



RATING ACTION COMMENTARY

Fitch Affirms New Zealand's LGFA at 'AA+'; Outlook Stable

Thu 19 Oct, 2023 - 10:40 PM ET

Fitch Ratings - Sydney - 19 Oct 2023: Fitch Ratings has affirmed New Zealand Local Government Funding Agency Limited's (LGFA) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'AA+' with a Stable Outlook. Fitch has also affirmed LGFA's senior unsecured bonds at 'AA+' and its short-term debt programmes at 'F1+'.

The affirmation reflects the equalisation of LGFA's ratings with those of the New Zealand sovereign (AA+/Stable/F1+) under our Government-Related Entities (GRE) Rating Criteria. This is based on LGFA's strong links with the government and Fitch's assessment of a high likelihood that the government would provide extraordinary support, if needed, to support LGFA's debt servicing.

The affirmation also reflects the strong underlying credit quality of LGFA's council shareholders and borrowers, the majority of which guarantee LGFA's debt obligations. We do not assign a Standalone Credit Profile to LGFA, but view its creditworthiness as high given the credit quality of its lending book, its experienced management team, and robust governance settings.

KEY RATING DRIVERS

Status, Ownership and Control: 'Very Strong'

The very strong links between LGFA and the central government are demonstrated by LGFA's central role in New Zealand's financial framework as the primary funding vehicle for local governments. The central government commits a liquidity facility of NZD1.5 billion to LGFA, which we believe provides the entity with a special status.

LGFA is 20% owned by the government, with 80% held by 30 local councils. Despite the

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy.

Support Track Record: 'Strong'

LGFA received an initial equity contribution from the central government, but does not require or receive subsidies or transfers to support its operations. The entity is the only dedicated financing vehicle for local councils. It covers the majority of the sector, with 77 of the country's 78 councils currently as members, 72 of which are also guarantors. The guarantee structure, along with LGFA's central role in the nation's public financing, lead to our expectation that extraordinary support from the central government would be forthcoming, if needed, to avoid financial hardship at the local-government level.

Socio-Political Implications of Default: 'Strong'

Despite alternative funding options being available to councils, such as direct access to capital markets or bank lending, LGFA's large market share of local government debt - estimated at around 90% - means its default would significantly disrupt local government projects and endanger the quality of essential public services provided by local authorities, including water supply and transport services. The potential impact of such a scenario on public infrastructure and services, and the flow-on effects on the New Zealand economy and living standards are significant, in Fitch's view.

Financial Implications of Default: 'Very Strong'

LGFA is the country's second-largest New Zealand-dollar bond issuer after the sovereign. Legislation allowing the central government to lend to LGFA to meet a temporary liquidity shortfall, along with the council guarantees, ensure a default by LGFA could only occur in the event of the entity's insolvency and the inability of the central government and council guarantors to honour their obligations. In such a scenario, it is highly likely the ability of the sovereign and other public-sector entities to source funding in a timely and cost-efficient manner would be severely impaired.

Derivation Summary

Fitch classifies LGFA as an entity linked to the New Zealand sovereign under its GRE criteria and applies a top-down rating approach based on its assessment of the strength of LGFA's linkage with and the incentive to provide support by the 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

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy.

The short-term ratings are equalised to those of the sovereign under Fitch's GRE criteria.

Debt Ratings

LGFA's bonds and short-term debt programmes are rated in line with its IDRs.

Liquidity and Debt Structure

The majority of LGFA's debt comprises New Zealand dollar-denominated retail bonds listed on the NZX debt market, although the agency maintains an Australian-dollar medium-term note programme that enables issuance in foreign currencies. LGFA issued a AUD1.0 billion bond in August 2023 under this programme. The agency's bond maturities are spread over 12 maturities to 2037, mostly matching New Zealand government bonds, while LGFA also actively issues short-term bills.

Total bond issuance in the financial year ended 30 June 2023 (FY23) was NZD3.63 billion, down slightly from NZD4.1 billion in the prior year. LGFA expects new issuance to rise to NZD4.5 billion in FY24 and stay close to that level until FY26 to cover new council borrowings in similar amounts. Total bonds on issue at FYE23 were NZD16.7 billion (face value, excluding treasury stock). LGFA targets a minimum of NZD1 billion per maturity to support liquidity in the secondary market and a maximum of NZD3 billion, with tenders spread throughout the year and across maturities for consistent supply.

LGFA is required by policy to maintain sufficient liquidity, comprising the government liquidity facility, cash holdings, short-term deposits, short-term marketable securities and other liquid investments, to meet all operating and funding commitments over a rolling 12-month period. Liquidity levels, including the committed facility, are tightly managed and we consider the risk of a shortfall in LGFA meeting its financial commitments in a stress scenario as low.

Issuer Profile

LGFA began operating as a centralised borrowing vehicle for New Zealand's councils in 2011 following the enactment of the Local Government Borrowing Act 2011. Its main objective is to raise debt for local governments and their associated entities - known as council-controlled organisations - to optimise debt funding terms and conditions, which includes facilitating access to debt capital, minimising interest costs, and providing

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy.

LGFA had 18 foundation council shareholders at incorporation as well as the New Zealand government. There are currently 31 shareholders. Governance includes a six-person shareholder-appointed board along with the LGFA Shareholders' Council, consisting of appointees from the New Zealand government and council shareholders.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

LGFA's ratings could be downgraded on negative rating action on the New Zealand sovereign. Also, 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 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](#).

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The ratings of LGFA are directly linked to those of the New Zealand sovereign. A change in New Zealand's ratings would automatically result in a change in LGFA's ratings.

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 ◆

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy.

New Zealand Local Government Funding Agency Limited (LGFA)	LT IDR	AA+ Rating Outlook Stable		AA+ Rating Outlook Stable
	Affirmed			
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AA+ Rating Outlook Stable		AA+ Rating Outlook Stable
	Affirmed			
	LC ST IDR	F1+	Affirmed	F1+
senior unsecured	LT	AA+	Affirmed	AA+
senior unsecured	ST	F1+	Affirmed	F1+

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Paul Norris

Director

Primary Rating Analyst

+61 2 8256 0326

paul.norris@fitchratings.com

Fitch Australia Pty Ltd

Suite 15.01, Level 15 135 King Street Sydney 2000

Ethan Lee

Director

Secondary Rating Analyst

+65 6796 2726

ethan.lee@fitchratings.com

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy.

davis.sun@fitchratings.com

MEDIA CONTACTS

Peter Hoflich

Singapore

+65 6796 7229

peter.hoflich@thefitchgroup.com

Jack Li

Beijing

+86 10 5957 0964

jack.li@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 28 Apr 2023\) \(including rating assumption sensitivity\)](#)

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

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our [Privacy Policy](#).

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy.

Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy.

as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy.

credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy.