							

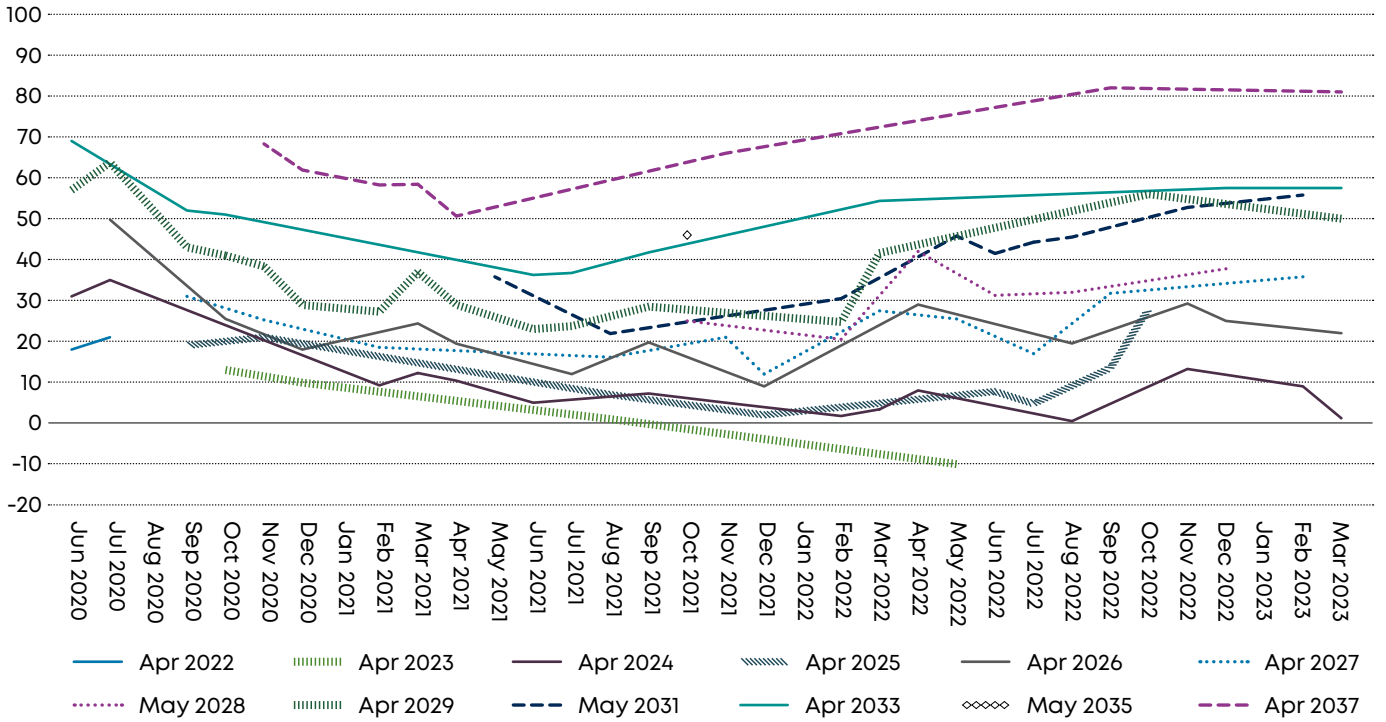
LGFA Bond Issuance Yields (%)

