

Investor Update

May 2024



LGFA



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

Important Notice and Disclaimer

Local Government Sector Update

LGFA Update

LGFA Debt Market Activity

Appendices



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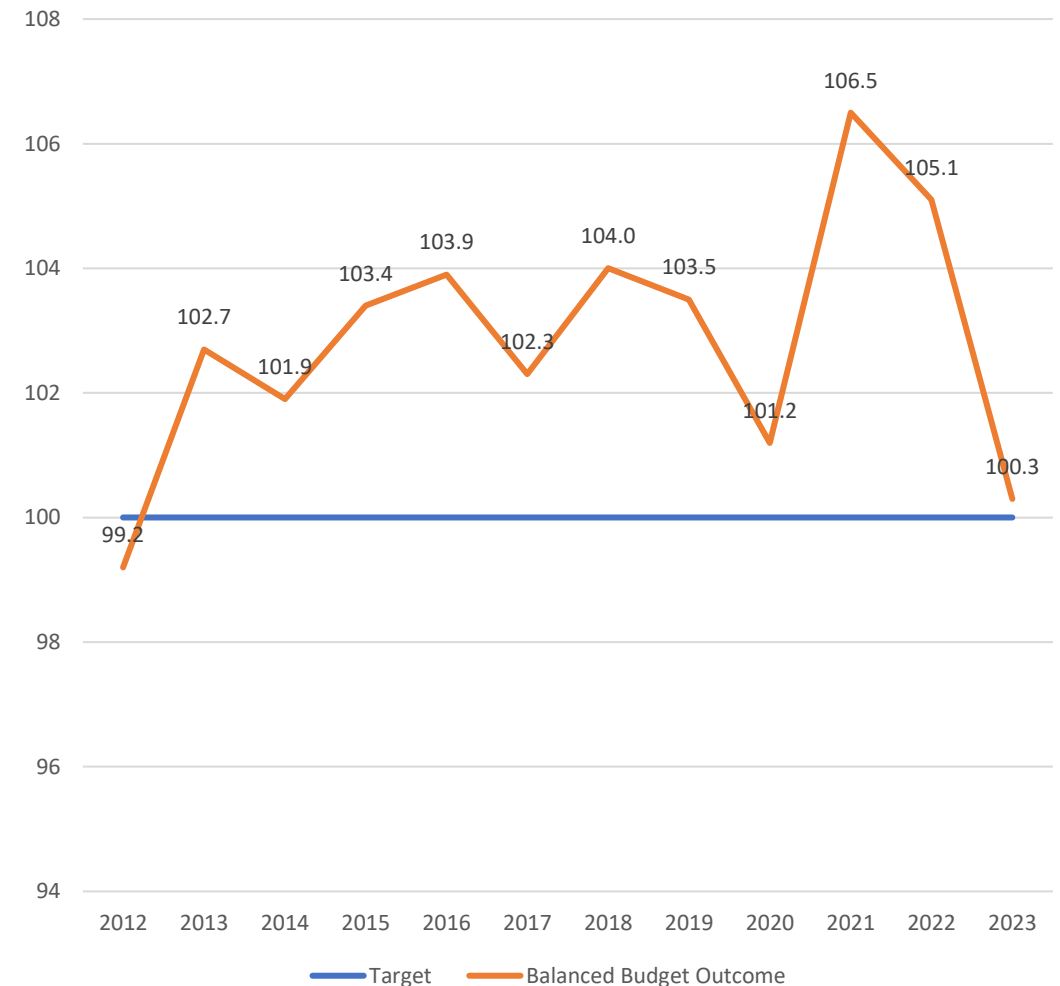
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FINANCIAL PERFORMANCE OF THE SECTOR

- ❑ The 2022/23 financial year was a challenging one for the sector with the greatest impact coming from rising cost pressures:
 - Large increases in asset revaluations (around 60% over 3-years) resulted in a big increase in councils' depreciation expense;
 - Increases in interest costs due to rising interest rates;
 - The cost of insurance has increased;
 - Higher than expected inflation put pressure on council operating expenses (including staff costs); and
 - Weather events created unbudgeted costs. While Hawkes Bay, Gisborne, Northland and Auckland were worst effected, many other councils were also impacted.
- ❑ Council finances are currently in a good state, but there are some challenges on the horizon:
 - Rates affordability;
 - Developing strategies to manage water (drinking water, wastewater, stormwater);
 - How to finance growth infrastructure;
 - The cost of infrastructure (although price increases appear to be moderating); and
 - Resilience, adaptation, and insurance.

Balanced Budget Outcome



Note: Balanced Budget Outcome is calculated as council operating income as a percentage of operating expenditure

Source: LGFA and calculation from council annual reports.

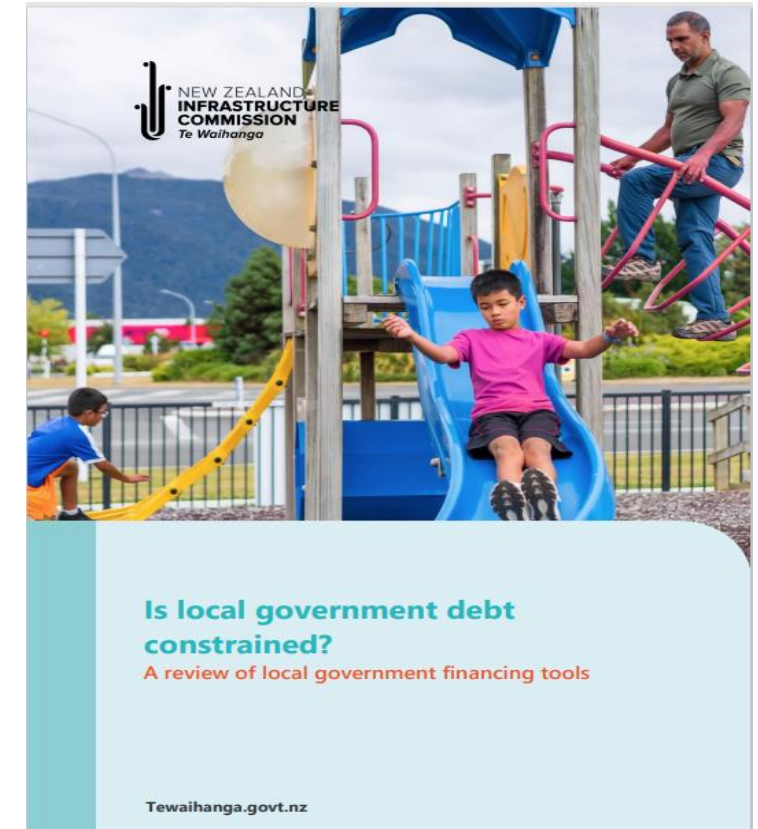
- ❑ Some councils have begun consulting on their Long-Term Plans (“LTPs”).
 - Eight councils are allowed to produce 3-year recovery plans (these are the councils that were the most impacted by weather events in 2023); and
 - Councils have been given the option to defer their LTP by 12 months and in the interim, prepare an Annual Plan for 2024/25.
- ❑ The Water Services Entity Act 2022 and the Water Services Entity Amendment Bill meant that councils were planning for their water assets to transfer to new Water Service Entities between July 2024 and July 2026.
 - The new Government repealed the Water Services Entities Act 2022, the Water Services Legislation Act 2023 and the Water Services Economic Efficiency and Consumer Protection Act 2023 on 17 February 2024.
 - This means councils (that own water assets) will have to plan on managing these assets into the future (this will need to be incorporated into their financial and infrastructure strategy).
 - Councils had been assuming that their water debt would be repaid to them (this would have created more financial headroom for most councils).
 - LGFA expects more comprehensive water management strategies to develop over the next few years.
- ❑ There is likely to be upward pressure on rates.
 - More than half the councils ran an operating deficit in 2022/23. These councils are likely to need a larger than average rate increase to rebalance their budgets.
 - Inflation, especially the construction costs of infrastructure is an issue. However, inflation is starting to trend down.
 - Some councils will need to invest more than previously planned in water infrastructure to comply with the water standards (Taumata Arowai is the new water services regulator).
 - Councils will also need to invest more than previously planned in resilience and adaptation.

INFRASTRUCTURE COMMISSION / TE WAIHANGA REPORT – IS LOCAL GOVERNMENT DEBT CONSTRAINED?

- ❑ Since 2002, for every NZ\$100 invested in infrastructure, about NZ\$24 comes from local government, an average of NZ\$3.8 billion per year.¹
- ❑ The conclusions and areas for discussion highlighted in the report were ² :
 - LGFA financing is and will likely remain the primary financing tool for local government;
 - The current financing system forces fiscal discipline and a uniform low-risk tolerance;
 - Setting aside LGFA debt covenants, there is capacity to increase council debt
 - The fundamentals of council finances and debt are still relatively strong; and
 - Councils have been significantly more indebted in the past.
 - Are our financing tools up for the job?
 - Is now the time to borrow heavily for local infrastructure?
 - Debt financing infrastructure requires commensurate revenue growth.
 - This infrastructure investment cycle lacks revenue growth.
 - Infrastructure investment today is mostly renewals which do not generally produce new revenues.
 - Where do we go from here?
 - We should consider the mix of debt financing versus pay-as-you-go for capital investments, particularly renewals.
 - We should improve our asset management plans and project prioritisation.
 - We should match debt financed infrastructure with associated revenue streams where possible.

¹ LGFA estimates NZ\$7.1 billion of infrastructure investment was undertaken by councils during the year ending June 2023.

² The following bullet points are extracted from the Infrastructure Commission report



Source: New Zealand Infrastructure Commission/Te Waihanga
“Is local government debt constrained? A review of local government financing tools.” March 2024

Estimated local government capital expenditure by type of expense				
Capital Expenditure spending area	2013	2018	2023	2026
Capex for renewals	43%	48%	44%	52%
Capex for growth infrastructure	21%	20%	23%	19%
Capex to improve service levels	37%	31%	33%	29%

Rates revenue as a share of national income	
1940	3.45%
1945	2.38%
1955	2.38%
1965	2.56%
1993	1.56%
2000	1.56%
2010	2.22%
2023	2.82%

Changes in inflation adjusted local government gross debt and revenue across investment cycles					
Investment cycle	Debt stock growth	Rate revenue growth	Debt to revenue ratio at start	Debt to revenue ratio at end	Percentage change in ratio
1920-1936	196%	144%	396%	465%	Relatively stable (+18%)
1950-1970	135%	106%	172%	150%	Decrease (-13%)
2009-2022	226%	42%	81%	182%	More than doubled (+125%)

Source: New Zealand Infrastructure Commission/Te Waihanganga- “Is local government debt constrained? A review of local government financing tools.”
March 2024

PREVIOUS LABOUR GOVERNMENT REFORMS

- ☐ July 2020, launched the Three Waters Reform Programme.
 - This was renamed Affordable Water Reform Programme in April 2023.
 - In October 2021, it was announced it would create four Water Services Entities (“WSEs”) but increased the proposed number to ten WSEs in April 2023.
- ☐ WSEs were to operate at arm's length from councils
 - Assets, debt and revenue were to be transferred to WSEs
 - No financial recourse back to councils
 - Regional Representative Groups (“RRG”) were to provide strategic oversight and direction comprising a 50:50 split between iwi and council representatives
 - WSE board appointed by RRG
- ☐ Water quality regulator (Taumata Arowai) established.
- ☐ The following legislation was enacted
 - Water Services Entities Act on 14 December 2022;
 - Water Services Legislation Act on 30 August 2023; and
 - Water Services Efficiency and Consumer Protection Act on 30 August 2023.
- ☐ Reforms were to take place from 1 July 2024 with delivery of water services by WSEs to occur by July 2026 at the latest.
- ☐ The current National led Coalition Government repealed the above legislation in February 2024 as part of the 100-day plan.



CURRENT NATIONAL COALITION GOVERNMENT REFORMS

- ☐ Campaigned on replacing the Affordable Water Programme with Local Water Done Well Programme
 - Repeal Labour Government legislation with passing of Water Services Repeal Act February 2024
 - Restore council ownership and control with stronger central government oversight
 - Strict rules for water quality and for investment in infrastructure
 - Ensure water services are financially sustainable
- ☐ Taumata Arowai to remain as water quality regulator but new economic regulator to be established.
- ☐ Technical Advisory Group established to contribute expert advice to the Minister of Local Government and the Department of Internal Affairs.
- ☐ New enabling legislation to be introduced in two parts
 - First Bill (June 2024) will set out provisions relating to council service delivery plans and transitional economic regulation. This will also include providing requirements for establishing Council Controlled Organisations
 - Second Bill (December 2024) will provide for long-term requirements for financial sustainability, a complete economic regulation regime, and new types of structural and financing tools, including a new type of financially independent Council Controlled Organisation
- ☐ Reforms expected to be in place by mid 2025.



Under Local Water Done Well, a range of structural and financing tools will be available to councils to use for water services including a new class of financially independent council-owned organisations.

The Government will provide details in mid-2024 on the broader range of structural and financing tools, including through the New Zealand Local Government Funding Agency (LGFA), which will be available to councils to ensure they can access the long-term debt required for investment in water services infrastructure. These tools will be implemented through further legislation that will establish the enduring settings for the new system.

DIA: Local Water Done Well: Information for councils (April 2024)

- ☐ Larger than forecast council borrowing in 2022 and 2023 as some councils have bought forward Three Water capex ahead of the proposed transition to WSEs.
- ☐ Awaiting further details on the National led Coalition Government proposed Water council-controlled organisation (“CCO”) model.
- ☐ Legislation proposed to create a “Financially Independent” Water CCO for Auckland
 - No financial support permitted under legislation from Auckland Council
 - No Central Government guarantee
 - Appointment of Crown Observer
- ☐ Previous Labour Government Cabinet Papers (released 30 June 2021) suggested the previously proposed WSEs would have a wide range of potential debt funding solutions:
 - an equivalent of LGFA for the WSEs;
 - domestic retail and wholesale capital markets; and
 - offshore capital markets.
- ☐ Since 2021, five non-water CCOs have been approved as members of LGFA by the LGFA Board.
- ☐ LGFA will consider lending to Water CCOs when more information becomes available.
- ☐ Average term of council long term loans from LGFA is 3.94 years (March 2028) at 30 April 2024.
- ☐ Council borrowing forecast and LGFA bond issuance forecast outlined in LGFA’s draft Statement of Intent assumes a business-as-usual basis with no adjustment for Water Reform.

Modelling by Department of Internal Affairs for previous Labour Government

Total Water Entities	2024	2025	2026	2027	2028	2029	2030	2031
Debt (NZ\$ billions)	\$12.21	\$13.32	\$14.41	\$15.33	\$15.63	\$15.74	\$15.66	\$15.38
Assets (NZ\$ billions)	\$88.17	\$90.36	\$92.61	\$94.86	\$97.12	\$99.38	\$101.66	\$103.95
Revenue (NZ\$ billions)	\$3.25	\$3.42	\$3.56	\$3.70	\$3.84	\$3.98	\$4.12	\$4.28
Connected Households	1,696,152	1,725,464	1,755,302	1,785,674	1,816,591	1,848,061	1,880,097	1,912,707

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SHAREHOLDERS

- ❑ NZ Government largest shareholder at 20%
- ❑ 30 councils hold 80% shareholding
- ❑ Can only sell shares to NZ Government or councils

GOVERNANCE

- ❑ Board comprising 5 Independent and 1 Non-Independent Directors
- ❑ NZD Bonds listed on NZX
- ❑ Independent Trustee for NZD Bonds
- ❑ Issue of securities under the Financial Markets Conduct Act 2013
- ❑ Audited by Audit NZ

LIQUIDITY

- ❑ Up to NZ\$1.5 billion liquidity facility from NZ Government¹
- ❑ NZ\$1.64 billion liquid assets portfolio²
- ❑ NZ\$657 million of Treasury Stock currently available for repo

GUARANTORS

- ❑ 72 guarantors of LGFA
- ❑ Guarantors comprise:
 - All shareholders except the NZ Government
 - Any non-shareholder who may borrow more than NZ\$20 million
 - Any council shareholder of a council-controlled organisation (CCO) that is approved for borrowing by LGFA
- ❑ Security granted by each of the guarantors is over their rates revenue
- ❑ Guarantors cannot exit guarantee until
 - Repaid all their, and any of its CCO's, borrowings and
 - After the longest outstanding LGFA bond to mature (currently 2037)

Source: LGFA, as at 30 April 2024

BORROWERS

- ❑ 77 member councils
- ❑ 5 CCOs
- ❑ Approximately 90% market share
- ❑ Councils' borrowing secured against rates revenue
- ❑ Must meet LGFA financial covenants

CAPITAL STRUCTURE

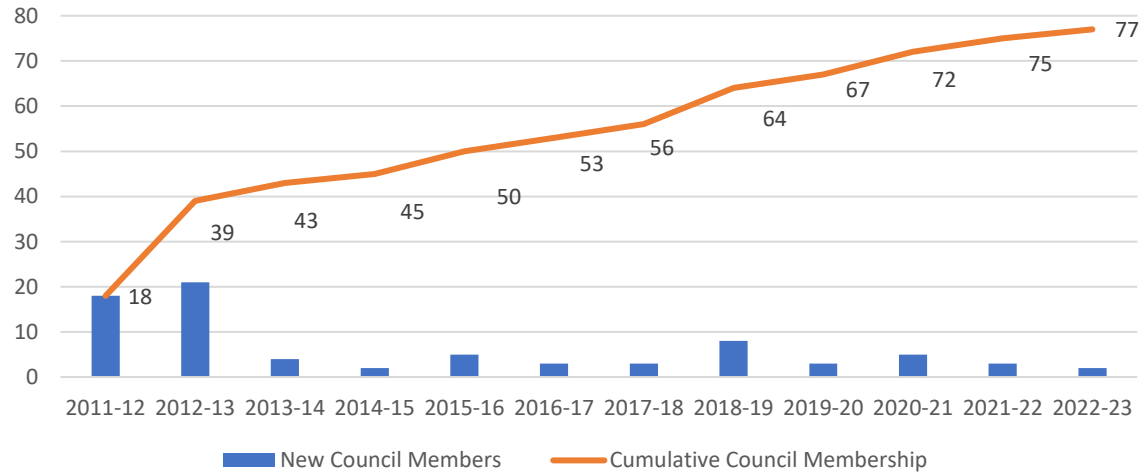
- ❑ NZ\$25 million paid in capital
- ❑ NZ\$20 million uncalled capital
- ❑ NZ\$78 million retained earnings
- ❑ NZ\$436 million Borrower Notes that can be converted to equity
- ❑ Current capital ratio of 2.60% with policy of 2% minimum and target of 3%

¹ Maximum amount under the facility available for liquidity purposes. The actual amount available will be the amount of commitment set by LGFA up to NZ\$1.5 billion.

