



LGFA Quarterly Report to Shareholders

December Quarter 2023

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A. December Quarter highlights

December Quarter	Total	Bespoke Maturity	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2030	May 2031	April 2033	May 2035	April 2037
Bonds Issued NZ\$m	460.0					90.0	80.0	50.0		75.0	125.0		40.0

Term Loans to Councils NZ\$m	1,406.7	624.7		10.0	80.5	165.4	143.0	50.0	213.1	100.0	20.0		
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2023-24 Year to Date	Total	Bespoke Maturity	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2030	May 2031	April 2033	May 2035	April 2037
Bonds Issued NZ\$m	1,630.0			310.0		200.0	130.0	160.0	500.0	125.0	165.0		40.0

Term Loans to Councils NZ\$m	2,622.1	1,234.5		51.1	192.0	223.4	178.0	72.0	351.1	100.0	220.0		
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AUD Bond Issuance	Total	Aug 2028	Nov 2030
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December Quarter A\$m	650.0		650.0
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2023-24 Year to Date A\$m	1,650.0	1,000.0	650.0
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Key points and highlights for the December quarter:

- LGFA bond yields fell during the quarter as global bond markets recovered from the 15-year highs in bond yields that were reached in mid-October. Markets took evidence of lower inflation outcomes and softer economic data to conclude that the monetary policy tightening cycle is over and began pricing in Central Bank rate cuts in 2024. Mid curve bond yields declined the most with LGFA 2029 bond yields falling 114 bps to 4.64% while the LGFA 2025 bond yield fell by 76 bps to 5.25% and the LGFA bond 2037 yield fell by 103 bps to 5.13%.
- LGFA issued NZ\$460 million of NZD bonds during the quarter through three NZD bond tenders. We also issued a A\$650 million 7-year (maturing 28 November 2030) bond, and we swapped the proceeds back into NZD to remove any foreign currency risk. The issue was our second offshore issuance, following on from the successful debut issuance of an AUD 5-year bond in August 2023. Issuance in AUD provides investor diversification and additional volume of issuance. The average term of NZ\$ issuance during the quarter was 7.02 years.
- LGFA borrowing margins to swap were mixed with front dated spreads wider (2026s out by 7 bps) but mid curve and long dated spreads narrower (2030s tighter by 5 bps and 2037s by 2 bps). LGFA spreads to NZGB were also wider in the short-dated bonds (2026 wider by 11 bps) but spreads tighter in the mid to long dated bonds (2037s narrowed by 11 bps). The spread movements during the December quarter reversed the September quarter moves.
- Long dated lending to councils and CCOs during the quarter of \$1.407 billion was higher than expected. Due to the strong lending volumes in the past six months of \$2.62 billion, we have increased the FY24 forecast lending up by \$500 million to \$4.7 billion. The average term of lending during the quarter was a shorter than normal 4.79 years.
- LGFA has an estimated market share of 88.8% of total council borrowing for the rolling twelve-month period to December 2023 compared to a historical average of 76% since 2012.
- Short-term lending increased over the quarter by \$68 million to a record \$617 million of short-term loans outstanding on 31 December 2023 to thirty-six councils and CCOs.
- LGFA Net Operating Gain (unaudited management estimate) for the six-month period to 31 December 2023 of \$5.211 million was \$274k below budget, comprising total operating income at \$10.564 million (\$152k above budget) and expenses at \$5.353 million (\$426k above budget). The higher expenses were due to the larger amount of bond issuance by LGFA and the accrual of Approved Issuer Levy (AIL) on our AUD bond issuance.
- Whanganui District Holdings Limited and Infrastructure Holdings Limited joined as CCO members during the quarter with membership now at seventy-seven and five CCOs. There was no change to the number of guarantors at seventy-two.
- We lent a further \$6 million of Green Social and Sustainability Loans and \$280 million of Climate Action Loans (CALs) to councils and CCOs. Total GSS loans and CALs outstanding as at 31 December 2023 was \$1,597.9 million.
- LGFA received an unprecedented five awards at the KangaNews 2023 Awards with acknowledgement by our market peers for the New Zealand Issuer of the Year (second year running), NZD Rates Bond Deal, NZ Sustainability Deal, NZ offshore Deal and NZ innovative Deal. We also received a Highly Commended in the FinanceAsia awards for our Sustainable Finance Bond.

B. LGFA bond issuance over quarter

We issued \$460 million of NZD bonds via three bond tenders (October, November, and December) and A\$650 million via an AUD bond syndication in November.

The October bond tender result was undertaken in a period of difficult issuance conditions with rising global bond yields, steeper yield curves, selling of LGFA bonds by offshore investors following LGFA's recent outperformance relative to NZGBs and a domestic market having absorbed a large amount of LGFA bonds over the previous six months (\$2.7 billion).

LGFA offered \$150 million of bonds across four bond maturities with a weakish result on both price and volume metrics despite the smaller tender size. The tender size of \$150 million was the smallest since December 2021 compared to the average size of \$190 million for the past three years. LGFA offered four bond maturities and a lower volume than usual as market conditions remain difficult.

Price support was strongest for the 2027s and 2028s and weakened as we moved further along the curve to the 2031s and 2033s. The weighted average yield was 1.5 bps above mid-market for the 2027s and 2028s, 4 bps for the 2031s and 7 bps for the 2033s despite the smaller amounts offered in the longer two bond maturities.

Bidding volume appeared reasonable at 2.55x overall bid coverage ratio where we considered 3x a good outcome. However, the bond tender size was small so you would expect a higher coverage ratio and the volume demand was lower for the longer dated bonds. Successful bid ranges varied between 1.5 bps (2028s) and 6.5 bps (2031s) with the number of successful bids varying between 4 and 7 for each bond offered.

The average maturity of the LGFA bonds issued was 6.18 years compared to the 2022-23 financial year average of 5.5 years.

We issued \$150 million of LGFA bonds but we on-lent a large \$493 million to fifteen councils and CCOs with an average term of lending to councils at 4.6 years (55 months) being shorter than normal.

Tender 102 – 03 October 2023	15 Apr 27	15 May 28	15 May 31	14 Apr 33
Total Amount Offered (\$million)	40	40	35	35
Total Amount Allocated (\$million)	40	40	35	35
Total Number of Bids Received	13	14	11	12
Total Amount of Bids Received (\$million)	105	120	76	81
Total Number of Successful Bids	4	5	7	4
Highest Yield Accepted (%)	5.840	5.855	6.100	6.160
Lowest Yield Accepted (%)	5.820	5.840	6.035	6.135
Highest Yield Rejected (%)	5.925	5.950	6.145	6.225
Lowest Yield Rejected (%)	5.840	5.855	6.100	6.160
Weighted Average Accepted Yield (%)	5.828	5.847	6.067	6.156
Weighted Average Rejected Yield (%)	5.873	5.897	6.117	6.196
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield	83.3	66.7	36	92
Coverage Ratio	2.63	3.00	2.17	2.31
NZGB Spread at Issue (bps)	36	46	67	74
Swap Spread at Issue (bps)	34	49	80	87
Swap Spread: AA council (bps)	54	69	94	103
Swap Spread: AA- council (bps)	59	74	99	108
Swap Spread: A+ council (bps)	64	79	104	113
Swap Spread: Unrated council (bps)	74	89	114	123

The November bond tender was as expected, a very good outcome following three recent tenders that have been average (one good and two below par). Issuance conditions had turned more positive as global bond yields had rallied back from their 15-year highs, spreads to swap had tightened from recent wides and LGFA bonds were no longer expensive relative to NZGBs. We had seen some offshore buying of LGFA bonds (compared to selling in the prior 3 months) and the NZDM had deferred a possible NZGB syndication that was widely expected by the market for November. LGFA offered \$150 million of bonds across three bond maturities with a strong volume and price result for each tranche and a stronger outcome the longer the bonds tendered. The tender size of \$150 million was the equal smallest sized tender since December 2021 and the same size as the October bond tender. We offered three bond maturities and a lower volume than usual as our liquidity position was strong as we had overfunded in prior months.