Last 30 tenders



Spread to swap

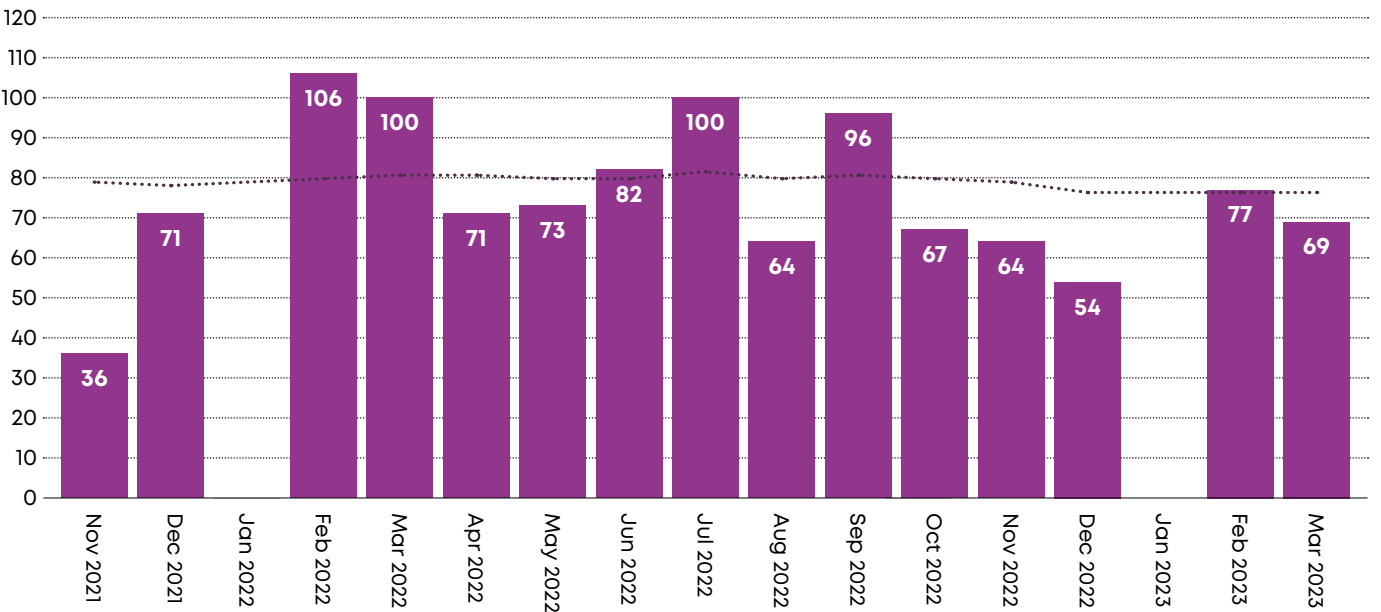
Last 30 tenders



The average borrowing term (excluding short-dated borrowing) for the March quarter by council members was 5.02 years and 5.62 years for the nine-months to 31 March 2023. This is shorter than the 6.22 years for the year to June 2022.