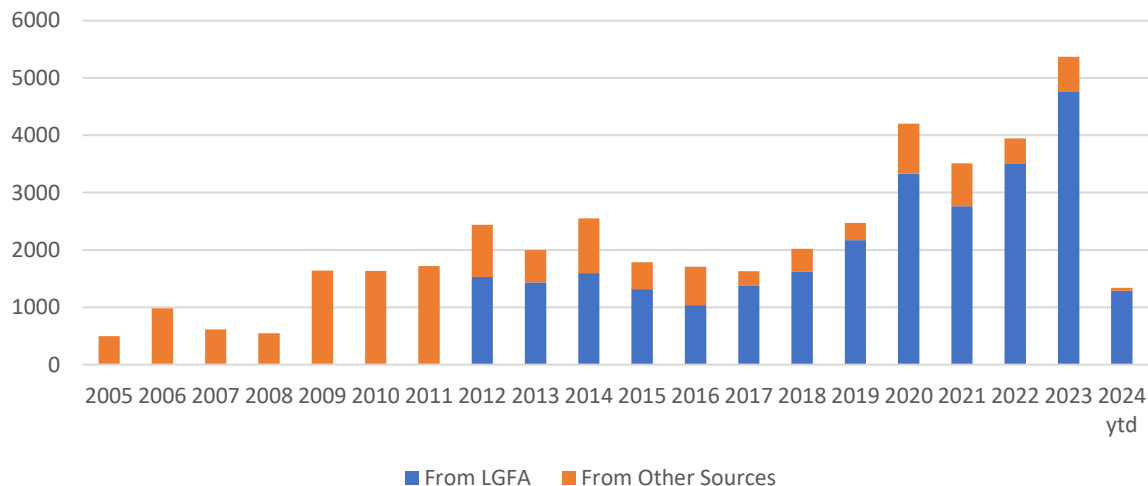
² Excludes liquid assets held to support council standby facilities

COUNCIL MEMBERSHIP AND BORROWING

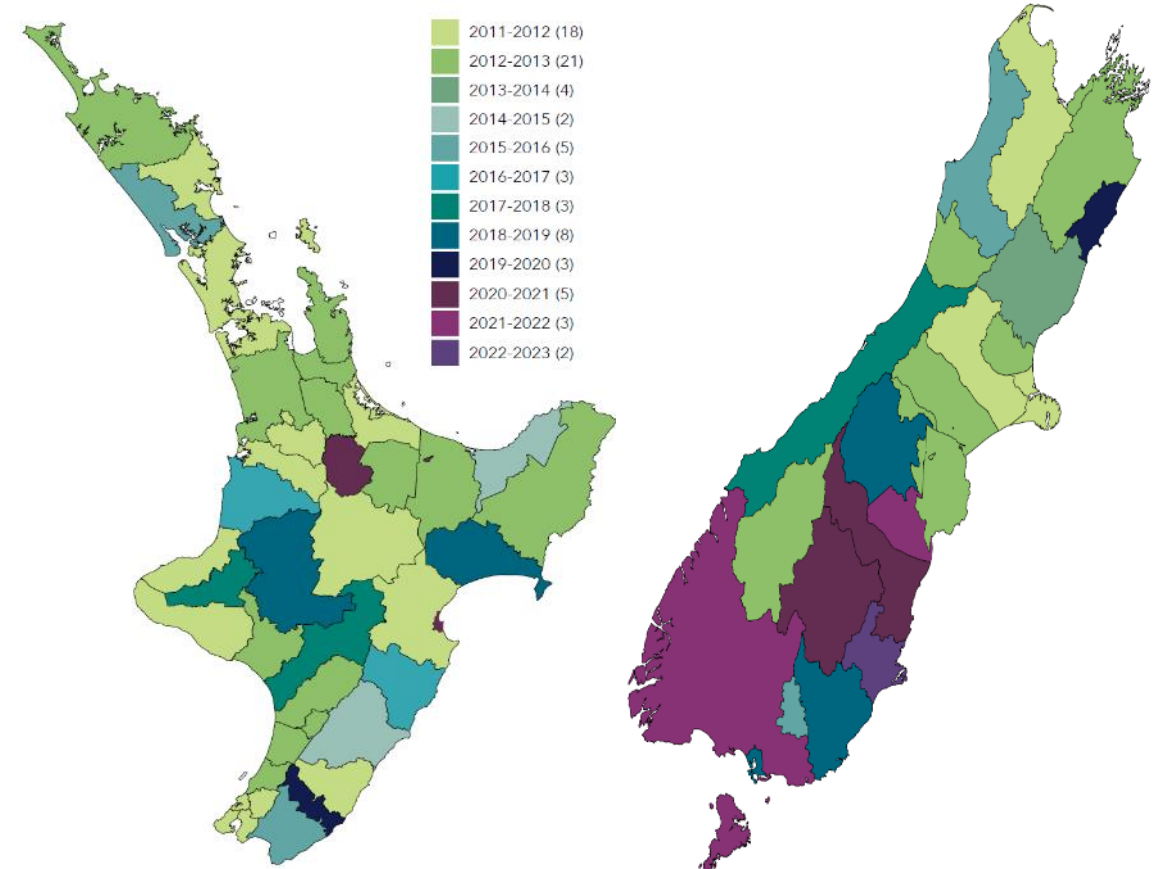
Council Membership



Council Borrowing (NZ\$ million) - calendar year



LGFA member councils highlighted with year of joining



Chatham Islands Council is not currently a member.

Some councils (notably regional councils) may overlap on this map.

There are five CCOs (Invercargill City Holdings Limited, Westland Holdings Limited, Dunedin City Treasury Limited, Whanganui District Council Holdings Limited and Infrastructure Holdings Limited) who are members.

As at 31 March 2024

Source: LGFA, PwC Quarterly Local Government Debt Report

☐ Record amount of long-term lending to councils

- Twelve-month period to 30 June 2021 lending of NZ\$2.86 billion and LGFA bond issuance of NZ\$3.27 billion
- Twelve-month period to 30 June 2022 lending of NZ\$3.33 billion and LGFA bond issuance of NZ\$3.90 billion
- Twelve-month period to 30 June 2023 lending of NZ\$3.99 billion and LGFA bond issuance of NZ\$3.55 billion
- Nine-month period to 31 March 2024 lending of NZ\$3.92 billion and LGFA bond issuance of NZ\$1.96 billion and A\$2.65 billion.

☐ Draft Statement of Intent released February 2024

- Increase to council borrowing forecasts and LGFA bond issuance

☐ Membership

- Five councils and five CCOs joined between 1 July 2021 and 31 January 2024

☐ Sustainability focus across the organisation and lending activities

- ☐ Climate Action Loans and Green Social Sustainable Loans introduced (all documented in bond form)
- ☐ NZD Sustainable Financing Bond issued – May 2030
- ☐ Inaugural Impact Report published in September 2023

☐ New product initiatives

- CCO lending – Four CCOs borrowed
- Standby facilities - NZ\$747 million to sixteen councils as at 31 March 2024
- Green, Social and Sustainability Lending Programme launched 1 October 2021 – first GSS loans made to councils in December 2021 with a total of NZ\$377.2 million outstanding as at 31 March 2024
- Climate Action Loans Lending Programme launched 2 December 2022 – first CALs approved in March 2023 with a total of NZ\$1.784 billion outstanding as at 31 March 2024.

☐ Rise in interest rates has negatively impacted unrealised mark to market valuation of swaps positions used to hedge fixed rate bond issuance.

☐ Credit ratings

- S&P Global Ratings Australia Pty Limited (“**S&P Global Ratings**”): Long term local credit rating increased to AAA and foreign currency long term credit rating to AA+ on 22 February 2021. Ratings last affirmed on 28 February 2024.
- Fitch Australia Ratings Pty Limited (“**Fitch Ratings**”): Foreign currency issuer default rating (“IDR”) raised to AA+ on 16 September 2022 – no change to domestic currency IDR of AA+. Ratings last affirmed 20 October 2023.

☐ Debut issuance in offshore markets through a A\$500 million of September 2027, A\$1 billion issue of August 2028, A\$650 million of November 2030 and \$500 million of March 2034 medium term notes.

☐ ECP Programme established and issued US\$60 million.

☐ RBNZ Liquidity Policy Review outcome

- LGFA bonds qualify as HQLA2 assets alongside SSAs
- Further consultation by RBNZ on proportion to be allocated to HQLA2

☐ RBA Repo Eligibility status decision

- LGFA A\$ bonds ineligible for repo eligibility

☐ Change in Government with 100 Day Action Plan – 4 key areas

- Rebuild economy and reduce the cost of living
- Restore law and order
- Improve healthcare and education
- Deliver better housing and infrastructure

☐ S&P Global Ratings lowers trend in its institutional framework assessment for New Zealand local government sector.



New Zealand Issuer of the Year

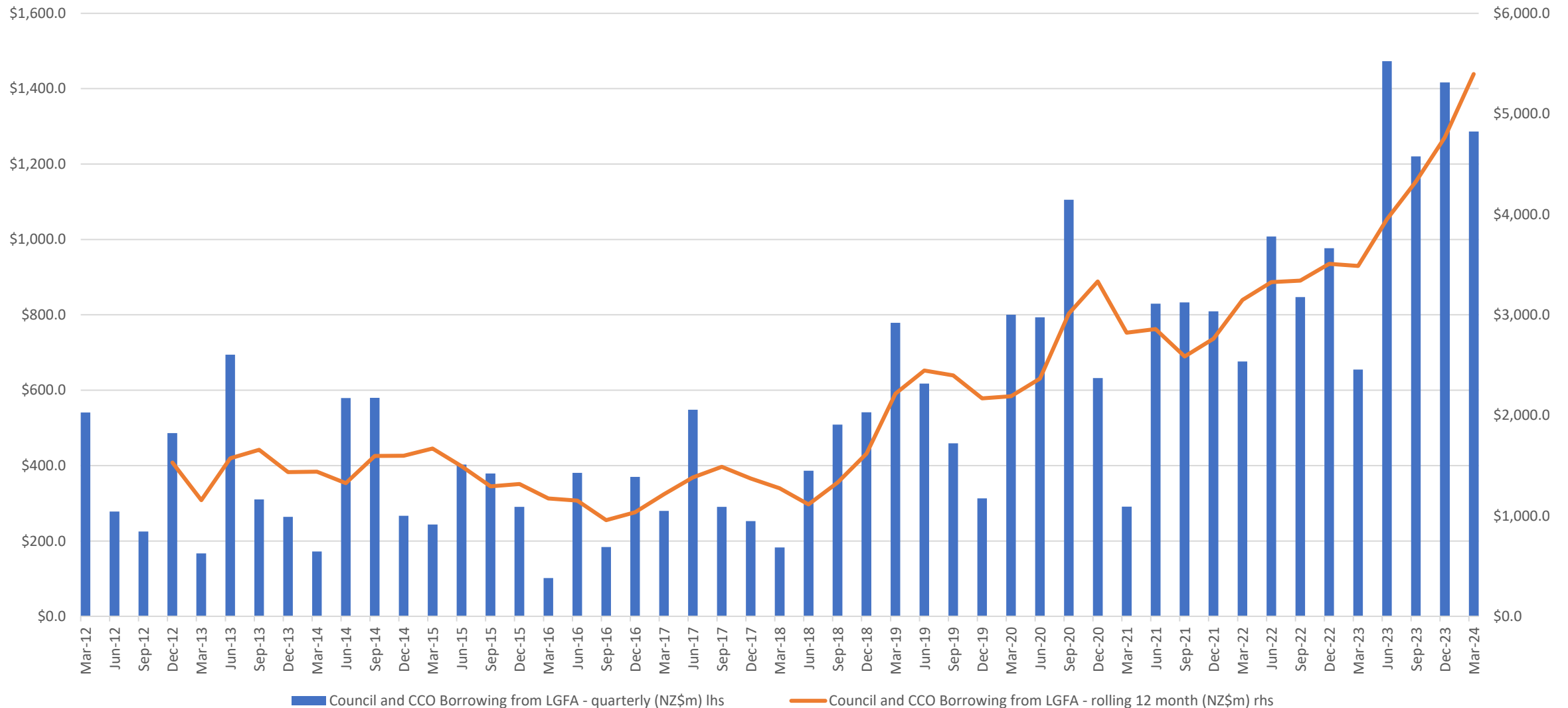
New Zealand Dollar Rates Bond Deal of the Year

New Zealand Sustainability Deal of the Year

New Zealand Issuer Offshore Deal of the Year

New Zealand Innovative Debt Deal of the Year

COUNCIL AND CCO BORROWING FROM LGFA INCREASING



Source: LGFA

❑ Annual Statement of Intent (SOI)

- Requirement under Local Government Act 2002
- Draft by 28 February each year
- Finalised by 30 June each year

❑ Strategic priorities

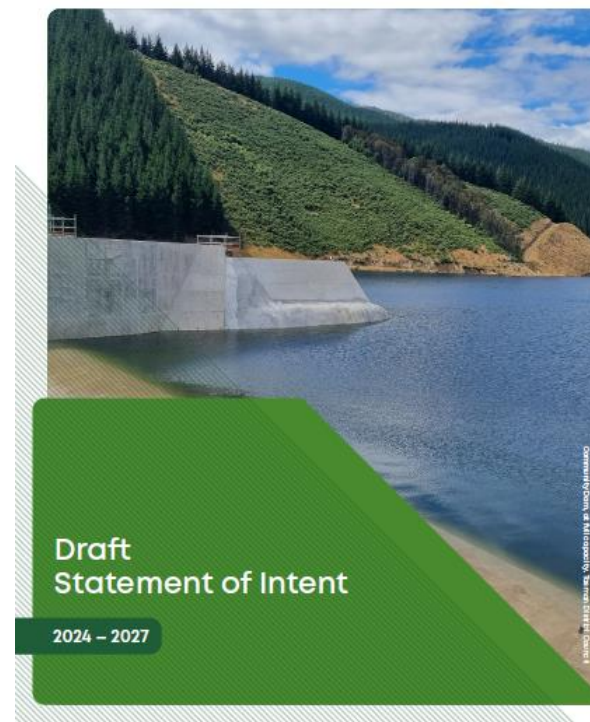
- Governance, capability and business practice
- Optimising financing services for local government
- Environmental and social responsibility
- Effective management of loans
- Industry leadership and engagement

❑ Objectives and performance targets align to strategic priorities.

❑ Financial forecasts incorporate lending and bond issuance assumptions

	Assumptions (NZ\$ billions)	
	Gross Bond Issuance	Council and CCO Lending
FY 2025	\$5.25	\$4.60
FY 2026	\$5.04	\$4.86
FY 2027	\$4.72	\$5.08

- Council and CCO lending, and bond issuance forecasts assumes that the Local Waters Done Well Reform programme will not proceed or if it does proceed then LGFA will be lending to the proposed Water CCOs. There have been no final decisions regarding the transfer mechanism for assets, liabilities and revenue. LGFA has made no decision regarding lending to the Water CCOs, but the forecasts are a base case and will be updated as decisions are made.
- The proposed legislation to enable Local Waters Done Well is expected to be introduced into Parliament in June 2024 and December 2024 and likely to take effect from mid 2025.



S&P GLOBAL RATINGS LOWERS INSTITUTIONAL FRAMEWORK TREND FOR SECTOR

- ❑ 21 February 2024 – S&P Global Ratings announced reassessment of its institutional framework trend for New Zealand Local Government sector
 - Institutional framework assessment was “extremely predictable” and “supportive” and remains in top category
 - Trend within institutional framework lowered from “stable” to “weakening”
- ❑ S&P Global Ratings assessment of an individual councils rating gives an equal weighting to
 - Institutional framework – the operating environment for councils e.g. regulatory, legislative and policy. Assessed on predictability (50%), revenue and expenditure balance (25%) and transparency and accountability (25%)
 - Individual credit profile - a 20% equal weighting to Economy, Financial Management, Budgetary Performance, Liquidity and Debt burden of the individual council
- ❑ Impact on councils and CCOs
 - 15 councils and 2 CCOs were placed on negative outlook following the lowering of the trend in the institutional framework
 - 6 councils were already on negative outlook and remain so
 - 4 councils and 1 CCO remain on stable outlook
- ❑ S&P Global Ratings noted there is no impact on the credit rating of either LGFA or the New Zealand Government.
- ❑ Comments regarding LGFA by S&P Global Ratings on a webinar¹
 - Lending book can handle lower credit quality
 - Increased diversification of financing sources
 - Reduced concentration of LGFA lending
 - Increased profitability from higher lending margins to councils if they were to be downgraded

¹New Zealand Local Councils: Weakening Institutional Settings and Rising Negative Outlooks - 22 February 2024.