Price support was strongest for each tranche and stronger as we moved further along the curve to the 2033s. The weighted average yield was 1 bps below mid-market for the 2027s and 4 bps below for the 2033s. Note that in the October tender we issued 2033s up to 7 bps above market so much can change in a month.

Bidding volume was strong at 3.96x overall bid coverage ratio where we considered 3x a good outcome. This was the second equal highest coverage ratio for the past 5 years. However, the bond tender size was small relative to the average tender size of \$193 million. Successful bid ranges varied between 0.5 bps (2033s) and 3 bps (2027s) with the number of successful bids varying between 2 (2029s) and 6 (2027s) for each bond offered.

The average maturity of the LGFA bonds issued was 6.11 years compared to the 2022-23 financial year average of 5.5 years and the average for the prior 5 months of 5.16 years.

We issued \$150 million of LGFA bonds but we on-lent \$342.4 million to twenty-one councils and CCOs. Some lending was not new lending, but councils refinancing existing loans that were maturing. The average term of lending to councils at 4.75 years (57 months) remains short by historical standards.

Tender 103 – 08 November 2023	15 Apr 27	20 Apr 29	14 Apr 33
Total Amount Offered (\$million)	50	50	50
Total Amount Allocated (\$million)	50	50	50
Total Number of Bids Received	12	14	24
Total Amount of Bids Received (\$million)	155	160.5	265.15
Total Number of Successful Bids	6	2	3
Highest Yield Accepted (%)	5.280	5.430	5.765
Lowest Yield Accepted (%)	5.250	5.415	5.760
Highest Yield Rejected (%)	5.325	5.495	5.765
Lowest Yield Rejected (%)	5.280	5.430	5.760
Weighted Average Accepted Yield (%)	5.263	5.421	5.763
Weighted Average Rejected Yield (%)	5.304	5.457	5.786
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield	66.7	80	60
Coverage Ratio	3.10	3.21	5.30
NZGB Spread at Issue (bps)	36	54	75
Swap Spread at Issue (bps)	31	60	82
Swap Spread: AA council (bps)	51	80	102
Swap Spread: AA- council (bps)	56	85	107
Swap Spread: A+ council (bps)	61	90	112
Swap Spread: Unrated council (bps)	71	100	122

The December bond tender was another pleasing outcome with good price support and demand for an auction of longer dated bonds than normal. Issuance conditions had turned more positive over the prior two months as global bond yields had fallen and issuance spreads to swap have tightened e.g. since 31 October, the LGFA 2037 nominal bond yield had fallen 90 bps and the spread to swap had narrowed by 25 bps. We have seen some domestic and offshore buying of LGFA bonds and the outcome of the RBNZ Liquidity Policy Review (LPR) was on balance favourable for LGFA. LGFA offered \$160 million of bonds across four bond maturities with a strong volume and price result for each tranche. The tender size was relatively small by historical standards but larger than the \$150 million tendered in both October and November. LGFA offered four bond maturities, of which three were longer than eight calendar years (this was the first time we have had such a long end concentration). The market was short our longer bonds going into the tender following a mix of domestic and offshore buying over the three months and spreads had narrowed.

Price support was strongest for the 2031s going at 3 bps below market while the 2028s went 2 bps above mid-market. Bidding volume was solid at a 2.84x overall bid coverage ratio but the ratio was lower for the 2033s and 2037s. Successful bid ranges varied between 2 bps (2031s) and 3.5 bps (2033s) with the number of successful bids varying between 4 (2031s) and 7 (2033s) for each bond offered.

The average maturity of the LGFA bonds issued was a long 8.65 years and was the longest average issuance term in a bond tender since Tender 58 in August 2018.

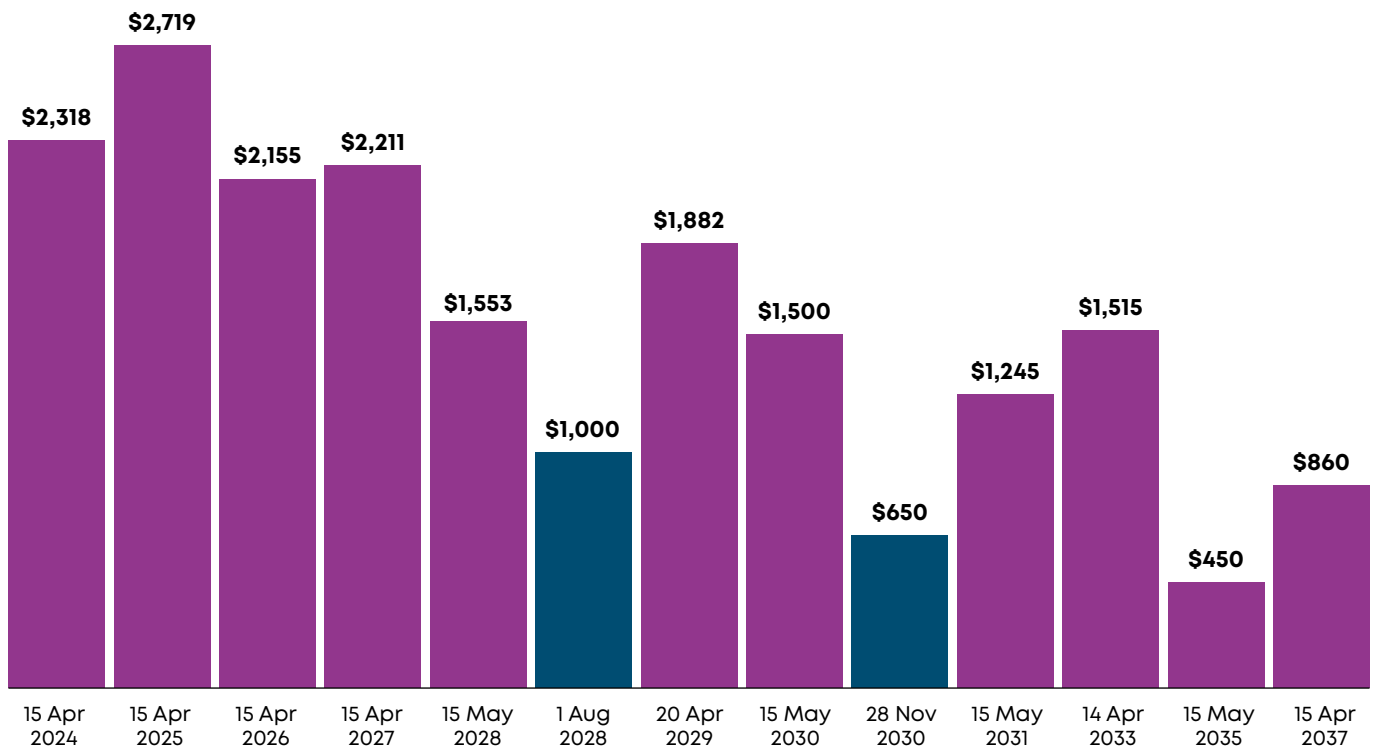
LGFA issued \$160 million of LGFA bonds but on-lent \$405.5 million to eighteen councils. The lending included \$110 million of Climate Action Loans. The average term of lending to councils at 6.08 years (73 months) was longer than recent tenders but still relatively short on a historical basis.