Average total months to maturity – on lending to councils

Last 15 tenders

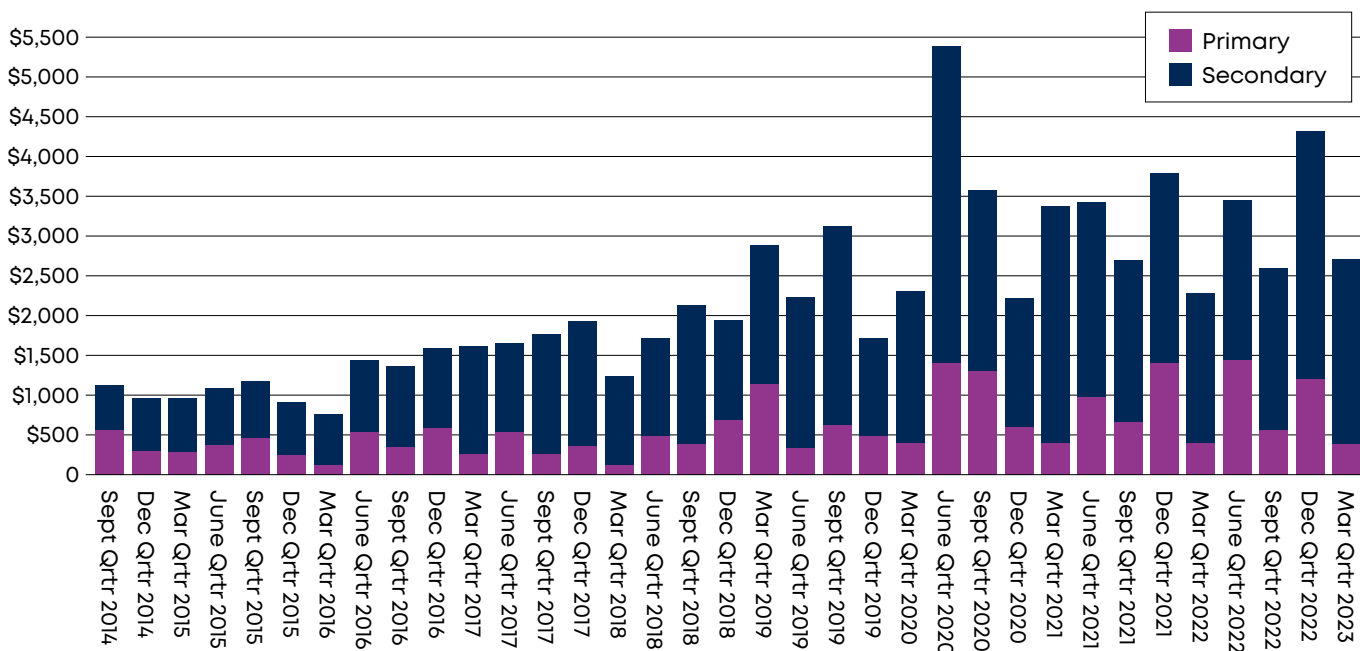


Short-term borrowing by councils and CCOs with loan terms of between one month and 12 months remains well supported with \$532 million outstanding as of 31 March 2023 to thirty one councils and CCOs. The number of councils and CCOs using this product decreased by one over the quarter while the total amount outstanding increased by \$34.4 million.

For LGFA to provide certainty of access to markets for our council borrowers we need to have a vibrant primary and secondary market in LGFA bonds. The primary market is the new issuance market, and we measure strength through participation by investors at our tenders through bid-coverage ratios and successful issuance yield ranges. The secondary market is the trading of LGFA bonds following issuance and a high turnover implies a healthy market.

Activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) was strong during the March quarter on a seasonal basis with combined activity of \$2.7 billion. March is always our quietest quarter for issuance with only \$390 million of bonds issued and secondary market turnover of \$2.3 billion during the quarter.

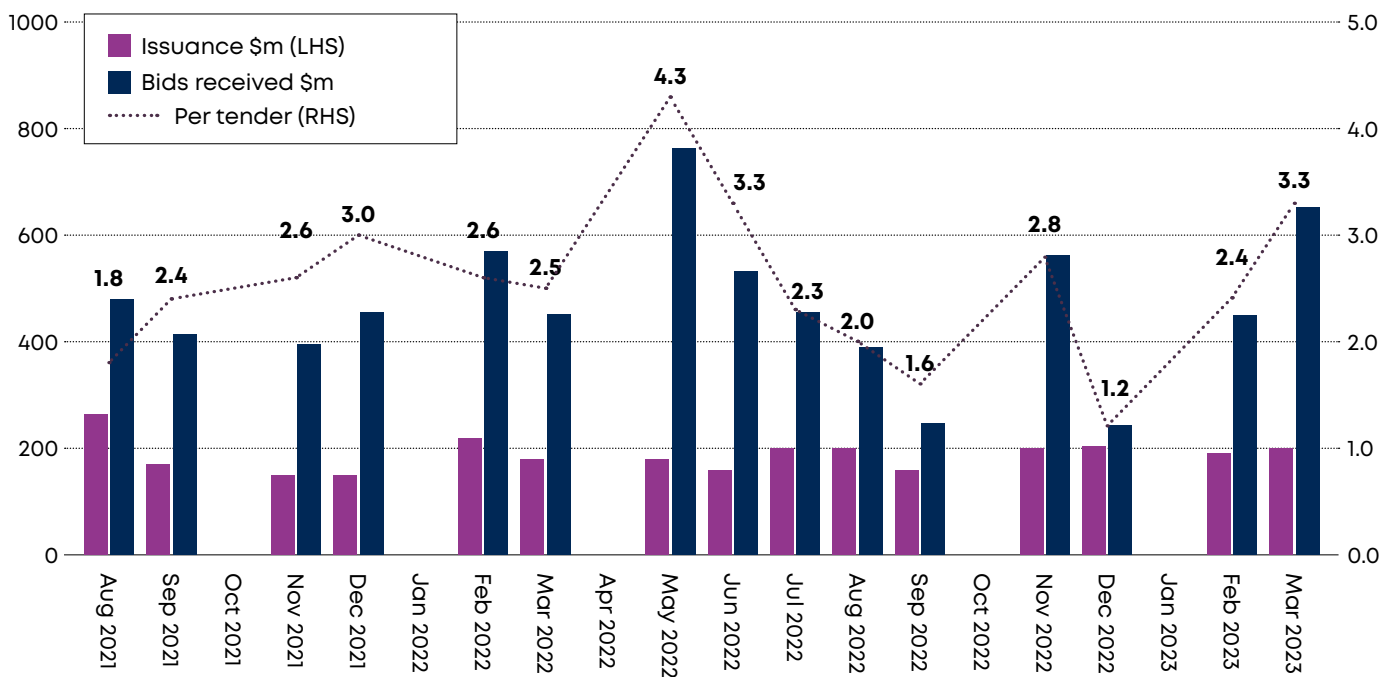
LGFA Primary and Secondary Market Activity – Quarterly (NZ\$ million)



LGFA commenced issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 31 March 2023 there were \$642 million of LGFA Bills on issue which is a record high and just below our maximum capped amount of \$650 million. We use proceeds from LGFA bills to fund short term lending to councils and hold the balance for liquidity purposes in our liquid asset portfolio.

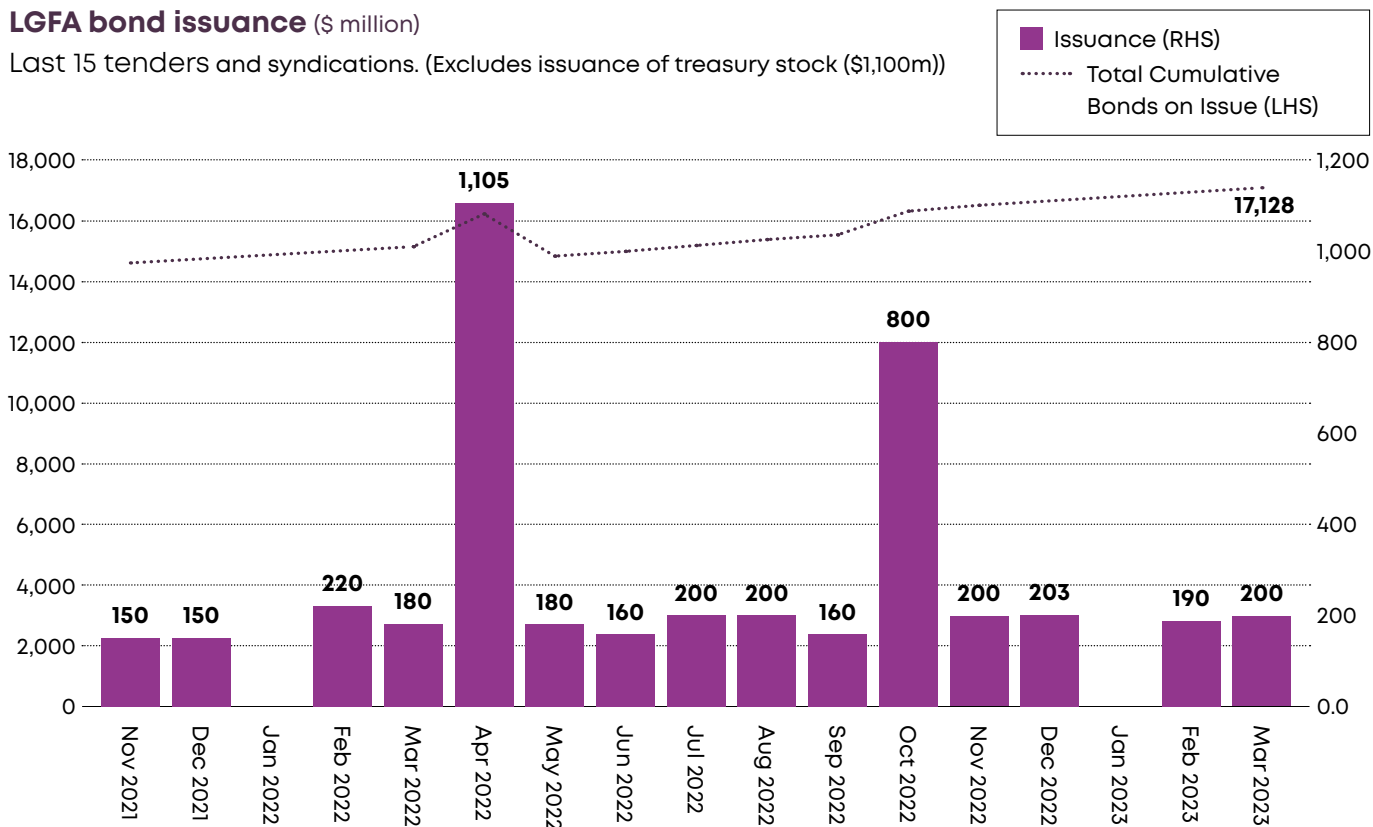
Tender bid coverage ratio

Last 15 tenders



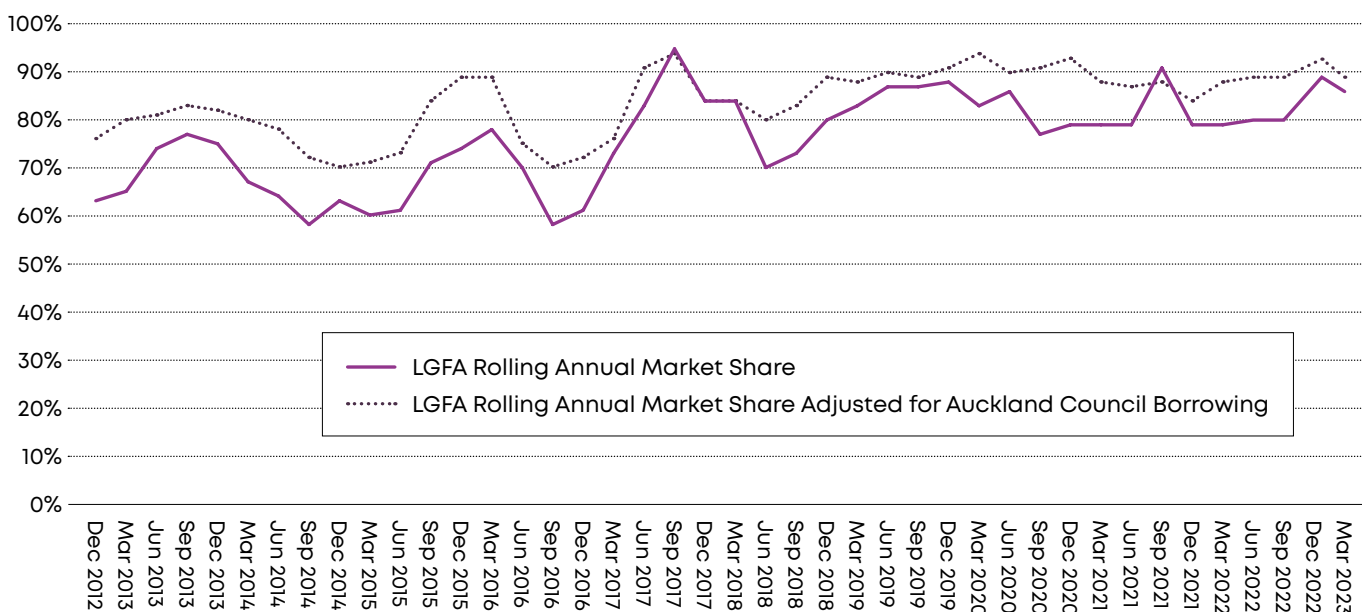
LGFA bond issuance (\$ million)

Last 15 tenders and syndications. (Excludes issuance of treasury stock (\$1,100m))



LGFA documented an Australian Medium-Term Notes Programme in November 2017 and updated the Programme in March 2020. We have no immediate intention to use this programme, but it provides flexibility if there is a market disrupting event in the future.

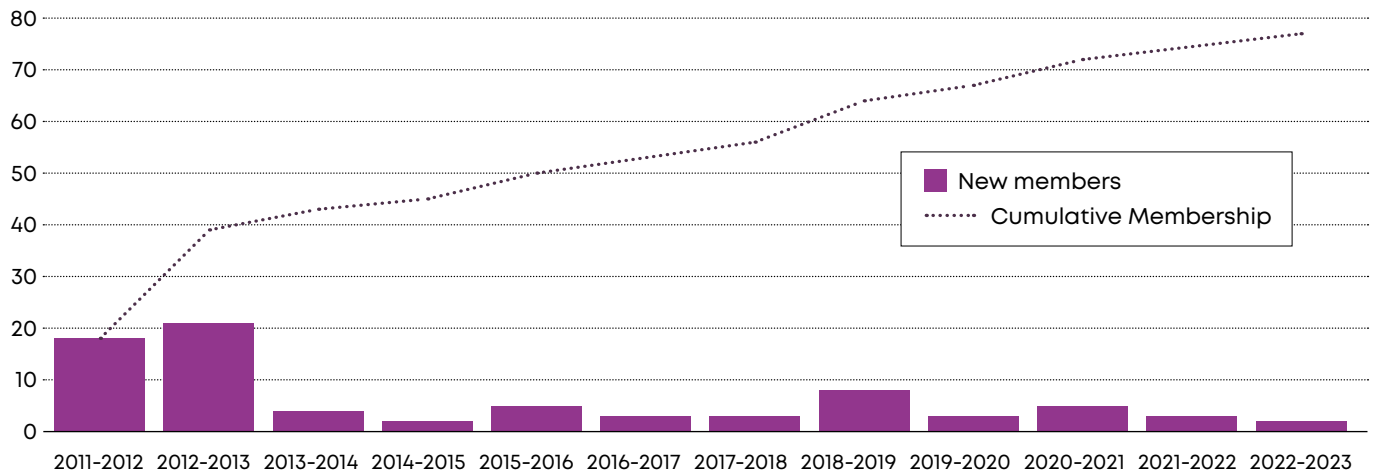
LGFA Market Share – rolling one year average



Council membership and market share

We use the PwC Local Government Debt Report as our source of market share. Our estimated market share for the rolling twelve-month period to 31 March 2023 was 86%. If we adjust for Auckland Council borrowing from both LGFA and from the market in its own name, then our market share increases to 89%. Our market share compares favourably to our historical average of 76% and our market share remains high compared to our global peers.

Council Membership (as at 31 March 2023)



As at 31 March 2023, there are seventy-seven councils and three CCO as members of LGFA. We are unlikely to add the last remaining council Chatham Islands District Council but expect a further three CCOs to join in the coming year. The number of guarantors is also unchanged at seventy-one.

Our CCO lending comprises \$171.9 million of loans to three CCOs.

- Invercargill City Holdings Limited joined as a member in July 2021 and has borrowings outstanding of \$91.5 million as at 31 March 2023 (a decrease of \$13.4 million over the quarter).
- Westland Holdings Limited joined as a member in November 2022 and has borrowings outstanding of \$5.4 million as at 31 March 2023 (an increase of \$3 million over the quarter).
- Dunedin City Treasury Limited joined as a member in November 2022 and has borrowings outstanding of \$75 million as at 31 March 2023 (an increase of \$75 million over the quarter).

D3. Environmental and social responsibility

Performance target	2022-23 Target	Performance against target
Comply with the Health and Safety at Work Act 2015	No breaches	Met
Maintain Toitū Carbon Zero certification	Carbon-zero certification maintained.	Met
Meet reduction targets outlined in our carbon reduction management plan.	Reduction targets met.	Carbon Reduction Plan being established
Increase our GSS Lending Book	Two new participating borrowers enter GSS loans	Met Whangarei District Council and Christchurch City Council.
Ensure Annual Report is prepared in compliance with applicable GRI Standards	100%	Met
Meet all mandatory climate reporting standards	100%	Met

We are currently working on the Carbon Reduction Plan targets for each year and as a result, we cannot report on progress to date. We should have the targets completed in the coming quarter.