WHO DOES LGFA LEND TO AND WHO GUARANTEES LGFA?

Council and CCO Borrower	Amount Borrowed (NZ\$ million)	% of Total Borrowing
Auckland	\$3,615	18.3%
Christchurch City	\$2,471	12.5%
Wellington City	\$1,504	7.6%
Tauranga City	\$990	5.0%
Hamilton City	\$940	4.8%
Wellington Regional	\$893	4.5%
Queenstown-Lakes District	\$627	3.2%
Hutt City	\$506	2.6%
Rotorua District	\$437	2.2%
Hastings District	\$353	1.8%
72 other member councils and CCOs	\$7,403	37.5%

Council and CCO Borrowing	Volume (NZ\$ million)
Short Term (loan terms less than 12 months)	\$604
Long Term	\$19,134
Total	\$19,738

Borrower Type	Number of councils/CCOs	Amount Borrowed (NZ\$ million)	% of Total Borrowing
Guarantors	72	\$19,192	97.2%
Non-guarantors	5	\$60	0.3%
CCOs	5	\$486	2.5%
Total	82	\$19,738	100.0%

Note:

Auckland Council borrowing is capped at 40% of total LGFA lending

Two member councils and one CCO have yet to borrow from LGFA

Guarantee contains provisions apportioning share to each council based upon their relative share of total rates revenue of all guarantors. A council's obligation under the guarantee is secured against rates revenue. CCOs are not guarantors of LGFA but any council shareholder of a CCO must be a guarantor of LGFA.

Council Guarantor	% share of Guarantee
Auckland	28.1%
Christchurch City	7.8%
Wellington City	5.2%
Tauranga City	3.3%
Hamilton City	2.9%
Wellington Regional	2.7%
Dunedin City	2.4%
Canterbury Regional	1.9%
Hutt City	1.8%
Waikato Regional	1.5%
62 other council guarantors	42.3%

As at 30 April 2024

Source: LGFA

WHAT IS THE CREDIT QUALITY OF THE LENDING BOOK?

- ❑ 89.6% of LGFA loans to councils and CCOs with credit ratings.
- ❑ 83.8% of LGFA loans to AA- rated (or better) councils and CCOs.
- ❑ Average credit quality is approx. AA.
- ❑ Improving trend in underlying credit quality of Local Government sector over the past decade. However, 21 councils and 1 CCO on negative outlook = NZ\$7.9 billion (31.8% loan book).
- ❑ Not all councils and CCOs have credit ratings due to cost of obtaining a rating vs benefits
 - Average total lending to unrated councils and CCOs is NZ\$46.5 million per council
 - NZ\$50 million of debt is approximate breakeven for a council to obtain a credit rating
- ❑ LGFA undertakes detailed credit analysis of all member councils and CCOs separate to the external credit rating process performed by S&P Global Ratings, Fitch Ratings and Moody's Investors Service.
- ❑ Unrated councils are assessed by LGFA as having, in general, better credit quality than those councils with credit ratings.

External Credit Rating (S&P, Fitch)	Lending (NZ\$ millions)	Lending (%)	Number of Councils and CCOs
AA+	\$3,672	18.6%	10
AA	\$9,797	49.6%	19
AA-	\$3,064	15.5%	7
A+	\$1,160	5.9%	2
Unrated	\$2,045	10.4%	44
Total	\$19,738	100%	82

As at 30 April 2024 with current credit rating

Source: LGFA

Note: Two member councils and one CCO have yet to borrow from LGFA (includes long and short-term lending)

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External Credit Rating (S&P, Fitch)	Lending (NZ\$ millions)	Lending (%)	Number of Councils and CCOs
AA+	\$3,701	18.6%	10
AA	\$9,916	49.8%	19
AA-	\$3,065	15.4%	7
A+	\$1,161	5.8%	2
Unrated	\$2,055	10.3%	44
Total	\$19,898	100%	82

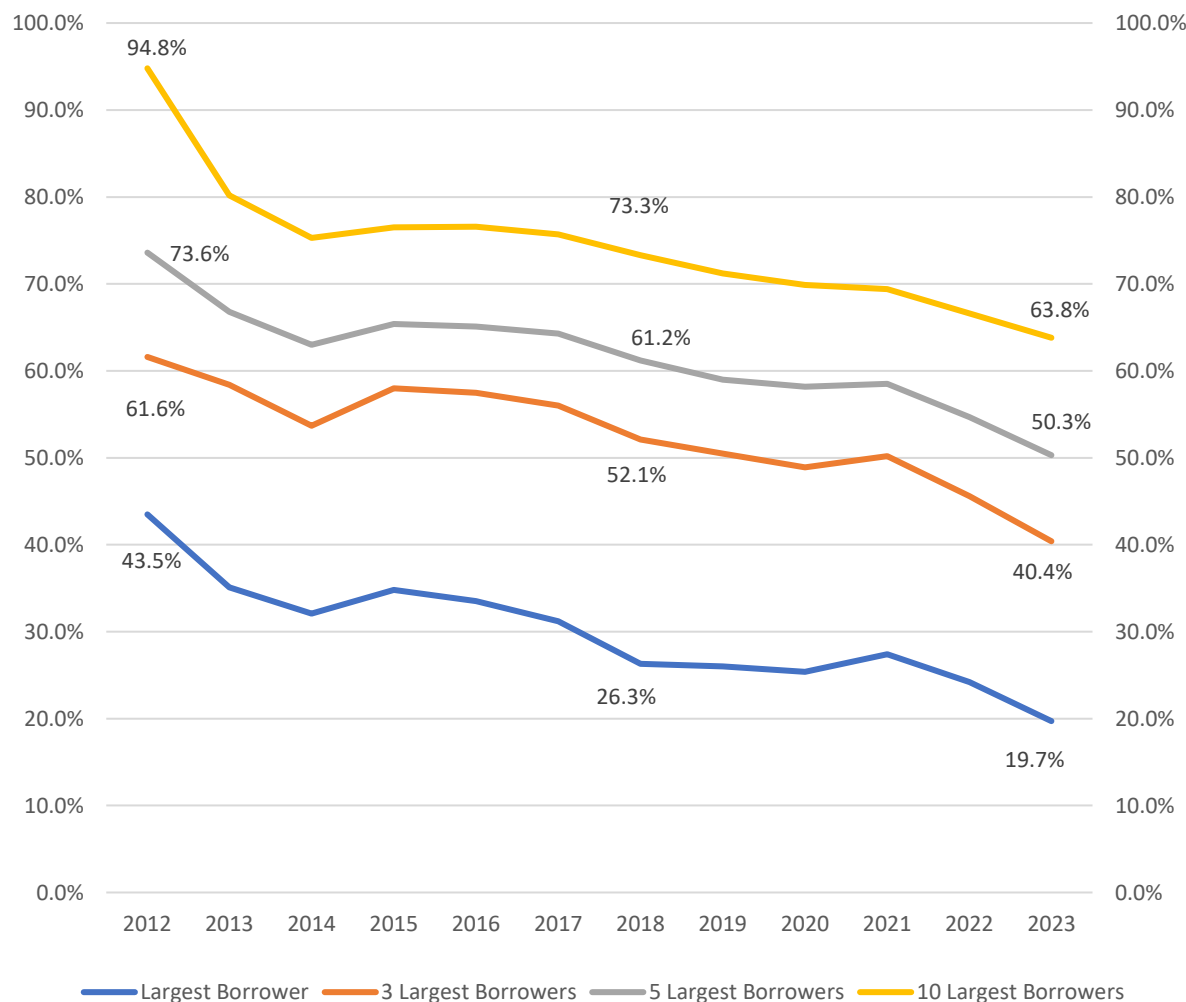
As at 31 March 2024 with current credit rating

Source: LGFA

Note: Two member councils and one CCO have yet to borrow from LGFA (includes long and short-term lending)

LGFA LOAN BOOK CONCENTRATION AND AVERAGE CREDIT QUALITY TO PROTECT LGFA FROM A POTENTIAL DOWNGRADE OF THE SECTOR

Loan Book Concentration



Source: LGFA

Loan Book as at 30 April 2024 with credit ratings

External Credit Rating (S&P, Fitch)	Lending (NZ\$ millions)	Lending (%)	Number of Councils and CCO's
AA+	\$3,672	18.6%	10
AA	\$9,797	49.6%	19
AA-	\$3,064	15.5%	7
A+	\$1,160	5.9%	2
Unrated	\$2,045	10.4%	44
Total	\$19,738	100%	82

Loan Book as at 30 April 2024 if twenty-one councils and 2 CCOs currently on negative outlook are downgraded.

External Credit Rating (S&P, Fitch)	Lending (NZ\$ millions)	Lending (%)	Number of Councils and CCO's
AA+	\$825	4.2%	6
AA	\$8,463	42.9%	10
AA-	\$5,495	27.8%	16
A+	\$2,740	13.9%	5
A	\$170	0.9%	1
Unrated	\$2,045	10.4%	44
Total	\$19,738	100.0%	82

LGFA FINANCIAL COVENANTS – OUTCOMES FOR MEMBER COUNCILS WITH BORROWINGS AS AT 30 JUNE 2023 YEAR

LGFA Financial Covenants – councils as at 30 June 2023 with an external credit rating (33) ¹

Foundation Policy Covenant	Net Debt / Total Revenue <295% ²	Net Interest / Total Revenue <20%	Net Interest / Rates <30%
Range of councils' compliance	-93.1% to 246.6%	-0.3% to 8.3%	-0.7% to 16.5%

¹See slide 50 for information about councils' external credit ratings as at 30 April 2024.

²Reflects the then current alternative Net Debt/Total Revenue covenant that applied for councils with a long-term credit rating of 'A' equivalent or higher.

LGFA Financial Covenants – councils as at 30 June 2023 without an external credit rating (42) ³

Lending Policy Covenant	Net Debt / Total Revenue <175%	Net Interest / Total Revenue <20%	Net Interest / Rates <25%
Range of councils' compliance	-102.8% to 134.4%	-2.3% to 5.2%	-6.0% to 8.0%

³See slide 50 for information about councils' external credit ratings as at 30 April 2024.

- ☐ Note some negative outcomes due to some councils having negative Net Debt i.e. financial assets and investments > borrowings.
- ☐ LGFA councils operating within financial covenants.
- ☐ Ranges highlight the differences between councils.
- ☐ Sufficient financial headroom for all councils.
- ☐ Improvement from 2013 for most councils
 - Revenue increased
 - Interest rates lower
 - Capex and debt constrained

PERFORMANCE UNDER LGFA COVENANTS

LGFA councils with external credit rating

Financial Covenant	2023 (33 councils)	2022 (33 councils)	2021 (31 councils)	2020 (30 councils)	2019 (29 councils)	2018 (26 councils)	2017 (23 councils)	2016 (22 councils)	2015 (20 councils)	2014 (17 councils)	2013 (17 councils)
Net Debt to Revenue	108.4%	91.2%	81.7%	77.0%	68.8%	76.0%	86.0%	87.9%	96.4%	104.7%	111.8%
Net Interest to Revenue	4.3%	2.8%	2.8%	3.8%	3.5%	4.0%	5.3%	6.1%	6.8%	6.6%	7.3%
Net Interest to Rates	7.1%	4.3%	4.2%	6.0%	5.5%	6.1%	8.1%	9.1%	10.0%	9.6%	11.1%

LGFA unrated councils

Financial Covenant	2023 (42 councils)	2022 (42 councils)	2021 (36 councils)	2020 (35 councils)	2019 (34 councils)	2018 (29 councils)	2017 (29 councils)	2016 (28 councils)	2015 (25 councils)	2014 (26 councils)	2013 (21 councils)
Net Debt to Revenue	32.7%	36.5%	19.5%	27.5%	30.0%	32.3%	29.9%	32.4%	38.2%	42.6%	52.5%
Net Interest to Revenue	1.5%	1.4%	1.2%	1.6%	1.7%	1.9%	1.8%	2.2%	2.4%	2.9%	3.2%
Net Interest to Rates	2.6%	2.4%	2.1%	2.7%	2.8%	2.9%	2.6%	2.9%	3.1%	4.0%	4.1%

Calculated by simple average of councils in each group that have borrowed from LGFA as at 30 June for each year

Source: LGFA using data from individual council annual reports as at 30 June for each year

❑ S&P Global Ratings – February 2024



Local Currency AAA / Stable / A-1+ Foreign Currency AA+ / Stable / A-1+

Strengths:

- dominant market position as source of financing for New Zealand local government;
- high credit quality of LGFA's borrowers;
- diversified investor base and access to markets;
- extremely high likelihood of extraordinary support from the New Zealand Government in a stress scenario; and
- robust management and governance among LGFA's key strengths.

Weaknesses:

- highly concentrated lending portfolio; and
- moderate capital adequacy.

Rating Agency	Domestic Currency	Foreign Currency	Date of Report
	AAA	AA+	28 February 2024
	AA+	AA+	20 October 2023

❑ Fitch Ratings - October 2023

Local Currency AA+ / Stable/ F1+ Foreign Currency rating AA+ / Stable / F1+

Long-term Foreign-Currency Issuer Default Rating was upgraded to AA+ on 16 September 2022

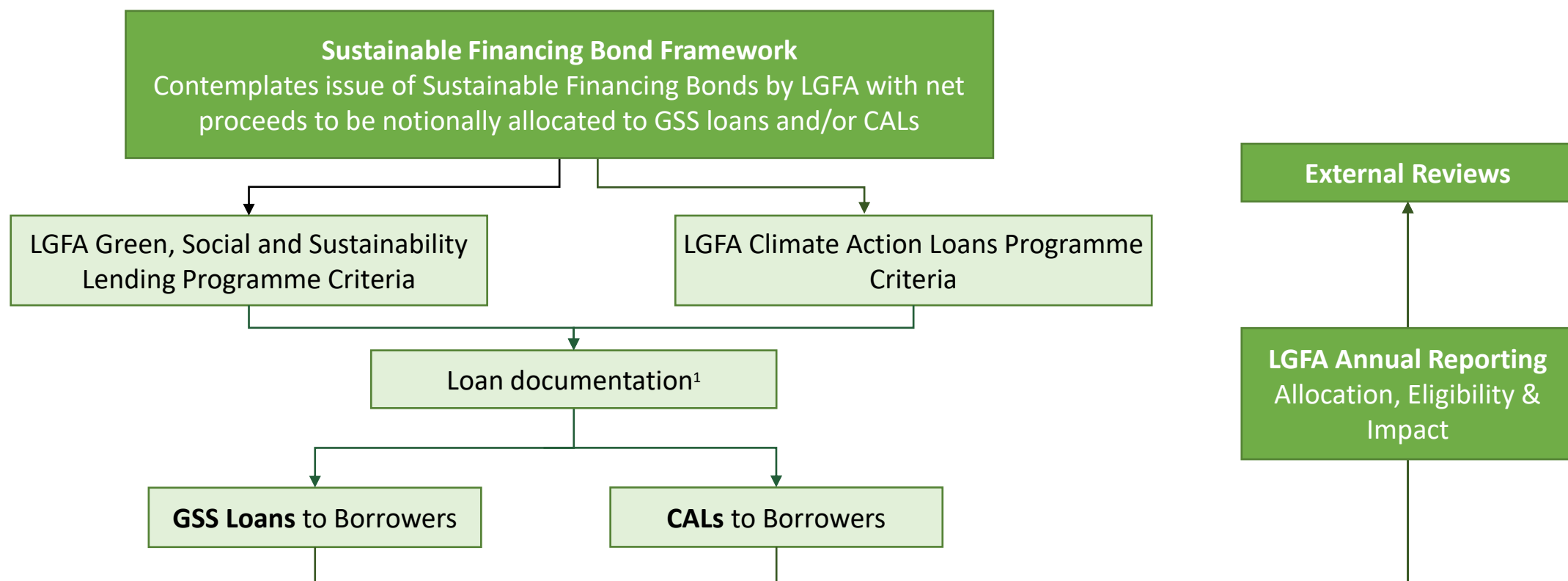
Fitch Ratings notes:

- strong links to the sovereign – classified as a government-related entity;
- strong underlying credit quality of its council shareholders and borrowers;
- ratings are equalised with the ratings of the sovereign; and
- support of a joint and several liability guarantee.

Source: S&P Global Ratings, Fitch Ratings, LGFA

LGFA has set up a transparent and integrated documentation hierarchy for the Sustainable Financing Bond Programme

- ❑ Information provided by the Borrowers will inform annual reporting on any Sustainable Financing Bonds, which will then be reviewed by the selected external reviewer as to the extent of alignment with the GSS Loan Criteria and the CAL Criteria.



¹Sustainable Loans are documented as debt securities under LGFA's Multi-Issuer Deed.