Tender 104 – 06 December 2023	15 May 28	15 May 31	14 Apr 33	15 Apr 37
Total Amount Offered (\$million)	40	40	40	40
Total Amount Allocated (\$million)	40	40	40	40
Total Number of Bids Received	12	16	13	12
Total Amount of Bids Received (\$million)	120	170	85	80
Total Number of Successful Bids	7	4	7	6
Highest Yield Accepted (%)	5.125	5.265	5.375	5.615
Lowest Yield Accepted (%)	5.100	5.245	5.340	5.585
Highest Yield Rejected (%)	5.140	5.345	5.425	5.690
Lowest Yield Rejected (%)	5.125	5.270	5.390	5.615
Weighted Average Accepted Yield (%)	5.111	5.254	5.354	5.598
Weighted Average Rejected Yield (%)	5.133	5.318	5.408	5.651
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield	33.3	100	100	66.7
Coverage Ratio	3.00	4.25	2.13	2.00
NZGB Spread at Issue (bps)	42	49	54	60
Swap Spread at Issue (bps)	45	65	70	85
Swap Spread: AA council (bps)	65	85	90	101
Swap Spread: AA- council (bps)	70	90	95	106
Swap Spread: A+ council (bps)	75	95	100	111
Swap Spread: Unrated council (bps)	85	105	110	121

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

As at 31 December 2023 NZ\$19,408 million and A\$1,650 million

Includes NZ\$1,100 million treasury stock

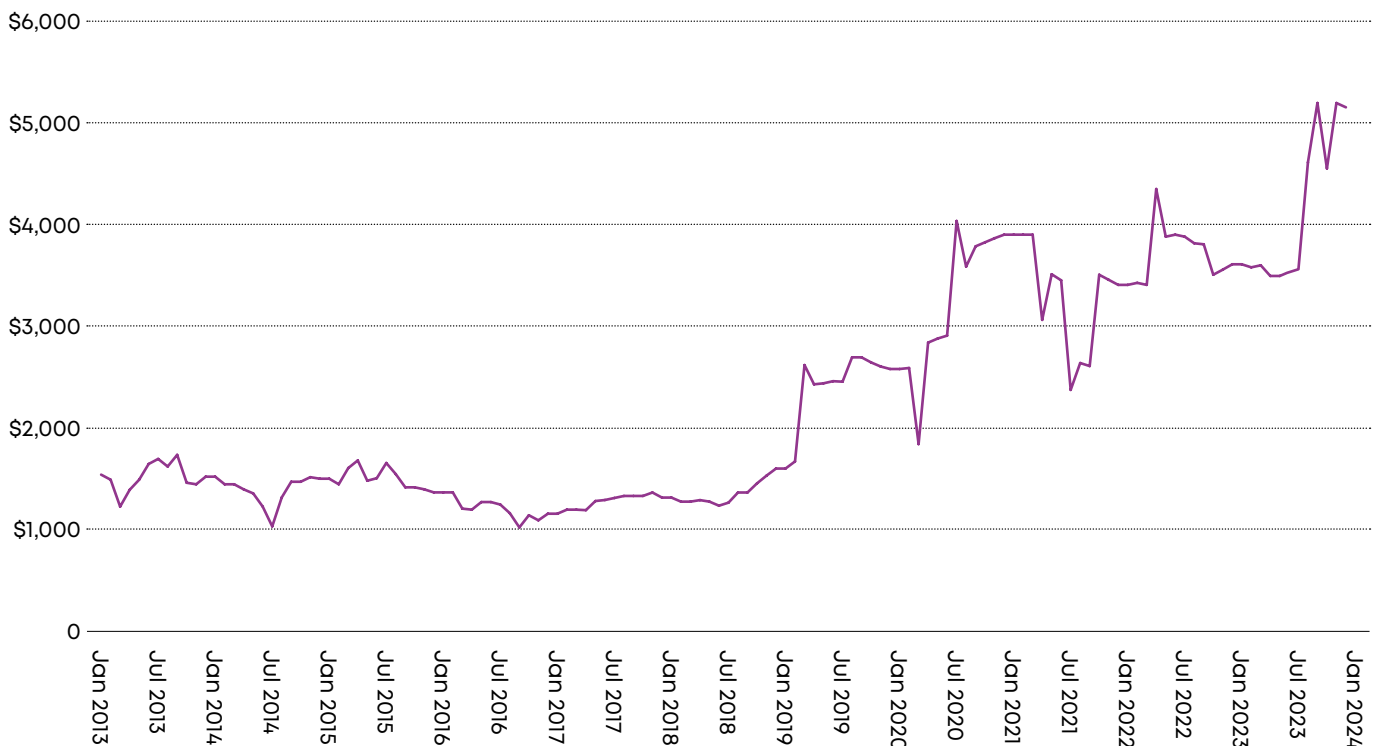


Note: the Aug 2028 and Nov 2030 bonds are AUD issues

We have eleven LGFA bond maturities listed on the NZX Debt market that finance our long-term lending to councils. We had NZ\$19.408 billion of NZD bonds on issue (including treasury stock) on issue as at 31 December 2023. We also had A\$1.65 billion of bonds issued under our Australian Medium Term Notes programme.

Our issuance volume on a rolling 12-month basis to December 2023 was a record NZ\$5.17 billion equivalent amount (comprising NZ\$3.4 billion of NZD issuance and A\$1.65 billion).

Rolling 12 month Issuance (\$ millions)



C. Summary financial information (management estimates)

The following results are management estimates only.

Financial Year (\$m)	YTD as at Q2
Comprehensive income	For six-month period ending 31 December 23
Interest income	578.134
Interest expense	568.323
Net interest revenue	9.811
Other operating Income	0.753
Total operating income	10.564
Issuance and On-lending costs	2.188
Approved issuer levy	0.541
Operating expenses	2.624
Issuance and operating expenses	5.353
Net Profit	5.211
Financial position (\$m)	As at 31 December 23
Retained earnings + comprehensive income	84.346
Total assets	21,774
Total LG loans	18,789
Total LGFA bills (nominal)	866
Total LGFA bonds (nominal in NZD)	20,086
Total borrower notes	430.751
Total equity	109.346

D. Strategic priorities. Performance against objectives and performance targets

D1. Governance, capability and business practice

Performance target	2023-24 Target	Performance against target as at 31 December 2023
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
LGFA's total operating income for the period to 30 June 2024.	> \$20.6 million	Met – \$10.564 million as at 31 December 2023
LGFA's total operating expenses for the period to 30 June 2024.	< \$10.0 million	Not Met – \$5.353 million as at 31 December 2023

There have been no policy breaches during the quarter and the credit rating was maintained in line with the New Zealand Government. Total operating income was \$152k above budget due to the larger amount of council and CCO lending. Expenses were however above budget by \$426k due to the accrual of Approved Issuer Levy (AIL) on our AUD bond issuance (+\$376k over budget) as well as additional legal and NZX costs associated with higher issuance combined with the legal costs associated with establishing the Euro Commercial Paper (ECP) Programme. Net Operating Gain of \$5.211 million was \$274k under budget but we remain confident that we will meet the full year target by 30 June 2024.