Objectives:

- Assist the local government sector in achieving their sustainability and climate change objectives.
- Improve sustainability outcomes within LGFA.

During the quarter, we lent to Whangarei District Council and Hutt City Council under our Green, Social and Sustainability Lending Programme. This takes the total number of GSS loans approved to five with a combined value of \$562 million and there has been \$195.5 million in loans as at 31 March 2023. For further information on GSS loans see our website [Green, Social & Sustainability Loans | New Zealand Local Government Funding Agency \(lgfa.co.nz\)](https://www.lgfa.co.nz/green-social-sustainability-loans)

We approved Auckland Council, Dunedin City Treasury Limited and Hutt City Council as our first group of borrowers under the Climate Action Loans (CALs) Programme. Eligible councils will receive a discounted loan margin if they have in place a GHG Emission Reduction Plan and are meeting their emission reduction targets. The advantage of CALs is that unlike GSS loans, they do not have to be project specific. For further information on CALs see our website [Climate Action Loans | New Zealand Local Government Funding Agency \(lgfa.co.nz\)](https://www.lgfa.co.nz)

D4. Effective management of loans

Performance target	2022-23 Target	Performance against target
Review each participating borrower's financial position under LGFA policies.	100%	On Track
Arrange to meet each Participating Borrower at least annually, including meeting with elected officials as required, or if requested.	100%	On Track

Objectives:

- Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies.
- Analyse finances at the Council group level where appropriate and report to shareholders.
- Endeavour to meet each participating borrower annually, including meeting with elected officials as required, or if requested.

We undertook meetings with fourteen councils and CCOs during the March quarter following on from thirty councils and CCOs in the July to December 2022 six-month period. LGFA continues to review council agendas and management reports on an ongoing basis for those councils on the LGFA borrower watch-list.

We have received compliance certificates for LGFA covenants from all our council and CCO members who had debt outstanding as at June 2022 and no council has requested that they be measured on a group basis.

D5. Industry leadership and engagement

Objectives

- Take a proactive role to enhance the financial strength and depth of the local government debt market and work with key central government and local government stakeholders on sector and individual council issues.
- Assist the local government sector with significant matters such as COVID -19 response and the proposed Three Waters Reform Programme.
- Support councils and CCOs in the development of reporting disclosures of the impacts of sector activity on climate change.

We held an LGFA Update webinar during the quarter for our council and CCO stakeholders and will continue to do this on a quarterly basis.

Throughout the quarter we have had meetings with Treasury, the National Transition Unit and Policy teams at DIA and their advisers regarding Three Waters Reform. We are actively working with them on issues relating how debt will be transitioned from 1 July 2024 and how the WSEs access borrowing through a variety of sources following transition. Central Government in April 2023 announced a delay to the start of the renamed Affordable Waters Programme by six months and this will provide us more time to work through the various issues.

LGFA has provided input into the Ratepayer Financing Scheme (RFS) project managed by a group of councils with advice from Cameron Partners. If successful, the RFS could offer temporary financial relief to ratepayers via rates postponement. LGFA is not contributing financially to this project but providing intellectual capital and assistance.

We continue to try to progress two initiatives to reduce compliance and documentation requirements for councils when they borrow from LGFA. These relate to a universal stock security certificate and for councils to allow delegation of a CEO certificate for borrowing. We are however reliant upon other organisations to work through these changes for us and do not have much control over timelines.

E. Investor relations

Managing relations with our investor base is especially important as the amount of LGFA bonds on issue has yet to peak and we require investors and banks to support our ongoing tender issuance.

Over the three-month period to 31 March 2023, we issued \$390 million of LGFA bonds. The change in holdings amongst our investor groups during the quarter was:

- Offshore investor holdings increased by \$589 million to be \$5.7 billion on 31 March 2023.
- Domestic bank holdings decreased by \$172 million to be \$4.6 billion on 31 March 2023.
- Domestic investor (retail and institutional) holdings decreased by \$36 million to be \$5.6 billion on 31 March 2023.
- The Reserve Bank of New Zealand (RBNZ) holdings were unchanged over the quarter and totalled \$1.43 billion as of 31 March 2023.

LGFA Bond Holdings by Investor Group (% and \$ billions)