OVERVIEW OF SUSTAINABLE FINANCING BOND FRAMEWORK

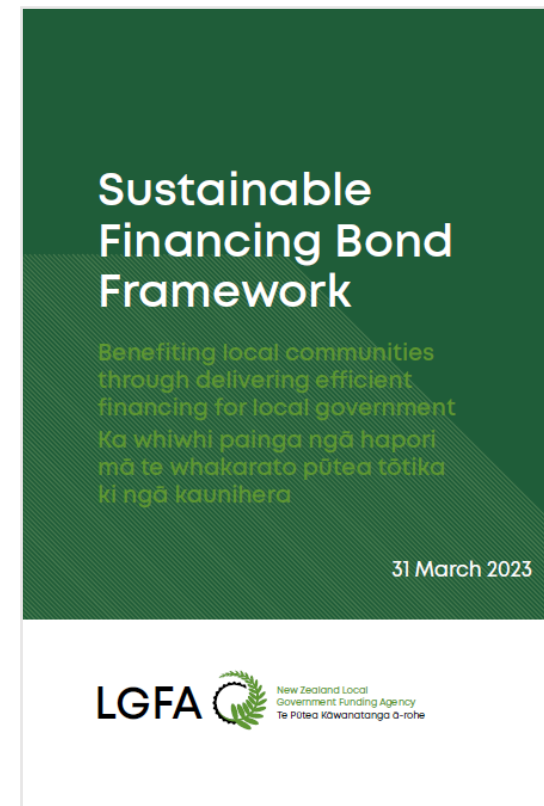
LGFA has developed an innovative Sustainable Financing Bond Framework

- ❑ LGFA has developed the Sustainable Financing Bond Framework (**Framework**)¹ to:
 - recognise LGFA's commitment to support Borrowers to fund sustainable assets and activities, and incentivise GHG emissions reductions;
 - enable LGFA to issue bonds that are notionally allocated to the Sustainable Loans on LGFA's balance sheet; and
 - advance the market for sustainable finance by providing an innovative opportunity for investors to support Borrowers to achieve their sustainability aspirations.
- ❑ The Framework is informed by:
 - International Capital Markets Association's (**ICMA**) Green Bond Principles (**GBP**), Social Bond Principles (**SBP**), and Sustainability Bond Guidelines (**SBG**); and
 - Asia-Pacific Loan Market Association's (**APLMA**) Green Loan Principles (**GLP**), Social Loan Principles (**SLP**), and Sustainability-Linked Loan Principles (**SLLP**),
each as at the date of the Framework (together, the **Market Standards**).
- ❑ The Framework follows the “proceeds-based” pillars of the Market Standards (particularly the GBP, the SBP and the SBG), and is underpinned by the GSS Loan Criteria and the CAL Criteria.
- ❑ Morningstar Sustainalytics (**Sustainalytics**) has provided a Second Party Opinion dated 29 March 2023 (**SPO**) on the Framework².

Important note: LGFA is not claiming direct alignment with the Market Standards. Any bonds that LGFA may choose to issue under the Framework will not be Green, Social or Sustainability Bonds⁵, and nor will they be Sustainability-Linked Bonds⁶.

¹ The Framework may be updated from time to time. The current Framework can be found at www.lgfa.co.nz/sustainability/sustainable-financing-bonds

² A copy of the SPO is available on LGFA's website at www.lgfa.co.nz/sustainability/sustainable-financing-bonds.



GSS LOANS WITH COUNCILS TO DATE

LGFA has approved¹ NZ\$572.3 million of GSS Loans, of which NZ\$371.2 million has been advanced to councils to date

GSS Category	Borrower	Date Sustainable Loan Approved	Project Description	Sustainable Loan Type	Approved Amount for Project (NZ\$ million)	Principal Amount Advanced to date (NZ\$ million)	Allocation to Sustainable Loan Asset Pool under Framework (NZ\$ million)
Green Buildings	Wellington City Council	14 October 2021	Takina, Wellington Convention and Exhibition Centre	Green Loan	180	180	180
Green Buildings	Hutt City Council	28 June 2022	Naenae Pool and Fitness Centre	Green Loan	41	35	35
Green Buildings	Whangarei District Council	19 August 2022	Whangārei Civic Centre	Green Loan	59	59	59
Total Green Buildings Loans					280	274	274
Climate Change Adaptation	Greater Wellington Regional Council	2 December 2021	RiverLink Project	Green Loan	227	55	55
Total Climate Change Adaptation Loans					227	55	55
Biodiversity Conservation	Tauranga City Council	10 October 2023	Kopurererua Valley Stream Realignment	Green Loan	10.3	6.0	6.0
Biodiversity Conservation					10.3	6.0	6.0
Affordable Housing	Christchurch City Council	17 November 2022	OCHT Social Housing	Social Loan	55	42.2	42.2
Total Social Loans					55	42.2	42.2
Total	5 Borrowers				572.3	377.2	377.2

¹ Where a GSS Loan is "approved", LGFA is not committed to provide those funds. Rather, LGFA has indicated to the relevant Borrower that, subject to satisfaction of conditions precedent, LGFA intends to advance the relevant amount as GSS Loan(s) when the Borrower makes a request under LGFA's Multi-Issuer Deed.

Source: LGFA, as at 30 April 2024.

CALS WITH COUNCILS

LGFA has advanced NZ\$1,465.7 million in CALs to councils to date

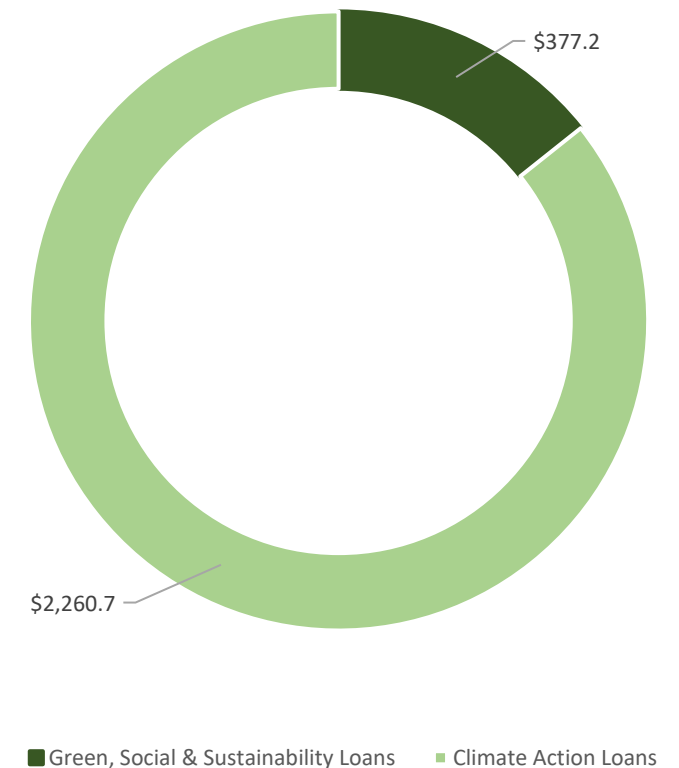
Borrower	Maturity Date Range of CALs	Principal Amount Advanced to date (NZ\$ million)	Allocated to Sustainable Loan Asset Pool under Framework (NZ\$ million)
Auckland Council	May 2028 to April 2033	1,100	1,100
Dunedin City Treasury Limited	February 2030 to April 2033	270	270
Hutt City Council	October 2026 to September 2030	220.7	220.7
Kapiti Coast District Council	May 2026 to October 2030	137.0	137.0
Tauranga City Council	October 2026 to September 2030	219.0	219.0
Wellington City Council	July 2027 to September 2030	314.0	314.0
Total		2,260.7	2,260.7



Sustainable financing bond proceeds will be notionally allocated to a pool of Sustainable Loans

- ❑ LGFA intends to notionally allocate an amount equal to the net proceeds of sustainable financing bonds to a pool of Sustainable Loans (consisting of either GSS Loans, CALs, or both) that meet the eligibility criteria set out in the Framework (**Sustainable Loan Asset Pool**).
- ❑ As at 30 April 2024, the Sustainable Loan Asset Pool is NZ\$2,637.9 million (comprising NZ\$377.2 million GSS Loans and NZ\$2.2607 billion CALs).
- ❑ LGFA intends to fully allocate a sustainable financing bond (i.e. notionally allocate an amount equal to the net proceeds) to Sustainable Loans within two years of the issue date of the relevant sustainable financing bond.
- ❑ LGFA will maintain a register (**Sustainable Loan Register**) of the Sustainable Loan Asset Pool.
- ❑ External review of the Sustainable Loans in the Sustainable Loan Asset Pool is as follows:
 - For GSS Loans: In addition to the Second Party Opinion that Sustainalytics provided on the Framework (see slide 25), Sustainalytics has also provided a **Sustainable Financing Bond Pre-Issuance Review Letter**¹ which concludes, in relation to the GSS Loans that had been entered into at the time the letter was issued, “nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the Nominated Projects and the processes LGFA intends to follow to manage the proceeds of the Sustainable Financing Bonds are not aligned with LGFA’s Sustainable Financing Bond Framework”.
 - For CALs: LGFA entered into the first CALs on 30 March 2023.

Types of Sustainable Loans in Sustainable Asset Pool (NZ\$ million)



Source: LGFA: as at 30 April 2024

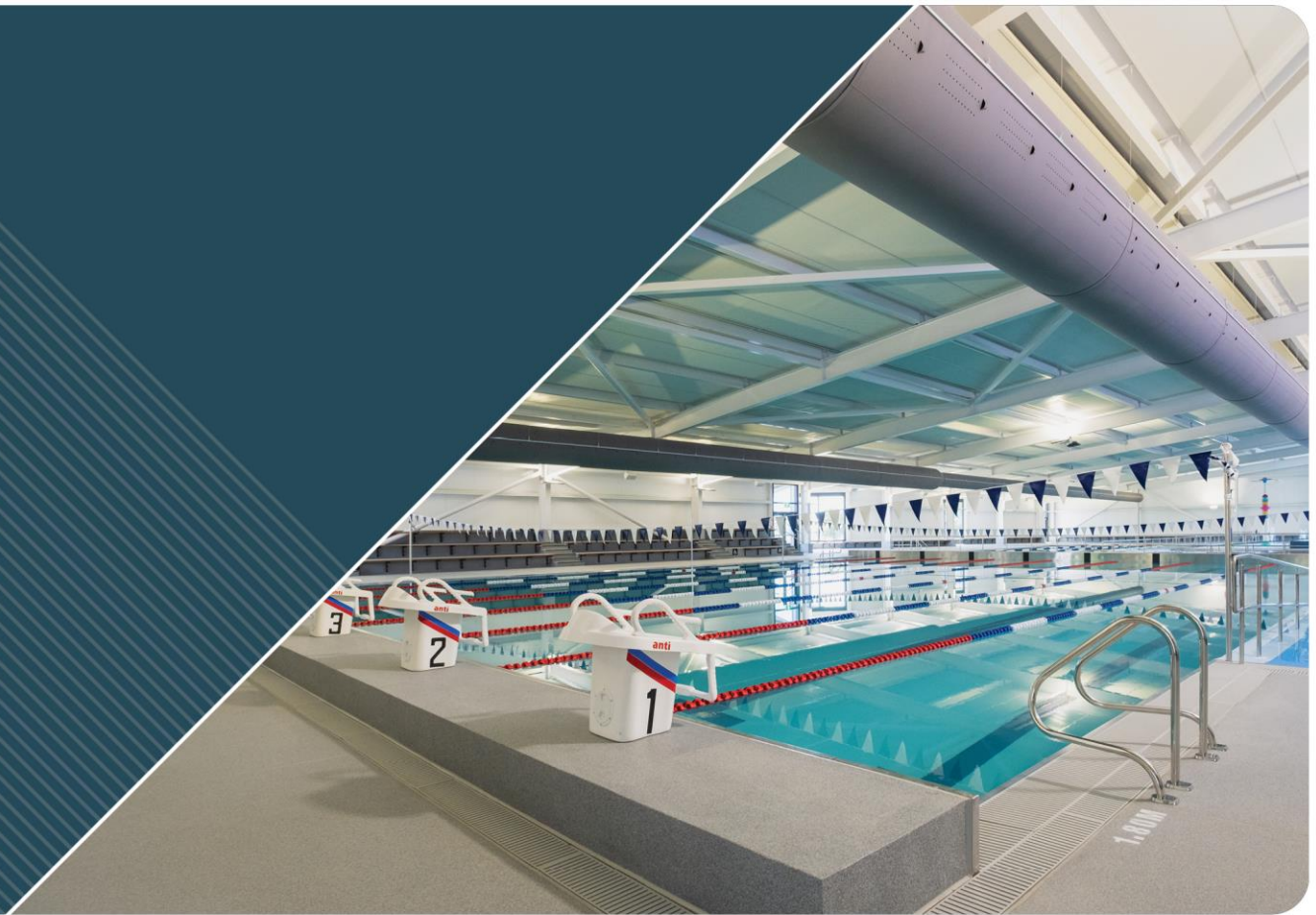
¹ Sustainalytics Sustainable Financing Bond Pre-Issuance Review Letter (dated 31 March 2023) can be found here www.lgfa.co.nz/sustainability/sustainable-financing-bonds

- ❑ LGFA published its first Annual Impact Report on 30 September 2023 ¹
- ❑ Sustainalytics reviewed the Annual Impact Report and provided
 - a review of the projects financed under the Framework; and
 - an assessment as to whether the project met the use of proceeds criteria and the reporting commitments outlined in the Framework.
- ❑ In the Review, Sustainalytics evaluated the projects to which LGFA had notionally allocated an amount equal to the net process of the sustainable financing bonds to finance GSS loans and CALs, based on whether the projects:
 - Met the use of proceeds and eligibility criteria defined in the LGFA Sustainability Financing Bond Framework; and
 - Reported on at least one key performance indicator for each use of proceeds category defined in the LGFA Sustainable Financing Bond Framework.



¹ A copy of the Annual Impact Report that incorporates the Sustainalytics Review is available on LGFA's website at www.lgfa.co.nz/sustainability/sustainable-financing-bonds

Important Notice and Disclaimer
Local Government Sector Update
LGFA Update
LGFA Debt Market Activity
Appendices



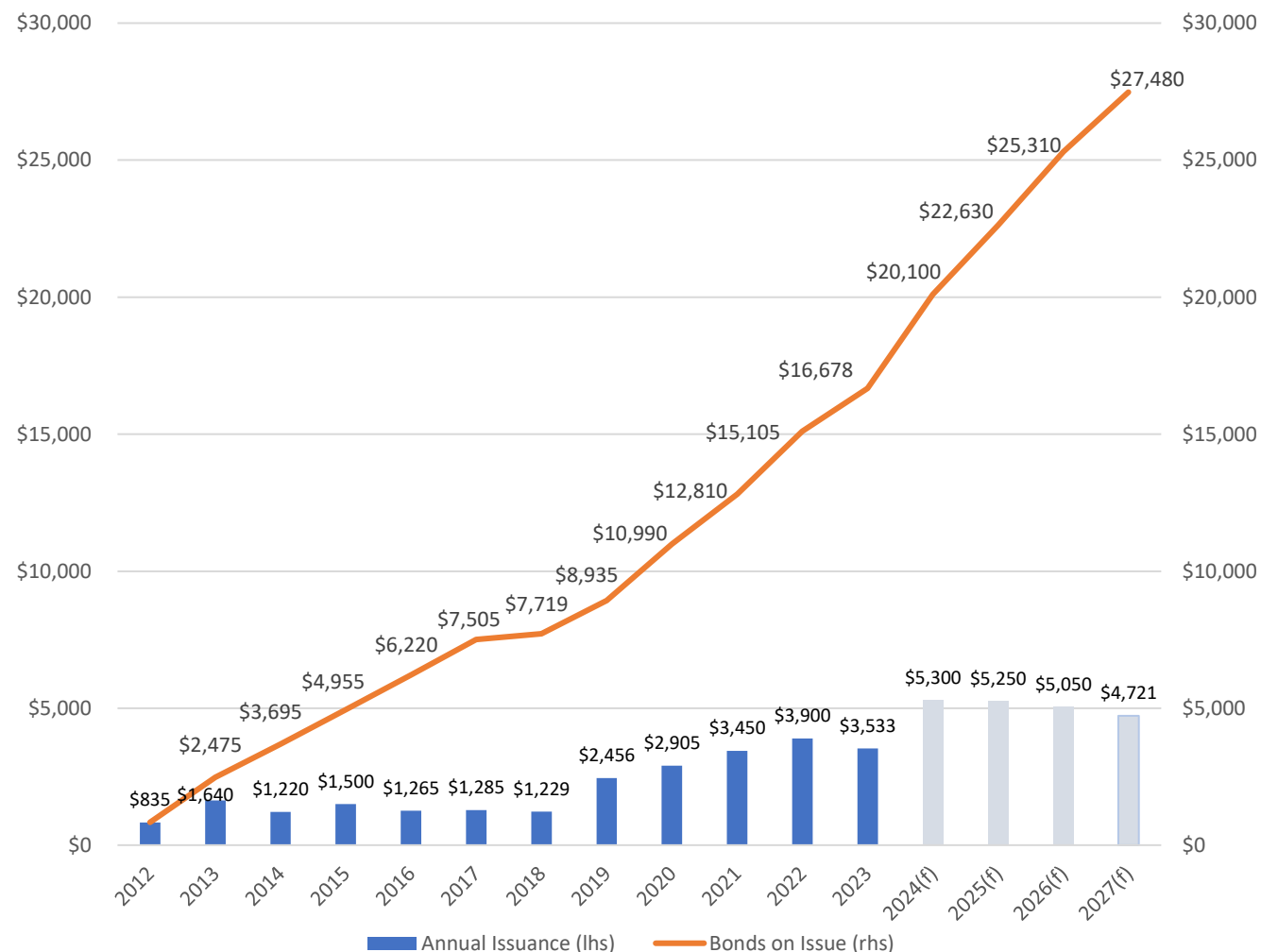
LGFA BOND ISSUANCE – FUNDING STRATEGY

Issuance Strategy

- ❑ Match NZ Government Bond where possible
 - Maturities, Tenders, AIL paid on behalf of offshore holders
- ❑ Issuance of new lines by syndications and issuance of existing lines via both auctions and syndication taps.
- ❑ Liquidity important – objective of more than NZ\$1 billion per NZD series and soft cap of NZ\$3 billion per NZD series (including Treasury Stock).
- ❑ All LGFA bonds issued in NZ\$ are listed on NZX.
- ❑ Objective to target tender issuance every five weeks of NZ\$150 million to NZ\$200 million in size and at least three maturities tendered.
- ❑ A\$ MTN issuance to complement NZ\$ issuance.