Fitch Ratings affirmed our long-term domestic and foreign currency credit rating as AA+ on 20 October 2023. 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	2023-24 Target	Performance against target as at 31 December 2023
Share of aggregate long-term debt funding to the Local Government sector.	> 80%	Met – 88.8% as at 31 December 2023
Total lending to Participating Borrowers.	> \$17,870 million	On track to meet – \$18,789 million as at 31 December 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 – 99% satisfaction score in August 2023 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

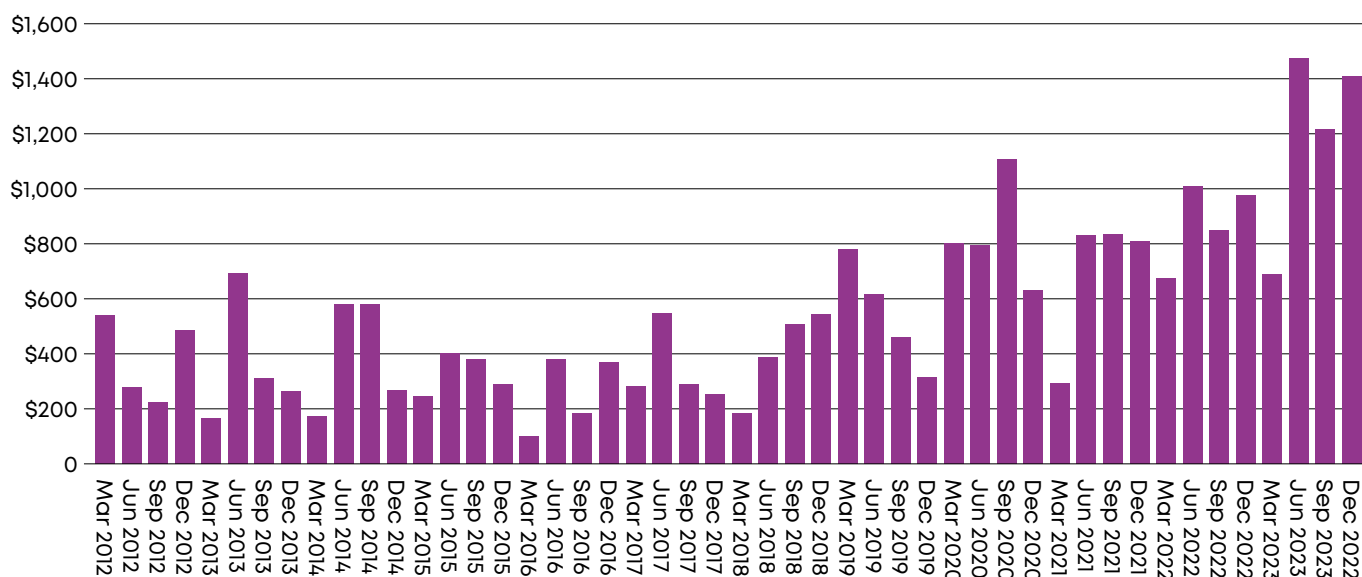
Objectives:

- 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 \$1.4067 billion to forty-four councils and CCOs during the December quarter with Christchurch, Wellington, and Tauranga City Councils being the largest council borrowers alongside Dunedin City Treasury and Infrastructure Holdings the largest CCO borrowers. Long term lending to councils and CCOs for the first six-month period of \$2.62 billion is tracking well above the full year SOI forecast of \$3.9 billion of council and CCO borrowing, and we revised upwards our estimate for full year council and CCO borrowing to \$4.7 billion.

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



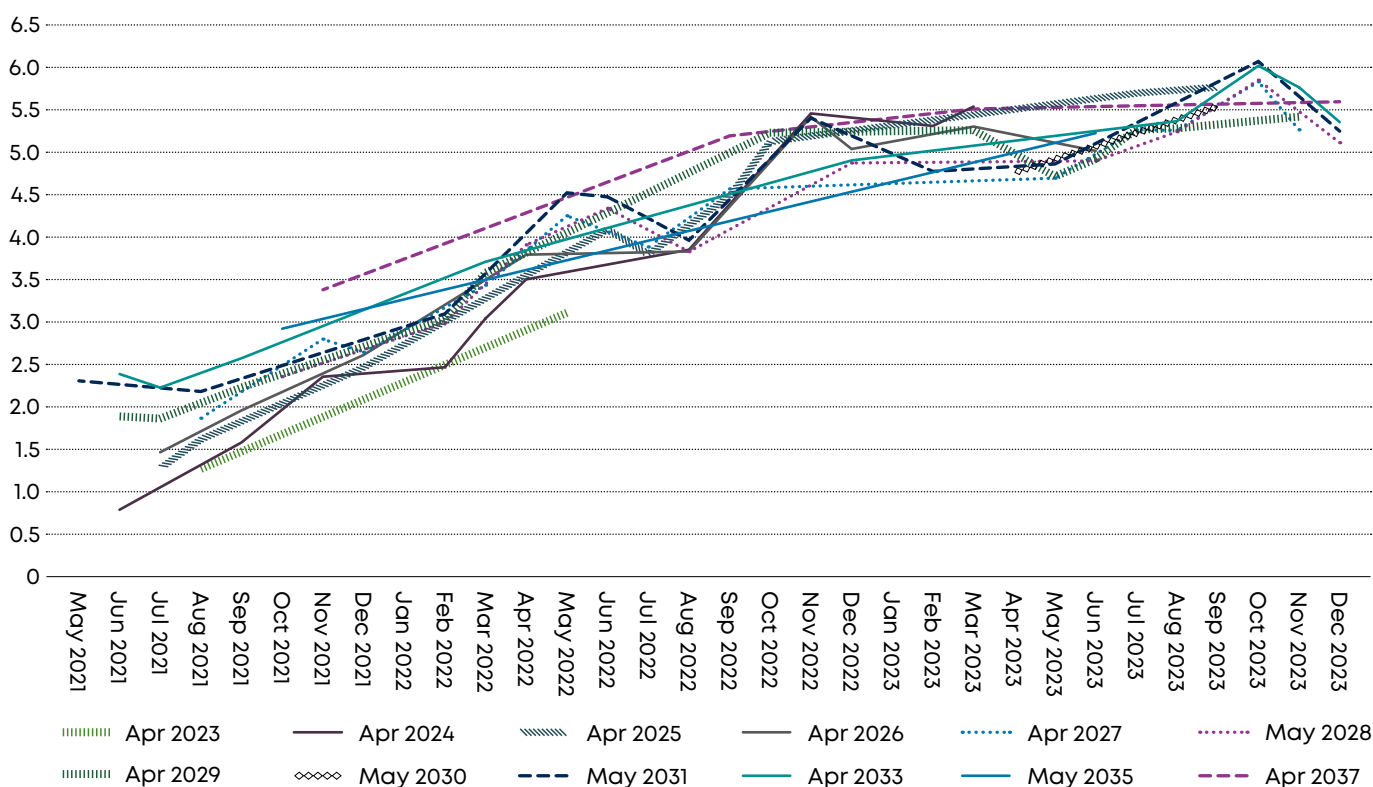
Our borrowing margins relative to other high-grade issuers in the New Zealand capital markets are similar despite our larger issuance programme. Our borrowing spreads are higher than Kainga Ora as they are no longer borrowing in their own name but funding through the NZ Treasury. This reduction in supply has been beneficial to their borrowing spread while our increased issuance has led to a widening in our borrowing spread.

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

31 Dec 2023	Comparison to other high-grade issuers – secondary market spread to swap (bps)											
	2024	2025	2026	2027	2028	2029	2030	2031	2033	2034	2035	2037
LGFA (AAA)	9	19	25	36	48	55	63	72	77	81	86	93
Kainga Ora (AAA)		16	20	29	41		54				78	
Asian Development Bank (AAA)	6	9	11	22	30			50				
IADB (AAA)	9	11	20	26	39		47					
International Finance Corp (AAA)	7	11	16	26	33	41						
KBN (AAA)	11	14	21	30			56					
Rentenbank (AAA)	8	12		25		37						
World Bank (AAA)	5	8	11	25	29		46					
Nordic Investment Bank (AAA)		11					43					
ASB (AA-)	21		44	65								
ANZ (AA-)	10				73							
BNZ (AA-)	18	29	48	64	79							
Westpac Bank (AA-)	19	30	46	60								
SSA Average	8	11	16	26	33	39	48	50				
Bank Average	17	30	46	63	76							

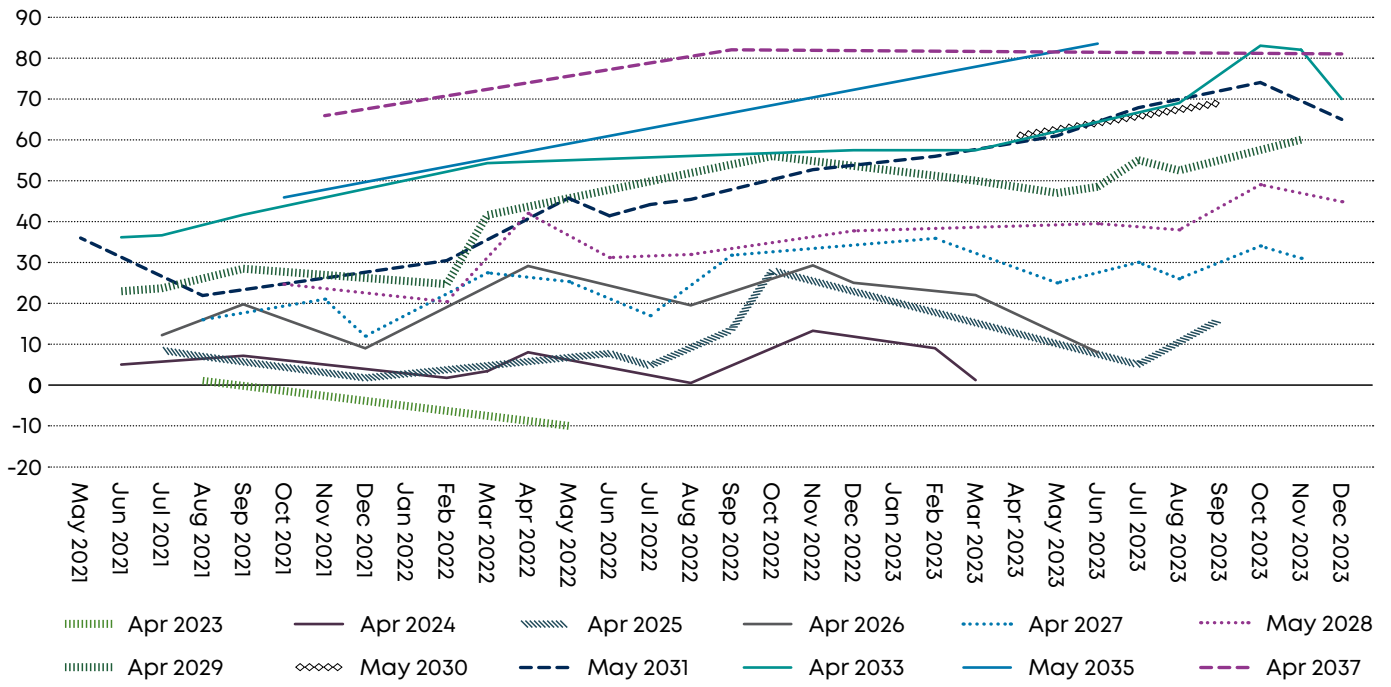
LGFA Bond Issuance Yields (%)

Last 30 tenders



Spread to swap

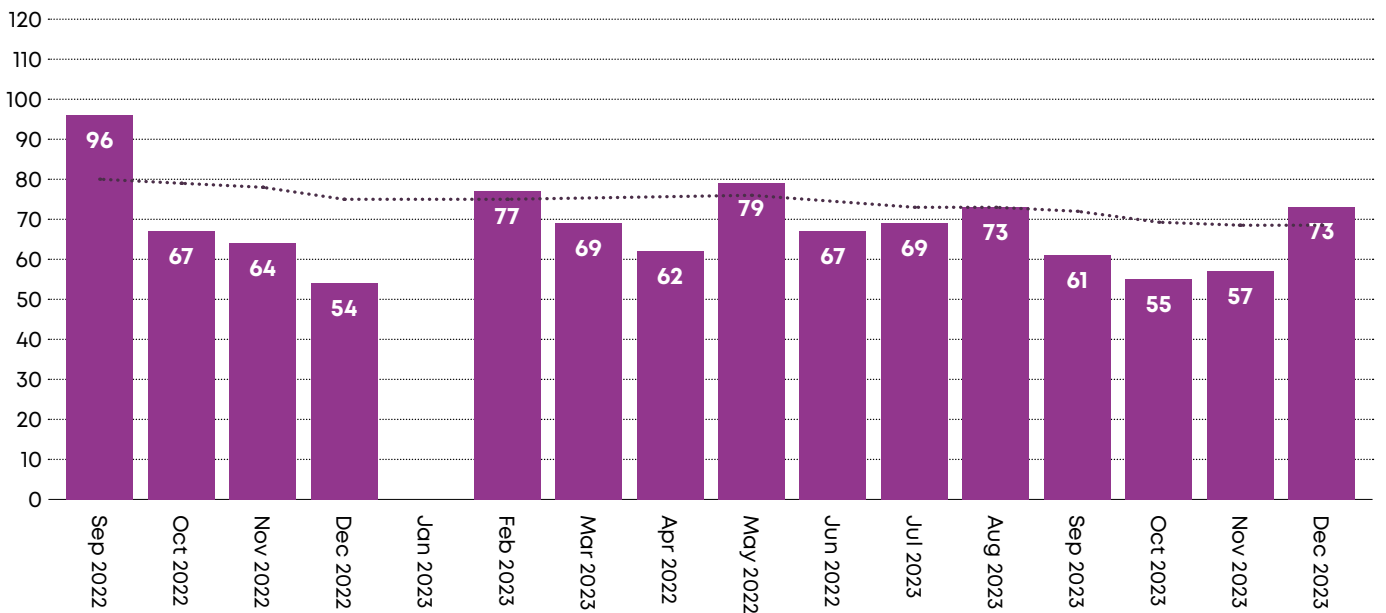
Last 30 tenders



The average borrowing term (excluding short-dated borrowing) for the December quarter by council members was 4.79 years and 5.15 years for the six -months to 31 December 2023. This remains shorter than the 5.21 years for the year to June 2023.