	Forecast Gross Council & CCO Borrowing	Forecast Gross LGFA Bond Issuance	Forecast Net LGFA Bond Issuance
2023-24	\$5.0 billion	NZ\$5.3 billion	NZ\$3.05 billion
2024-25	\$4.60 billion	NZ\$5.25 billion	NZ\$2.53 billion
2025-26	\$4.86 billion	NZ\$5.04 billion	NZ\$2.68 billion
2026-27	\$5.08 billion	NZ\$4.72 billion	NZ\$2.17 billion

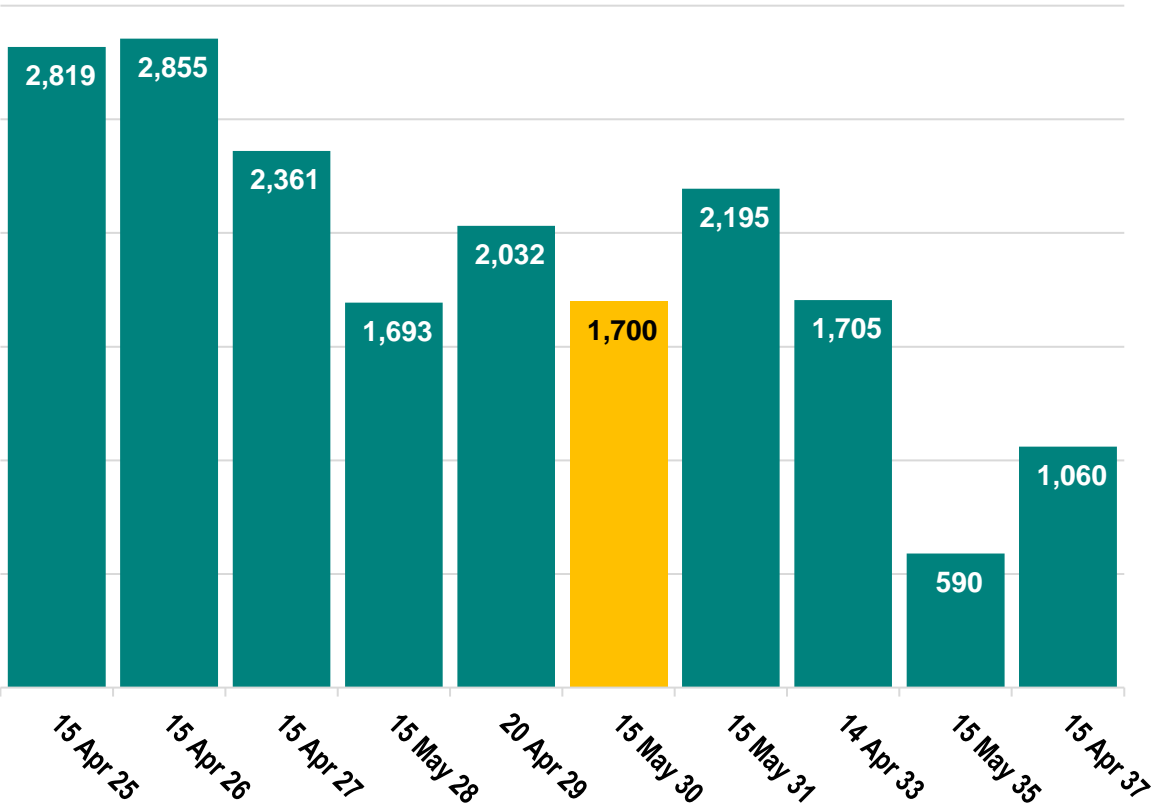
Annual Issuance and Bonds on Issue (NZ\$ millions)



Source: LGFA forecasts from draft 2024-27 SOI released 28 February 2024 and Quarterly Finding Update released 4 April 2024. Note: Gross and Net Bond Issuance include NZ\$ and A\$ issuance

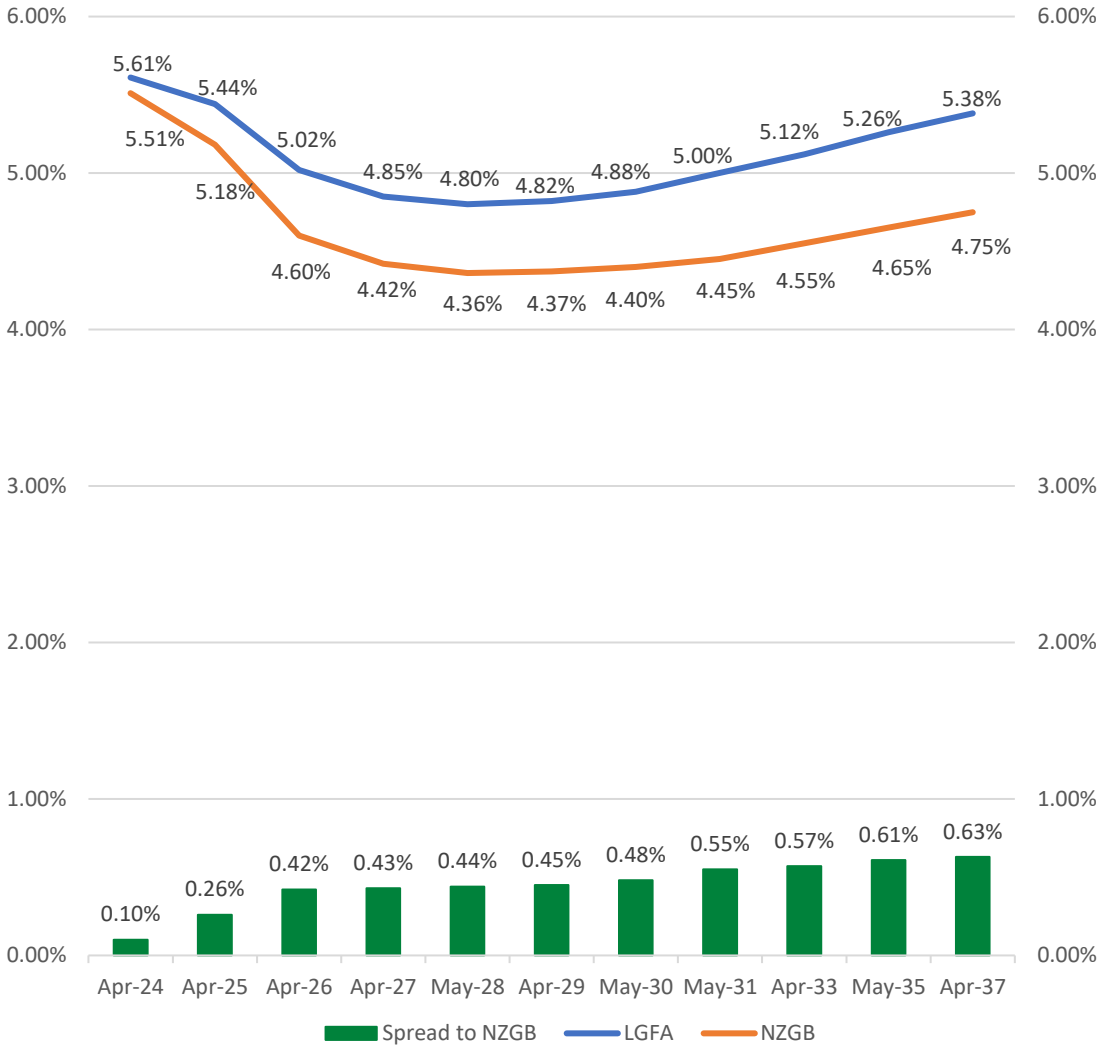
NZD bonds on issue

As at 6 May 2024: NZD 19,010 million
includes NZ\$1,000 million treasury stock



All NZD Bonds are listed on the NZX Debt Market
The 15 May 2030 bond is a Sustainable Financing Bond

LGFA NZD Bonds - Secondary Market Yields and LGFA Spread to NZGB as at 31 March 2024

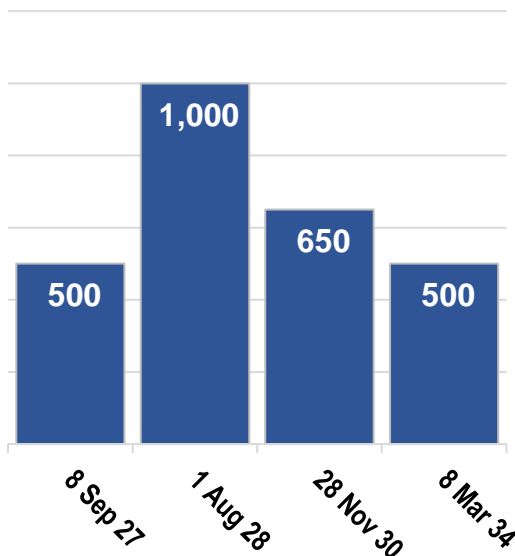


LGFA A\$ BOND ISSUANCE



AUD bonds on issue

As at 15 April 2024: A\$ 2,650 million



Background

- ❑ Historical preference to fund in NZD given borrowing requirement.
- ❑ Diversification of funding sources required as balance sheet and annual funding requirement increased.
- ❑ AUD Medium Term Notes programme established 2017.
- ❑ Annual funding requirement approx. NZ\$5 billion in each of next three years prompted shift to become Australasian issuer in 2023.
- ❑ The AUD Medium Term Note programme is a wholesale programme and notes issued under that programme are only available to specified wholesale investors.

Allocations	2028s	2030s	2027s	2034s
Issue Size (A\$ millions)	\$1,000	\$650	\$500	\$500
Investor Type				
Central Bank/Official Institution	47%	53%	43%	67%
Asset Manager	44%	29%	24%	31%
Bank	6%	10%	27%	1%
HF/Trading	2%	6%	6%	1%
Other	1%	2%	0%	0%
Investor by Region				
EMEA	29%	63%	60%	82%
Australia/NZ	36%	21%	22%	12%
Asia	34%	15%	17%	6%
North America	1%	1%	1%	0%

- ❑ Maturity Date: 8 September 2027
- ❑ Priced: 1 March 2024
- ❑ Volume: A\$500 million
- ❑ Coupon: 4.40%
- ❑ Issue yield: 4.446%
- ❑ Issue margin +52 bps to swap
- ❑ 29 investors

- ❑ Maturity Date: 1 August 2028
- ❑ Priced: 25 July 2023
- ❑ Volume: A\$1 billion
- ❑ Coupon: 4.70%
- ❑ Issue yield: 4.739%
- ❑ Issue margin +55 bps to swap
- ❑ 45 investors

- ❑ Maturity Date: 28 November 2030
- ❑ Priced: 21 November 2023
- ❑ Volume: A\$650 million
- ❑ Coupon: 5.10%
- ❑ Issue yield: 5.15%
- ❑ Issue margin +65 bps to swap
- ❑ 27 investors

- ❑ Maturity Date: 8 March 2034
- ❑ Priced: 1 March 2024
- ❑ Volume: A\$500 million
- ❑ Coupon: 5.00%
- ❑ Issue yield: 5.089%
- ❑ Issue margin +81 bps to swap
- ❑ 25 investors

LGFA BOND ISSUANCE – HISTORY BY JUNE FINANCIAL YEAR (\$ million)

Maturity	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 ytd
15-Apr-15	155	10	75										
15-Dec-17	605	245	110	55									
15-Mar-19	75	900	95	40	70	20	40						
15-Apr-20				365	200	190	225						
15-May-21		445	625	100	150	30	70	30					
14-Apr-22							270	440	445	450			
15-Apr-23			355	655	275	65	79	21	100	110	170		
15-Apr-24								950	298	280	470	220	
15-Apr-25					100	560	309	410	30	60	150	730	310
15-Apr-26									1,000	240	635	340	
15-Apr-27				285	470	205	96	220	50	160	265	260	250
8-Sep-27													500 ¹
15-May-28											1,270	153	170
1-Aug-28													1,000 ¹
20-Apr-29									692	480	190	360	210
15-May-30												1,000	550
28-Nov-30													650 ¹
15-May-31										650	200	270	175
14-Apr-33						215	140	385	290	140	120	60	205
8-Mar-34													500 ¹
15-May-35											400	50	
15-Apr-37										700	30	90	90
Total Volume (NZ\$ million)	835	1600	1260	1500	1265	1285	1229	2456	2905	3270	3900	3533	4798
Average Bond Tender Size (NZ\$ million)	209	182	153	188	141	143	137	188	191	195	188	193	173
Average Issuance Term (years)	5.34	6.57	7.04	7.92	8.10	8.28	6.07	6.62	6.74	8.67	6.22	5.33	7.37