Average total months to maturity – on lending to councils

Last 15 tenders

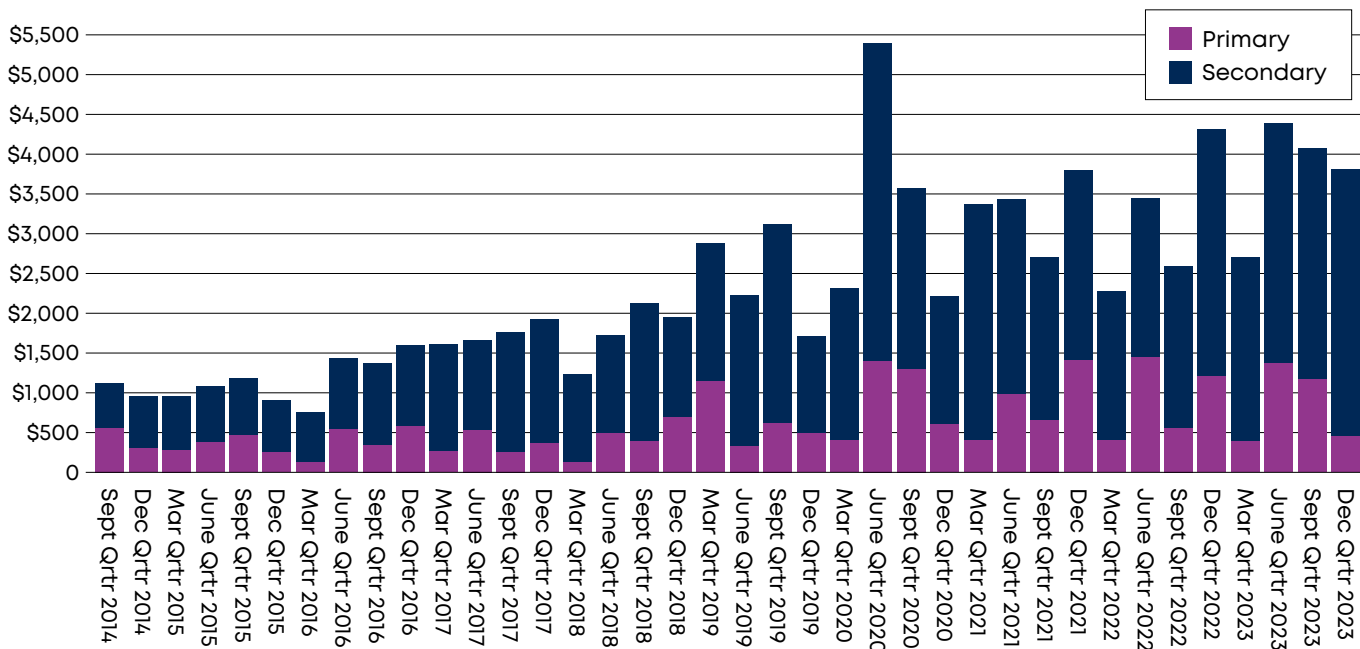


Short-term borrowing by councils and CCOs with loan terms of between one month and 12 months remains well supported with \$626 million outstanding as of 31 December 2023 to thirty-six councils and CCOs. The number of councils and CCOs using this product declined by one over the quarter while the total amount outstanding increased by \$70 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.

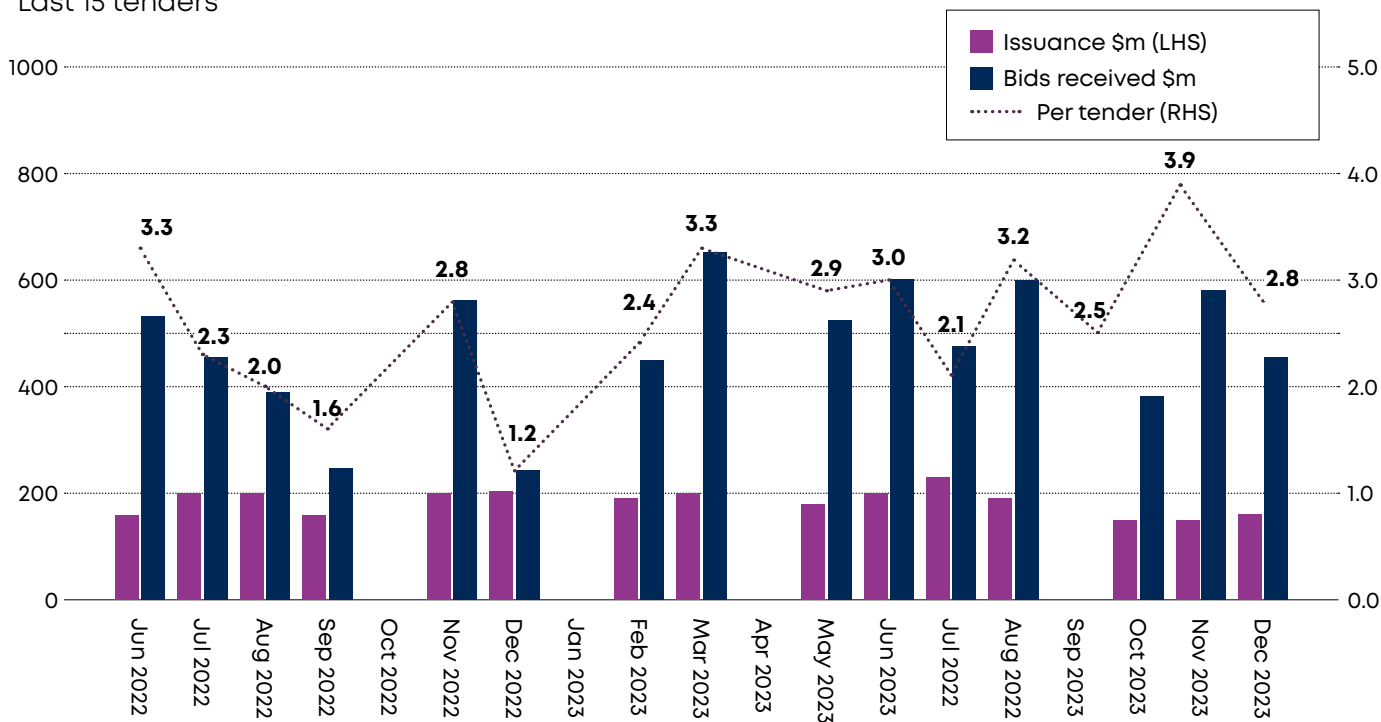
Activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) was strong during the December quarter on a seasonal basis with combined activity of \$3.8 billion. This was the fifth highest on record after the June 2020, December 2022, June 2023, and September 2023 quarters. Primary issuance (bond tenders and syndication) was \$460 million and there was secondary market turnover of \$3.3 billion during the quarter (second highest after June 2020).

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



Tender bid coverage ratio

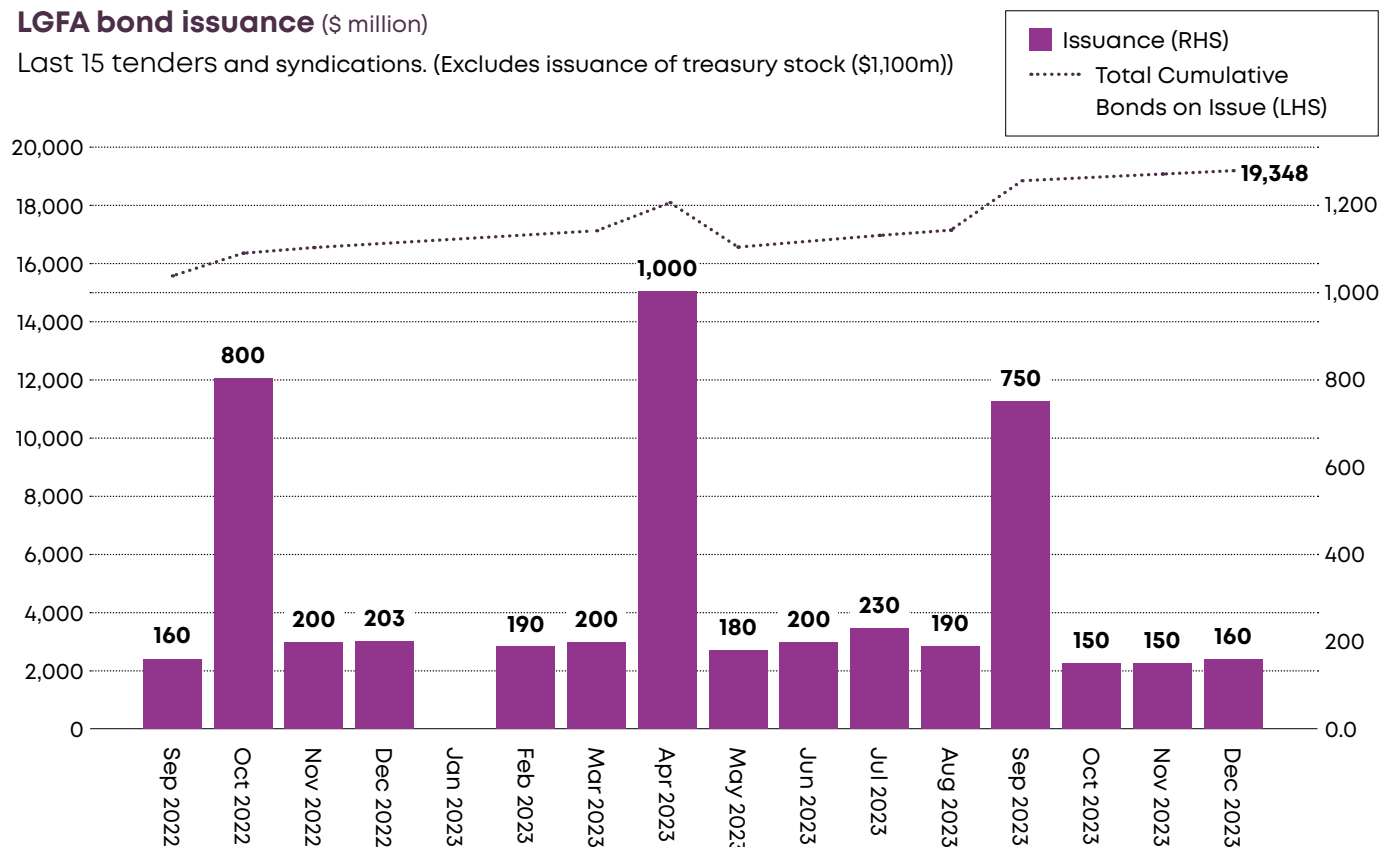
Last 15 tenders



LGFA commenced issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 31 December 2023 there were \$866 million of LGFA Bills on issue which has reduced by \$102 million from the record high of \$968 million on 30 September 2023. 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.

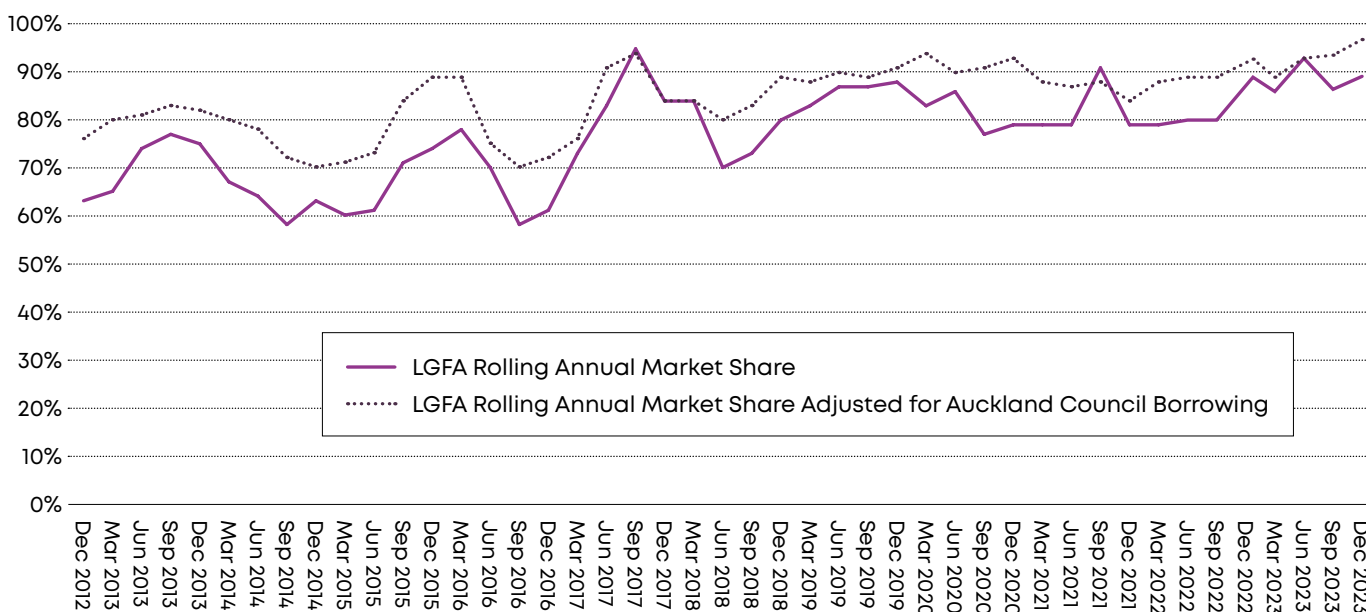
LGFA bond issuance (\$ million)

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 and July 2023. We issued A\$1 billion of a 5-year bond in August 2023 and A\$650 million of a 7-year bond in November 2023 following strong investor engagement. The AUD issuance helps diversify our funding base away a reliance upon NZD.