¹ AUD not NZD

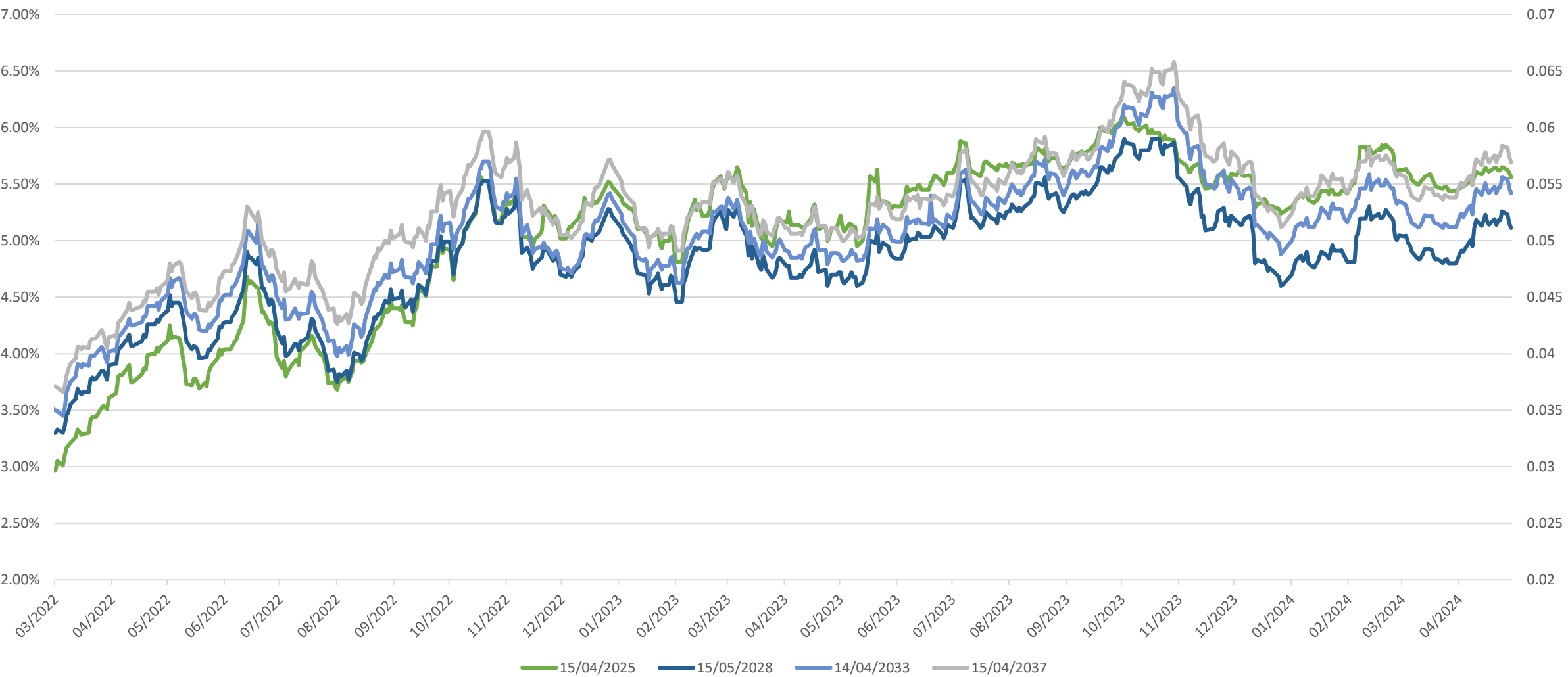
Excludes any issuance of Treasury Stock

As at 31 March 2024

Source: LGFA

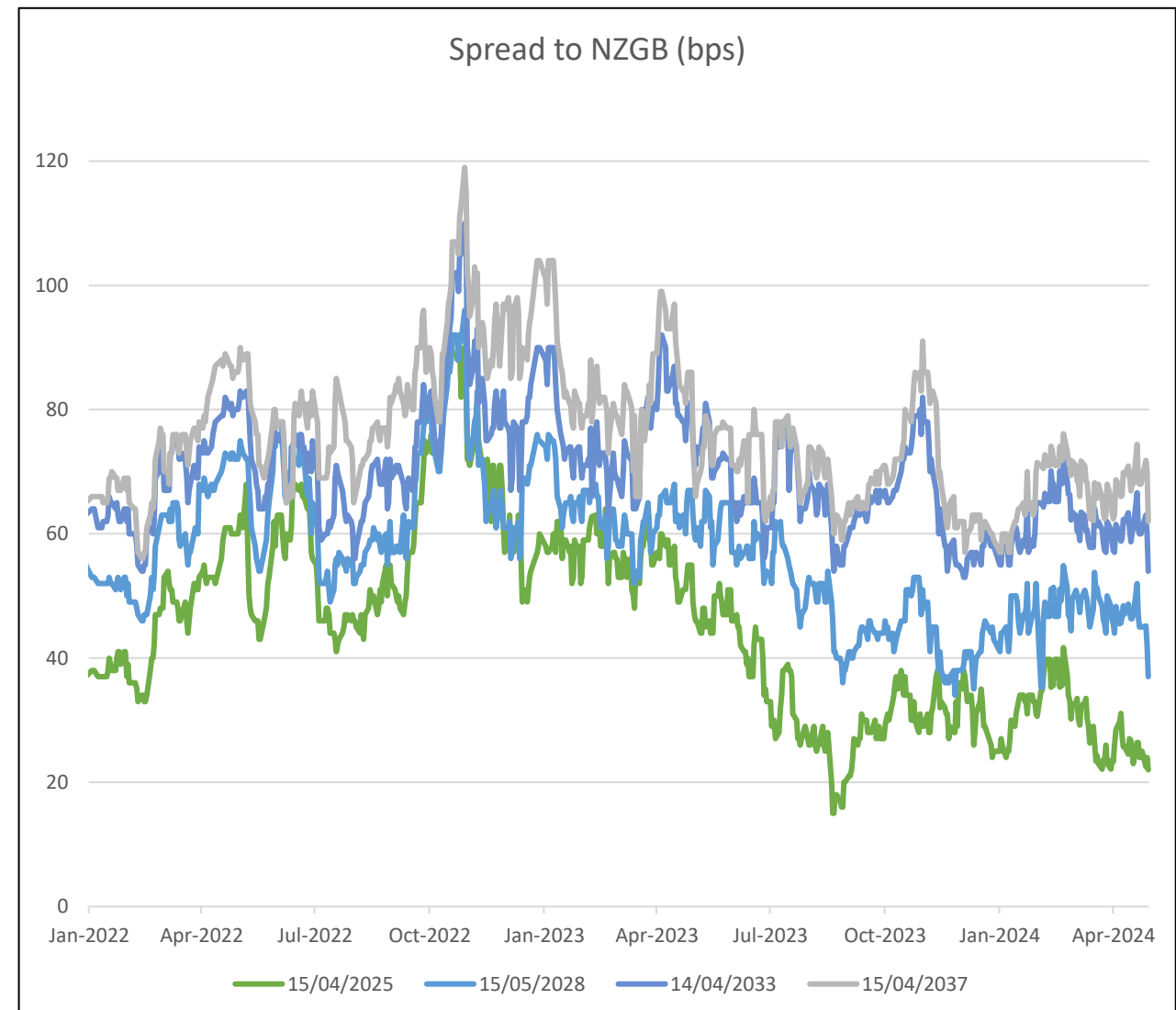
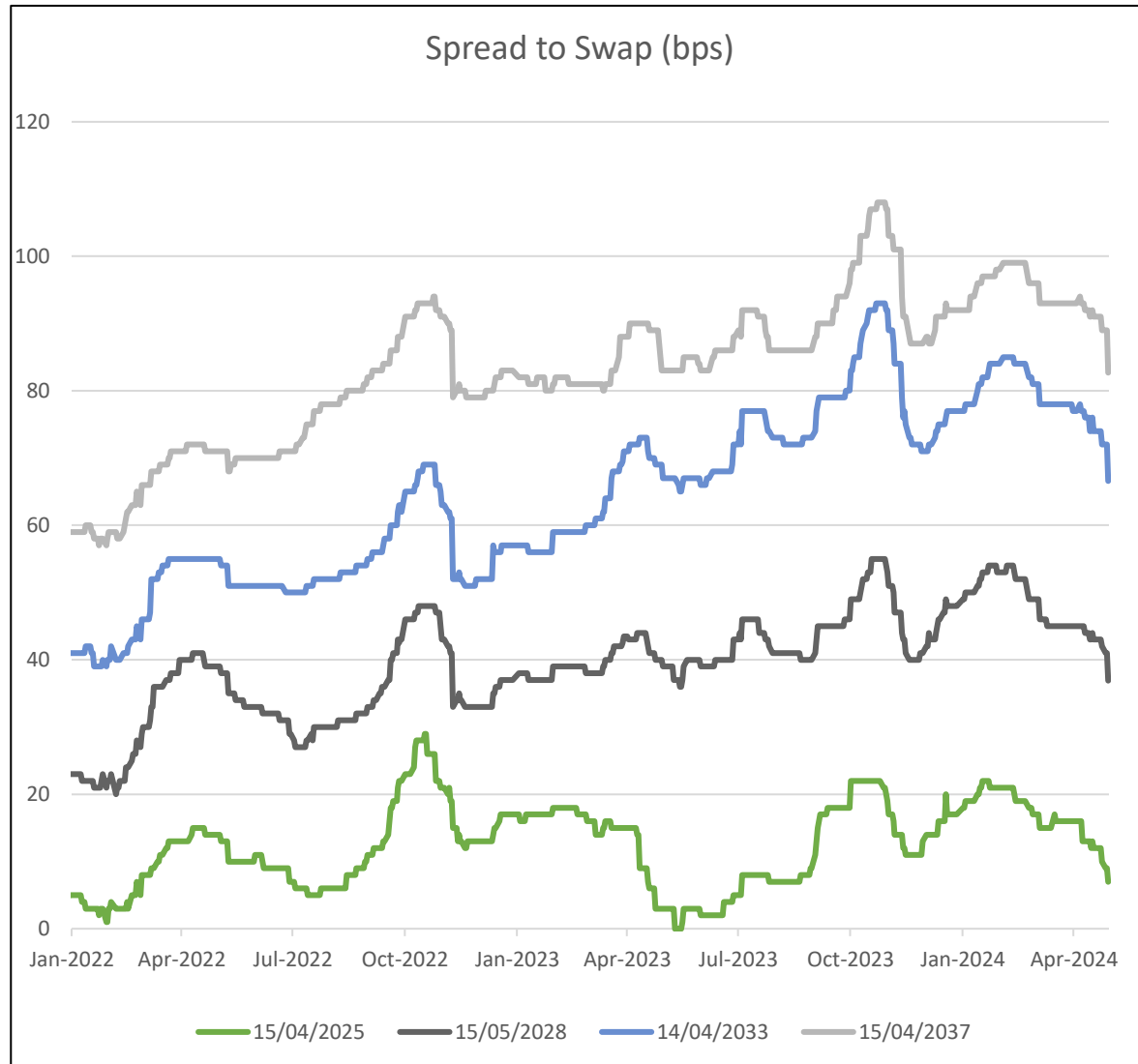
LGFA NZD BOND YIELDS IN SECONDARY MARKET

LGFA Bond Yields



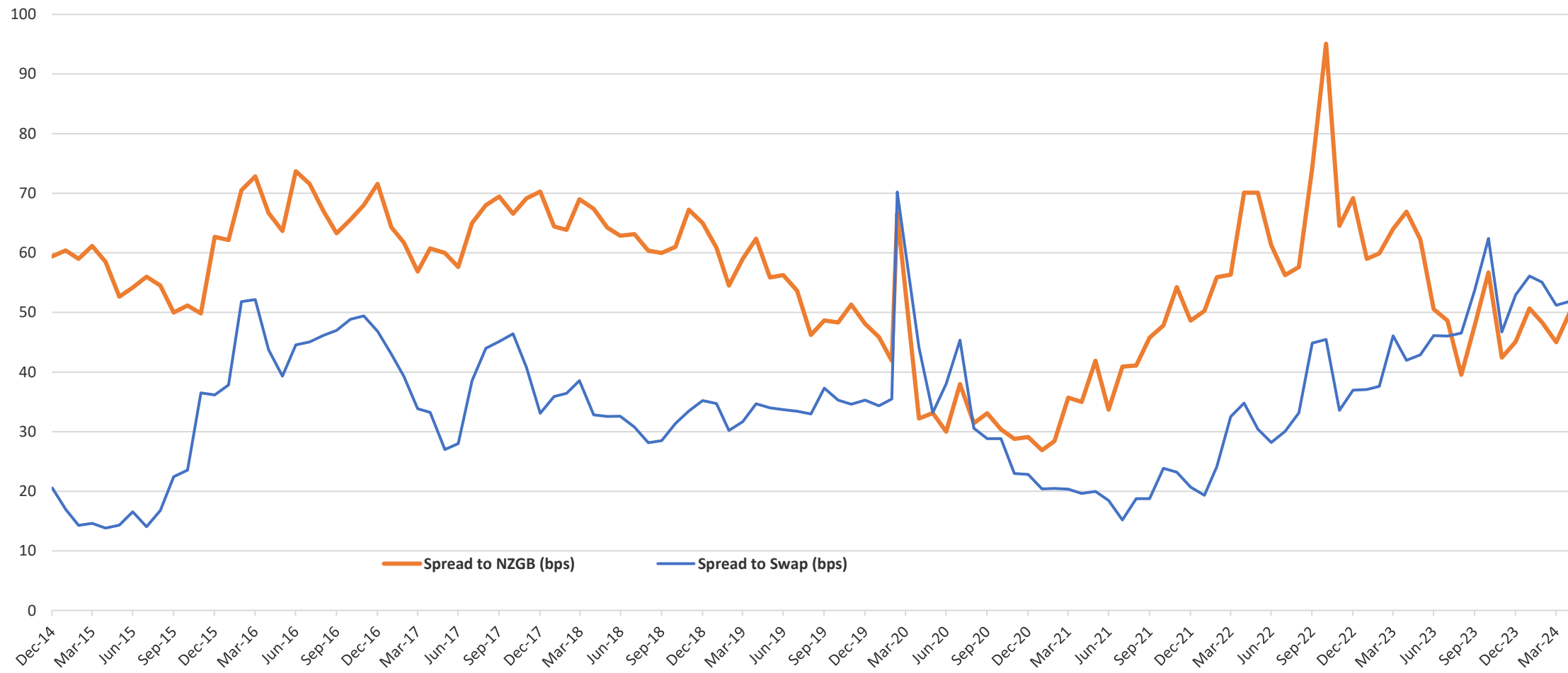
Source: LGFA secondary market end of day with yields sourced from Banks and Bloomberg

LGFA NZD BOND SPREADS IN SECONDARY MARKET



Source: LGFA secondary market end of day

LGFA NZD BONDS - SPREADS TO NZGB AND SWAP (bps)

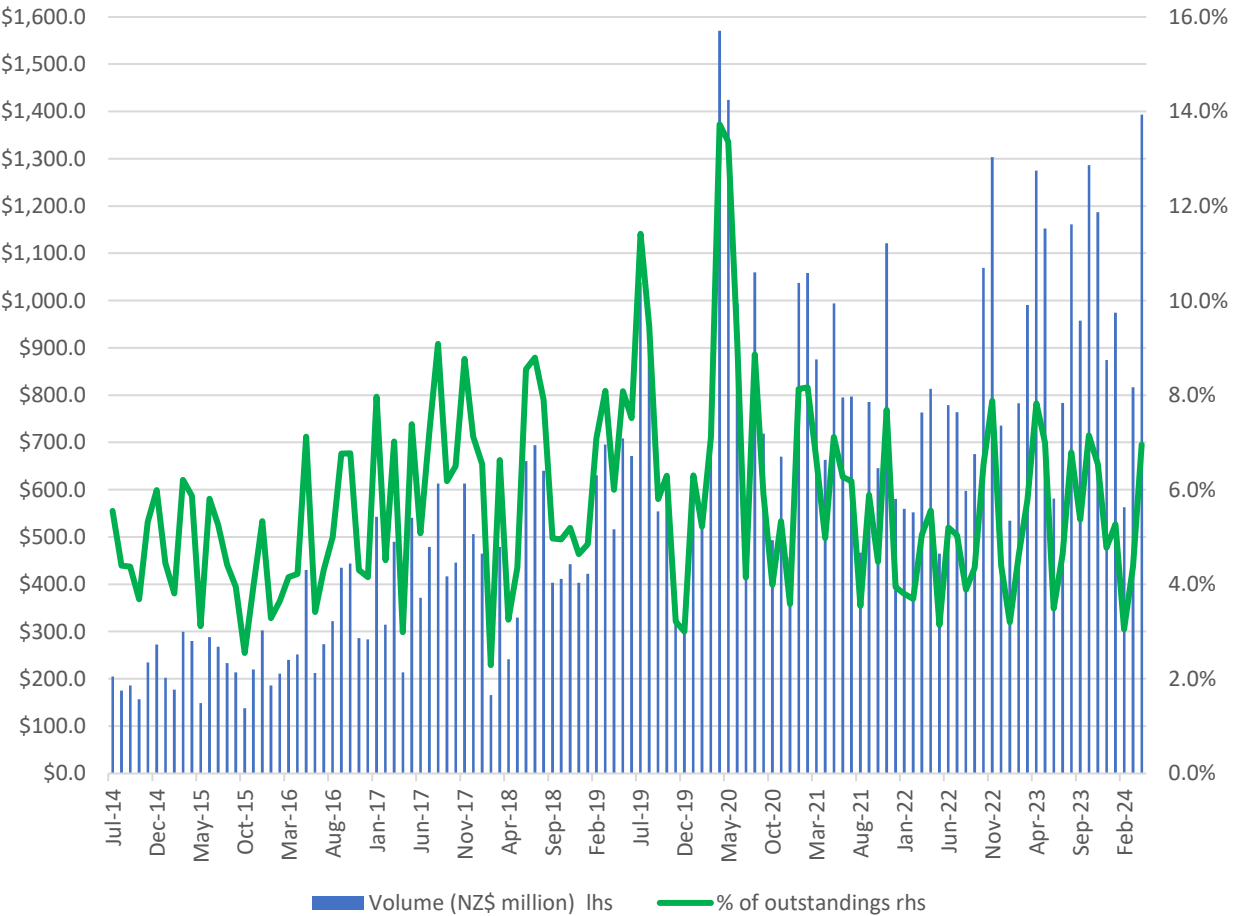


Secondary market levels as at end of each month taken from end of month closing rate sheets published by NZ banks
Simple average of existing LGFA bond maturities

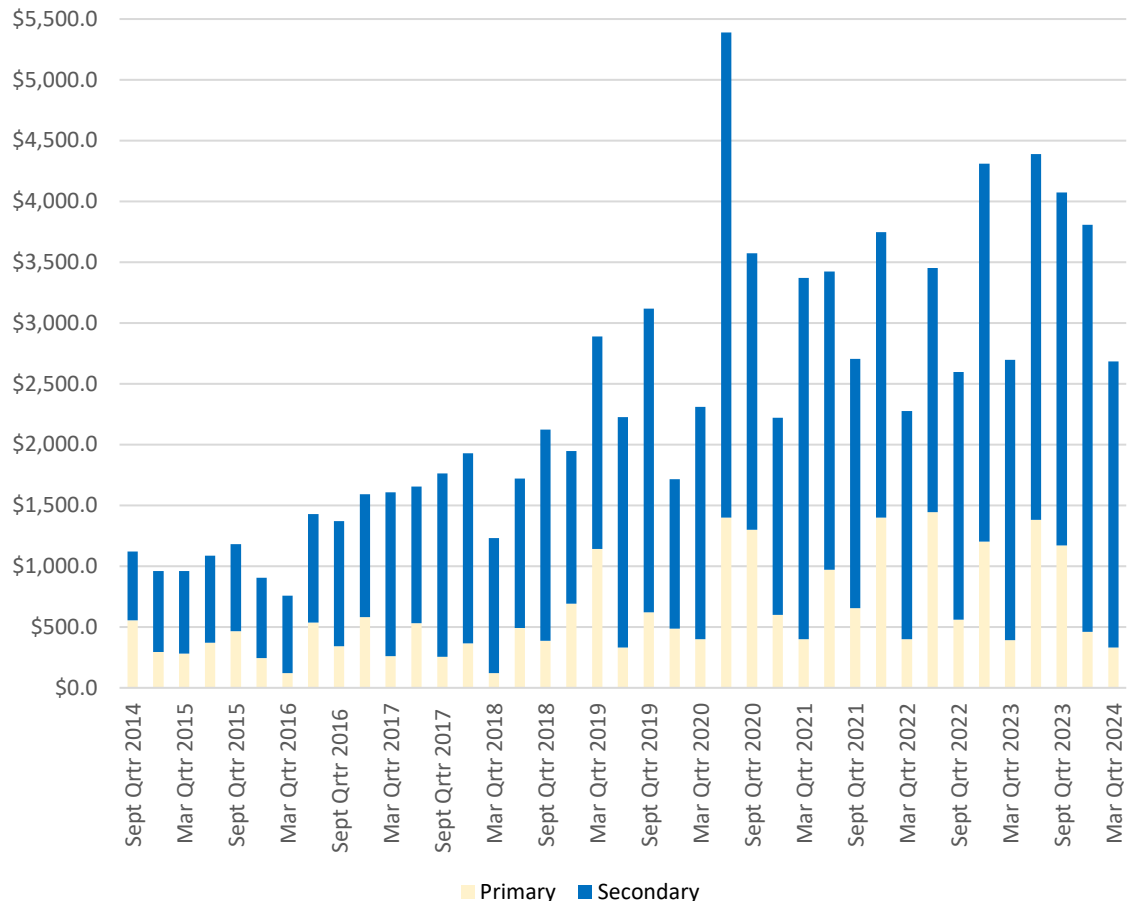
Source: LGFA

PRIMARY AND SECONDARY MARKET ACTIVITY

Secondary Market Turnover - Monthly (NZ\$ million)

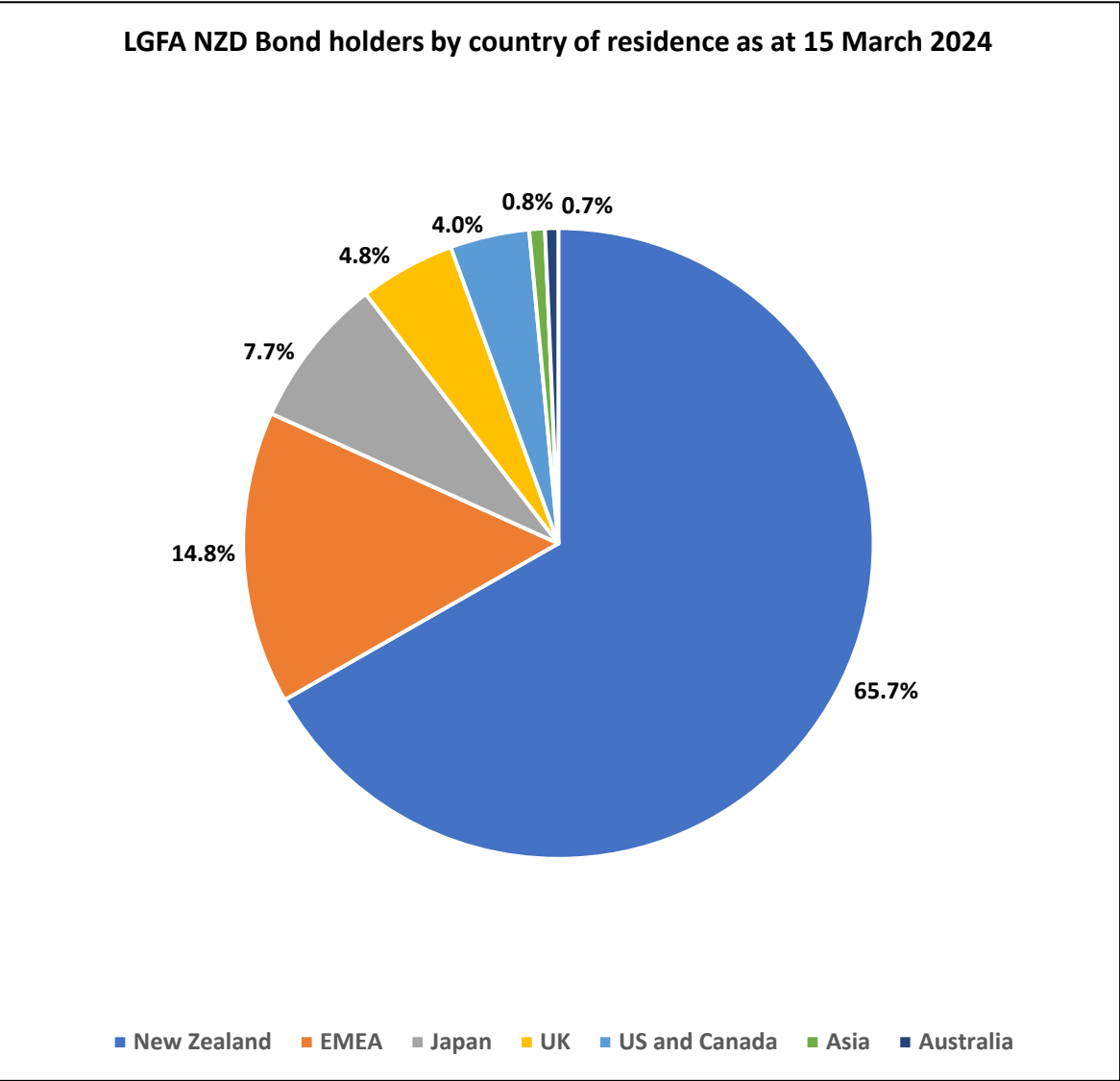
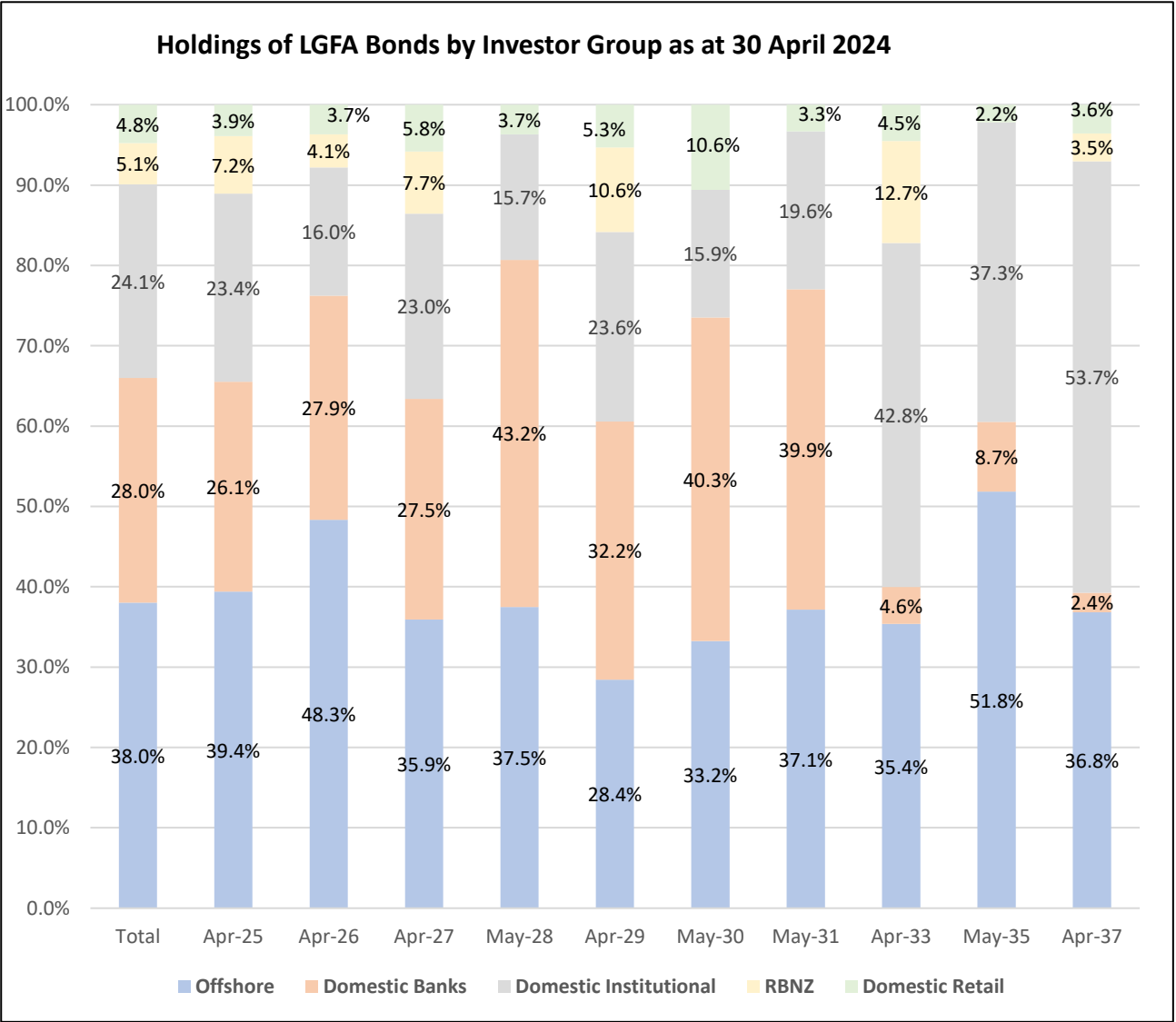


LGFA Primary and Secondary Market Activity - Quarterly (NZ\$ million)

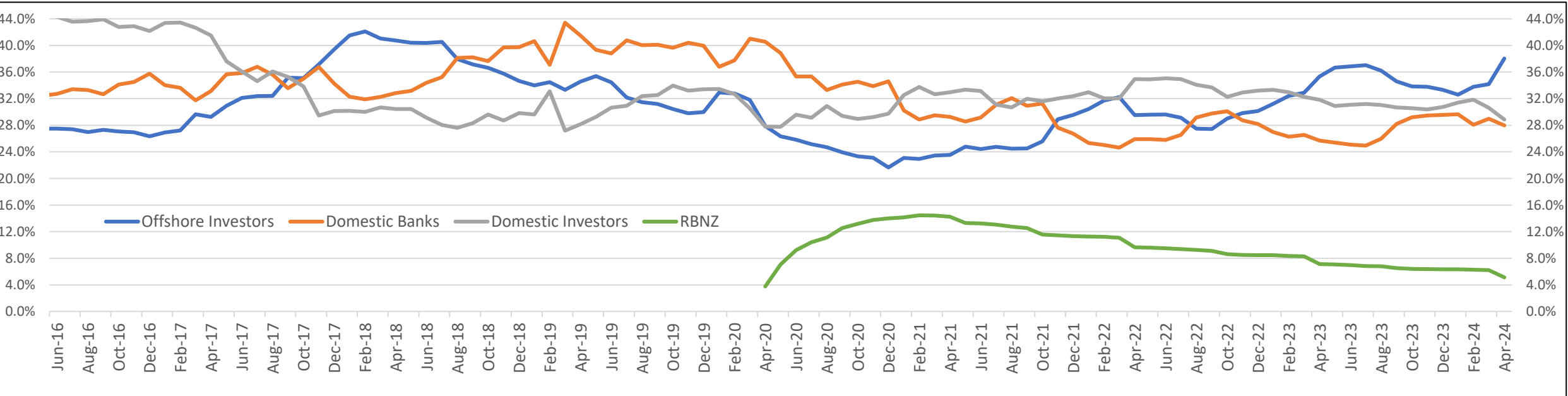
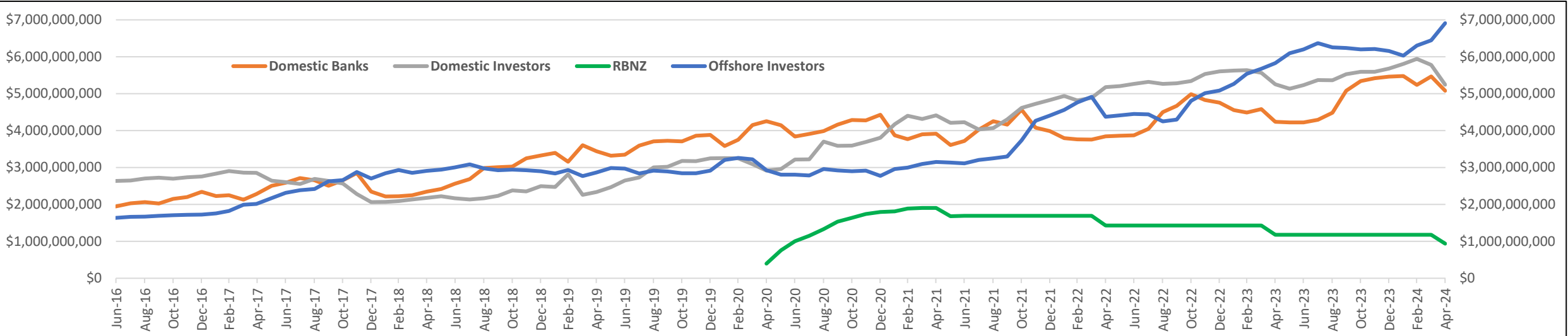


Note: LGFA analysis of change in investor holdings at Computershare registry. Buy side only, does not capture intra day activity or tender activity.
Activity in LGFA bonds excluded six months prior to maturity.

WHO HOLDS LGFA NZD BONDS?



LGFA INVESTOR HOLDINGS OF NZD BONDS (NZ\$ AMOUNTS)



Largest issuers of NZD bonds – by outstandings

	Issuer	Amount Outstanding (NZ\$ millions)
1	LGFA (AAA)	\$18,820,000,000
2	World Bank (AAA)	\$8,345,000,000
3	Asian Development Bank (AAA)	\$7,869,000,000
4	Housing New Zealand Ltd (AAA)	\$7,590,000,000
5	Westpac Bank Group (AA-)	\$4,825,000,000
6	Bank of New Zealand / NAB (AA-)	\$4,025,000,000
7	International Finance Corp (AAA)	\$3,787,000,000
8	ASB Bank / CBA Group (AA-)	\$2,776,000,000
9	Kiwibank (A)	\$2,430,000,000
10	Inter-American Development Bank (AAA)	\$2,316,000,000
11	Kommunalbanken (AAA)	\$2,191,000,000
12	Rabobank (A+)	\$2,134,850,000
13	Auckland Council (AA)	\$2,005,500,000
14	Nordic Investment Bank (AAA)	\$1,920,000,000
15	Transpower (AA-)	\$1,600,000,000
16	Infratil (unrated)	\$1,378,573,342
17	Toyota Finance Group (AA-)	\$1,331,500,000
18	Mercury NZ (BBB+)	\$1,250,000,000
19	Auckland International Airport (A-)	\$1,175,000,000
20	ANZ Bank (AA-)	\$1,145,000,000

Largest individual tranches of NZD bonds

Issuer	Maturity	Amount Outstanding (NZ\$)
LGFA	15/04/2026	\$2,855,000,000
LGFA	15/04/2025	\$2,819,000,000
LGFA	15/04/2027	\$2,361,000,000
LGFA	15/05/2031	\$2,195,000,000
LGFA	20/04/2029	\$2,032,000,000
Housing New Zealand Ltd	12/06/2025	\$1,925,000,000
LGFA	15/05/2028	\$1,693,000,000
LGFA	14/04/2033	\$1,655,000,000
LGFA	15/05/2030	\$1,650,000,000
World Bank (IBRD)	30/11/2026	\$1,500,000,000
Housing New Zealand Ltd	18/10/2028	\$1,425,000,000
LGFA	15/04/2037	\$1,010,000,000
Housing New Zealand Ltd	5/10/2026	\$1,240,000,000
Asian Development Bank	28/01/2027	\$1,200,000,000
Housing New Zealand Ltd	24/04/2030	\$1,150,000,000
World Bank (IBRD)	2/02/2028	\$1,050,000,000
World Bank (IBRD)	10/06/2026	\$1,000,000,000
World Bank (IBRD)	10/05/2028	\$1,000,000,000
Bank of New Zealand (BNZ)	01/09/2028	\$1,000,000,000
Westpac Bank	6/07/2026	\$1,000,000,000

Excludes NZ Government and LGFA holdings include LGFA Treasury Stock

As at 30 April 2024

Source: LGFA, Bloomberg

Important Notice and Disclaimer

Local Government Sector Update

LGFA Update

LGFA Debt Market Activity

Appendices



- ☐ 78 Local Government (“council”) entities.
- ☐ Financial management:
 - “a local authority should ensure prudent stewardship and the efficient and effective use of its resources in the interests of its district or region”. *Local Government Act 2002 s14*.
- ☐ Balanced budget approach – rates reset annually to balance expenditure with operating income.
- ☐ Revenue certainty through rates (property taxes) providing 66% of revenue:
 - rates not affected by level of economic activity or property market;
 - councils have broad powers to tax (rate) properties;
 - no upper limit on rates income; and
 - rate collection ranks ahead of all other claimants including Inland Revenue Department and mortgagees.
- ☐ No defined benefit pension liabilities or welfare obligations.
- ☐ Debt used essentially to finance new assets.
- ☐ Robust planning with extensive public consultation.
- ☐ Strong institutional framework and relationship with Central Government.
- ☐ Security can be provided to lenders by councils:
 - charge over rates and future rates income; and
 - all LGFA bondholders indirectly have the benefit of a Debenture Trust Deed from each guarantor council which gives a charge over rates and future rates income. This security is shared with other council lenders.