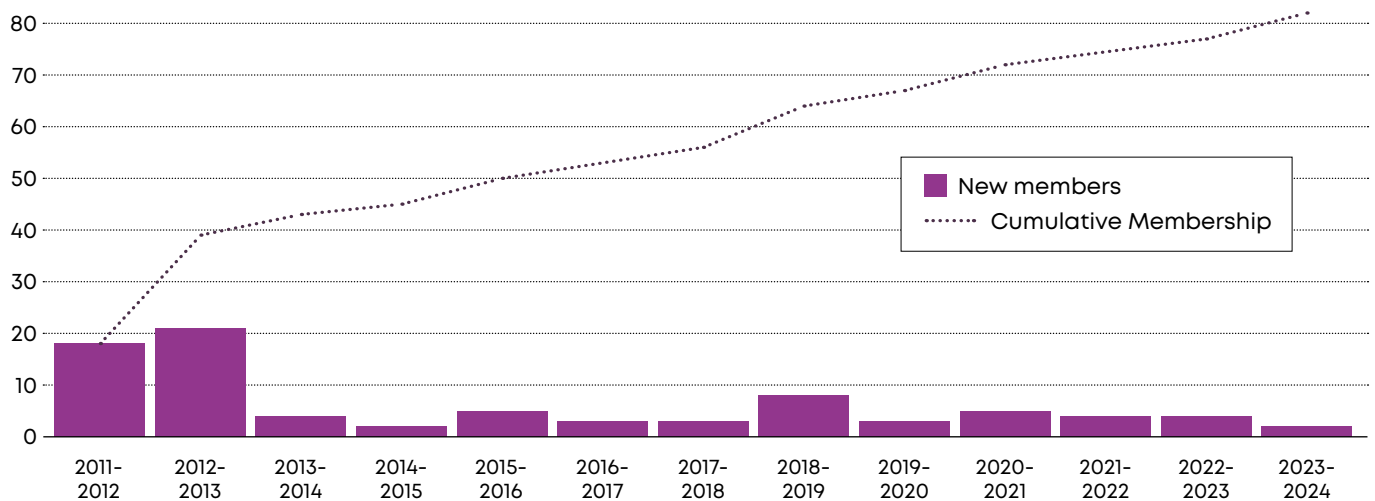
LGFA Market Share – rolling one year average



Council membership and market share

We use our own data and the PwC Local Government Debt Report to estimate our market share. Our estimated market share for the rolling twelve-month period to 31 December 2023 was 88.8%. If we adjust for Auckland Council borrowing from both LGFA and from the market in its own name, then our market share increases to 96.6% (as Auckland Council borrowed through LGFA and in its own name during the quarter). Our market share compares favourably to our historical average of 77.0% and our market share remains high compared to our global peers.

Council and CCO Membership (as at 31 December 2023)



As at 31 December 2023, there are seventy-seven councils and five CCO as members of LGFA. There were two new CCO members during the quarter. We are unlikely to add the last remaining council Chatham Islands District Council. The number of guarantors is unchanged at seventy-two.

Our CCO lending comprises \$257.4 million of loans to four CCOs. The amount of CCO loans outstanding has increased by \$235 million over the quarter.

- Invercargill City Holdings Limited joined as a member in July 2021 and has borrowings outstanding of \$88.4 million as at 31 December 2023 (a decrease of \$3 million over the quarter).
- Westland Holdings Limited joined as a member in November 2022 and has borrowings outstanding of \$6.4 million as at 31 December 2023 (an increase of \$0.35 million over the quarter).
- Dunedin City Treasury Limited joined as a member in November 2022 and has borrowings outstanding of \$250 million as at 31 December 2023 (an increase of \$125 million over the quarter).
- Infrastructure Holdings Limited joined as a member in October 2023 and has borrowings outstanding of \$113 million as at 31 December 2023 (an increase of \$113 million over the quarter).

Whanganui District Council Holdings has yet to borrow from LGFA.

D3. Environmental and social responsibility

Performance target	2023-24 Target	Performance against target as at 31 December 2023
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.	Met – Carbon Reduction Plan established
Increase our GSS Lending Book and Climate Action Loans	Two new GSS loans and three new borrowers enter CALs	On track to meet
Ensure Annual Report is prepared in compliance with applicable GRI Standards	100%	Met
Meet all mandatory climate reporting standards	100%	Met

Objectives:

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

During the quarter, we approved the Kopurererua Vally Stream Realignment project managed by Tauranga City Council for GSS lending. This was our first Biodiversity Conservation Loan. During the quarter we lent \$6 million to finance pre-

approved projects under our Green, Social and Sustainability Lending Programme. This takes the total number of GSS loans approved to six with a combined value of \$572 million and there has been \$377.2 million in loans undertaken as at 31 December 2023. Eligible council or CCO projects will receive a discounted loan margin. 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 and Hutt City Council as our first group of borrowers under the Climate Action Loans (CALs) Programme during the March 2023 quarter and Kapiti District Council during the December 2023 quarter. We had \$1.2207 billion of CALs to the four councils as at 31 December 2023 which was an increase of \$280 million over the quarter. 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/climate-action-loans)

D4. Effective management of loans

Performance target	2022-23 Target	Performance against target as at 31 December 2023
Review each participating borrower's financial position under LGFA policies.	100%	Met
Arrange to meet each Participating Borrower at least annually, including meeting with elected officials as required, or if requested.	100%	Met

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.
- Ensure a smooth transition of water related loans if the Affordable Water Reforms progresses over the forecast period.

We undertook meetings with twenty-five councils and CCOs during the December quarter. 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 2023 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 the Affordable Waters Reforms.
- Maintain productive relationships with central government representatives.
- Support councils and CCOs in the development of reporting disclosures of the impacts of sector activity on climate change.

Throughout the early part of quarter, we have had meetings with Treasury and the National Transition Unit team at DIA and their advisers regarding Affordable Waters Reform. Following the change in Government we have met with the Minister of Local Government and Treasury and DIA staff, offering to help with the implementation of the "Local Water Done Well" programme.

We met with OAG during the quarter and presented at a Taituara Financial Working Group. We held by webinar, the quarterly LGFA Business Update for councils and the quarterly BNZ Economic and Financial Markets Update.

LGFA continues to assist as required, the Ratepayer Assistance Scheme (RAS) project managed by a group of councils with advice from Cameron Partners. If successful, the RAS 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 control over timelines.

E. Investor relations

Managing relations with our investor base is especially important as the amount of LGFA bonds on issue continues to grow and we require investors and banks to support our ongoing tender issuance. During the quarter LGFA presented at the CBA Conference in Sydney and the ANZ Australasia Investor Days in Asia and Tokyo. Offshore investor holdings are near a record high.

Over the three-month period to 31 December 2023, we issued \$460 million of LGFA bonds. The change in holdings amongst our investor groups during the quarter was:

- Offshore investor holdings decreased by \$83 million to be \$6.15 billion on 31 December 2023 (33.3% of bonds on issue).
- Domestic bank holdings increased by \$380 million to be \$5.46 billion on 31 December 2023 (29.6%).
- Domestic investor (retail and institutional) holdings increased by \$150 million to be \$5.7 billion on 31 December 2023 (30.7%).
- The Reserve Bank of New Zealand (RBNZ) holdings were unchanged at \$1.2 billion as of 31 December 2023 (6.4%).

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