RANGE OF ACTIVITIES UNDERTAKEN BY THE GOVERNMENT SECTOR

Central Government	Mixture of Central and Local Government Funding	Local Government
Education (primary, secondary and tertiary provision)	Public transport operation (typically 53% from Central Government)	Water, wastewater and storm water
Public healthcare and hospitals	Rail infrastructure (negotiated)	Rubbish and recycling collection and disposal
Fire services	Local roads (construction, maintenance, cleaning)	Street cleaning
State highways	Public housing	Health / Sanitation inspections
Police and corrective facilities		Building inspections
Pensions and welfare		Public facilities (parks, recreation facilities, swimming pools, sports fields)

Table Source: Auckland Council

Assets (NZ\$ billion)

Current Assets	4.86	
Non-Current Assets		
Infrastructure	106.14	
Land and Buildings	35.77	
Investments	15.45	
Other	<u>8.77</u>	<u>170.99</u>

Liabilities (NZ\$ billion)

Debt	22.48	
Non-Equity Liabilities	<u>5.03</u>	<u>27.51</u>

Net Worth (NZ\$ billion) 143.48

Revenue (NZ\$ million)

Taxation revenue		
Property	7,365	
Regulatory income and petrol tax	<u>862</u>	8,227
Sales and other operating income		1,555
Interest and dividend income		388
Development contributions		570
Current grants and subsidies		<u>2,040</u>
Total Operating Income		12,780

Expenses (NZ\$ million)

Employee expenses	2,686
Depreciation	2,254
Purchases of goods and services	4,589
Interest expense	760
Current grants and subsidies	<u>1,174</u>
Total Operating Expenses	11,463

Net Operating Balance (NZ\$ million) 1,317

The amounts in this slide have been extracted from the Local Authority Financial Statistics database managed by Statistics New Zealand – calculated as at June 2022 and for the June 2021-22 year. The data comprises the seventy-eight councils that make up the New Zealand Local Government sector.

LGFA MEMBERS AS AT 30 APRIL 2024

Shareholders	Total Shares (NZ\$)	Shareholding (%)	Amount borrowed (NZ\$ million)	Borrowing (%)	Share Guarantee (%)
New Zealand Government	5,000,000	11.1%			
Auckland Council	3,731,960	8.3%	3,615.0	18.3	28.1
Christchurch City Council	3,731,960	8.3%	2,470.7	12.5	7.8
Wellington City Council	3,731,958	8.3%	1,504.0	7.6	5.2
Tauranga City Council	3,731,958	8.3%	990.0	5.0	3.3
Hamilton City Council	3,731,960	8.3%	940.0	4.8	2.9
Wellington Regional Council	3,731,958	8.3%	893.0	4.5	2.7
Kapiti Coast District Council	200,000	0.4%	342.0	1.7	1.0
Hutt City Council	200,000	0.4%	505.7	2.6	1.8
Bay of Plenty Regional Council	3,731,958	8.3%	259.8	1.3	0.9
Tasman District Council	3,731,958	8.3%	293.2	1.5	1.1
Waimakariri District Council	200,000	0.4%	200.0	1.0	1.0
Hastings District Council	746,392	1.7%	353.0	1.8	1.3
Whangarei District Council	1,492,784	3.3%	265.0	1.3	1.4
Palmerston North City Council	200,000	0.4%	260.2	1.3	1.4
New Plymouth District Council	200,000	0.4%	285.6	1.4	1.4
Horowhenua District Council	200,000	0.4%	200.2	1.0	0.6
Taupo District Council	200,000	0.4%	164.0	0.8	1.0
South Taranaki District Council	200,000	0.4%	132.2	0.7	0.6
Marlborough District Council	400,000	0.9%	197.6	1.0	1.0
Whanganui District Council	200,000	0.4%	162.6	0.8	0.9
Western Bay of Plenty District Council	3,731,958	8.3%	95.0	0.5	1.1
Manawatu District Council	200,000	0.4%	95.5	0.5	0.5
Whakatane District Council	200,000	0.4%	143.5	0.7	0.7
Waipa District Council	200,000	0.4%	286.0	1.4	0.9
Gisborne District Council	200,000	0.4%	162.8	0.8	0.9
Thames-Coromandel District Council	200,000	0.4%	83.0	0.4	1.0
Masterton District Council	200,000	0.4%	56.6	0.3	0.5
Hauraki District Council	200,000	0.4%	90.0	0.5	0.4
Selwyn District Council	373,196	0.8%	165.0	0.8	1.1
Otorohanga District Council	200,000	0.4%	9.2	0.0	0.2
Total	45,000,000		15,220.4	77.1	72.8

Note: Total shares includes called and uncalled shares

Source: LGFA

LGFA MEMBERS (CONTINUED) AS AT 30 APRIL 2024

Borrowers and Guarantors	Amount borrowed (NZ\$ million)	Borrowing (%)	Share of Guarantee (%)
Ashburton District Council	125.8	0.6	0.6
Canterbury Regional Council	97.1	0.5	1.9
Carterton District Council	24.6	0.1	0.2
Central Otago District Council	25.1	0.1	0.5
Central Hawke's Bay District Council	44.1	0.2	0.3
Clutha District Council	107.0	0.5	0.4
Dunedin City Council	0.0	0.0	2.4
Far North District Council	103.4	0.5	1.3
Gore District Council	52.6	0.3	0.3
Grey District Council	30.6	0.2	0.2
Hawke's Bay Regional Council	85.0	0.4	0.4
Hurunui District Council	62.1	0.3	0.3
Invercargill City Council	135.6	0.7	0.8
Kaipara District Council	54.0	0.3	0.5
Mackenzie District Council	17.2	0.1	0.2
Manawatu-Wanganui Regional Council	64.5	0.3	0.7
Matamata-Piako District Council	59.0	0.3	0.6
Napier City Council	20.0	0.1	0.9
Nelson City Council	255.1	1.3	1.1
Northland Regional Council	24.5	0.1	0.5
Otago Regional Council	154.3	0.8	0.6
Porirua City Council	256.5	1.3	1.1
Queenstown-Lakes District Council	627.0	3.2	1.3
Rangitikei District Council	40.0	0.2	0.3
Rotorua District Council	436.9	2.2	1.5
Ruapehu District Council	58.0	0.3	0.3
South Wairarapa District Council	26.9	0.1	0.3
Southland District Council	25.8	0.1	0.7
Southland Regional Council	0.0	0.0	0.3
South Waikato District Council	44.0	0.2	0.4
Stratford District Council	36.7	0.2	0.2
Taranaki Regional Council	28.5	0.1	0.2
Tararua District Council	68.2	0.3	0.4
Timaru District Council	220.6	1.1	0.8
Upper Hutt City Council	170.0	0.9	0.6
Waimate District Council	3.5	0.0	0.2
Waitaki District Council	71.0	0.4	0.5
Waikato District Council	205.0	1.0	1.4
Waikato Regional Council	32.0	0.2	1.5
Waitomo District Council	33.2	0.2	0.3
West Coast Regional Council	16.3	0.1	0.1
Westland District Council	30.3	0.2	0.2
Total	3,972.0	20.1	27.2

Source: LGFA

LGFA MEMBERS (CONTINUED) AS AT 30 APRIL 2024

Borrowers Only	Amount borrowed (NZ\$ million)	Borrowing (%)	Share of Guarantee (%)
Buller District Council	20.0	0.1	Nil
Kaikoura District Council	7.3	0.0	Nil
Kawerau District Council	4.0	0.0	Nil
Opotiki District Council	12.5	0.1	Nil
Wairoa District Council	16.0	0.1	Nil
Total	59.8	0.3	Nil

Council Controlled Organisations	Amount borrowed (NZ\$ million)	Borrowing (%)	Share of Guarantee (%)
Infrastructure Holdings Ltd	113.0	0.6	Nil
Invercargill City Holdings Ltd	96.9	0.5	Nil
Dunedin City Treasury Ltd	270.0	1.4	Nil
Westland Holdings Ltd	6.0	0.0	Nil
Whanganui District Council Holdings Limited	0.0	0.0	Nil
Total	485.9	2.5	
Total Borrowing from LGFA	19,738.1	100.0	100

Source: LGFA

NEW ZEALAND COUNCILS EXTERNAL CREDIT RATINGS

Council	S&P	Fitch	Moody's
Ashburton District Council		AA+	
Auckland Council	AA		Aa2
Bay of Plenty Regional Council	AA (neg outlook)		
Canterbury Regional Council		AA+	
Christchurch City Council	AA		
Dunedin City Council	AA (neg outlook)		
Far North District Council		AA	
Hamilton City Council	AA- (neg outlook)		
Hastings District Council	AA- (neg outlook)		
Horowhenua District Council	AA- (neg outlook)		
Hutt City Council	AA (neg outlook)		
Invercargill City Council		AA+	
Kapiti Coast District Council	AA (neg outlook)		
Marlborough District Council	AA (neg outlook)		
Nelson City Council	AA (neg outlook)		
New Plymouth District Council	AA+ (neg outlook)		
Palmerston North City Council	AA (neg outlook)		
Porirua City Council	AA (neg outlook)		
Queenstown-Lakes District Council		AA-	
Rotorua District Council		AA-	
Selwyn District Council		AA+	
South Taranaki District Council	AA (neg outlook)		
Tasman District Council	AA (neg outlook)		
Taupo District Council	AA+ (neg outlook)		
Tauranga City Council	A+		
Timaru District Council		AA-	
Upper Hutt City Council	A+ (neg outlook)		
Waimakariri District Council	AA (neg outlook)		
Waikato District Council		AA+	
Waipa District Council		AA-	
Wellington City Council	AA+ (neg outlook)		
Wellington Regional Council	AA+ (neg outlook)		
Whanganui District Council	AA (neg outlook)		
Western Bay of Plenty District Council	AA (neg outlook)		
Whangarei District Council	AA		

35 councils in New Zealand have credit ratings and they all are members of LGFA.

Over the past year:

- On 21 February 2024, S&P Global Ratings lowered the outlook on fifteen councils and two CCOs from stable to negative.
- Six councils were already on negative outlook from S&P Global Ratings (Bay of Plenty Regional Council, Hamilton City Council, Hutt City Council, Kapiti Coast District Council, Marlborough District Council and Wellington City Council).
- Far North District Council received a new AA rating from Fitch Ratings.

As at 30 April 2024

Source: S&P Global Ratings, Fitch Ratings, Moody's Investor Services, LGFA

LGFA undertakes its own internal credit assessment and rating process for all member councils using most recent annual reports (June 2022)

Primary Criteria

- Debt levels relative to population – affordability
- Debt levels relative to asset base
- Ability to repay debt
- Ability to service debt – interest cover
- Population trend
- Assessment of climate change and resilience

LGFA member councils by internal rating category

LGFA Internal Ratings	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
AA+	1	2	2	4	4	6	7	8	9	2	0
AA	12	12	12	10	12	13	19	17	22	37	15
AA-	13	13	16	15	19	17	19	23	23	18	39
A+	8	6	3	11	10	12	13	10	12	12	19
A	6	10	11	6	6	3	4	4	5	3	4
A-	5	2	1	1	0	2	2	2	1	0	1

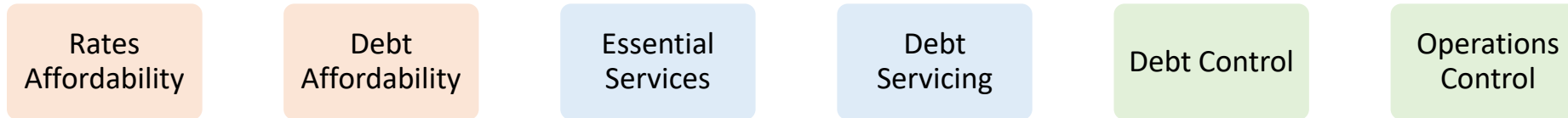
Secondary Criteria

- 30 Year Infrastructure Strategy
 - Quality of Assets
 - Capital Expenditure Plan
- Risk Management
 - Insurance
- Governance
- Financial flexibility
- Cashflow
- Budget performance (balanced budget)
- Affordability of rates / Deprivation Index
- Natural hazards
- Group activities (CCOs)

As at 30 June each year

Source: LGFA internal models

- ❑ Local Government Framework reduces risk of financial distress – no historical default by a council.
- ❑ Councils have own Treasury Management and borrowing policies – most have independent advice.
- ❑ Council financial oversight by Office of Auditor General (OAG), Audit NZ and Department of Internal Affairs.
- ❑ Councils under Local Government (Financial Reporting and Prudence) Regulations 2014 required to report annually on performance against benchmarks including:



- ❑ Six step intervention process possible by Central Government



- ❑ Councils required to comply with LGFA lending covenants

Annual attestation by council

LGFA credit watch-list in place

LGFA credit analysis and monitoring performed through the year

LGFA not obligated to lend to council members (except under council standby facilities provided by LGFA)

- ❑ Covenant breach in respect of securities (Bonds/FRN/CP) issued by a council is an Event of Review – after 30 days LGFA can seek repayment of loans.

- ❑ As at 31 December 2023, 34 LGFA member councils and 1 CCO have external credit ratings (A+ to AA+ range).
- ❑ LGFA undertakes detailed credit analysis of each council when they apply to join LGFA (and ongoing) - not every council has been accepted as a member.
- ❑ A council default becomes a timing issue for LGFA:
 - LGFA lending secured against rates revenue under Debenture Trust Deed;
 - unlikely to be other material claimants on rates revenue given LGFA is the dominant lender to councils;
 - Council's Debenture Trustee appoints receiver and a special rate (property tax) levied on all properties in the council region to meet secured obligations when due; and
 - rates (property taxes) unavoidable and first ranking claim over property.

❑ Sources of LGFA liquidity and additional capital

NZ\$1.5 billion liquidity facility from NZ Government

Liquid Assets Portfolio

Issuance of additional LGFA Bills and Bonds

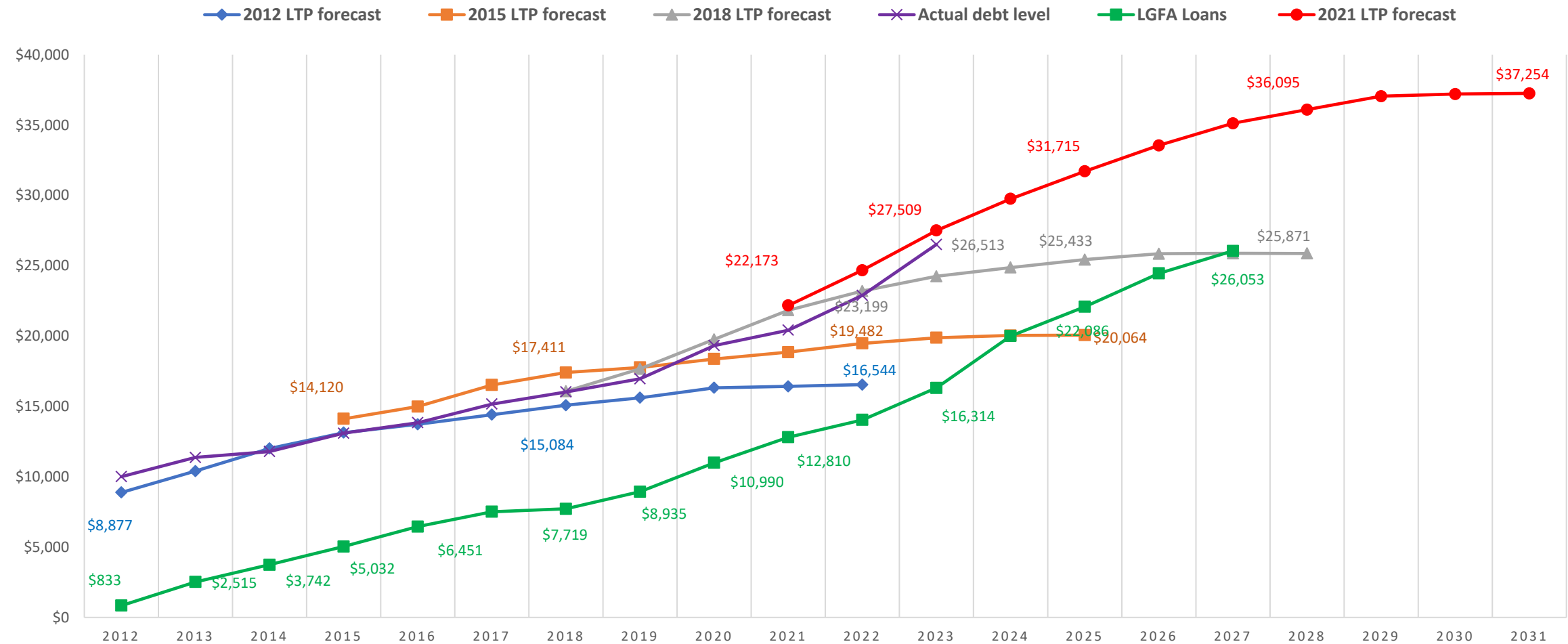
Conversion of Borrower Notes into equity

Uncalled capital of NZ\$20 million

- ❑ Beneficiaries of the council guarantee (including LGFA bondholders) can also call upon the guarantee from councils in prescribed circumstances.

❑ Central Government does not guarantee obligations of either LGFA or council members.

COUNCIL DEBT LEVELS - LTP FORECASTS AND ACTUAL



Source: LGFA with underlying data sourced from each councils' Long-Term Plan (LTP). LGFA Loans from Annual Reports

LGFA's policy to minimise financial risks and carefully identify, manage and control all risk.

❑ Market Risk

- PDH limit of NZ\$250,000 – current exposure (as at 30 April 2024) NZ\$139,064
- VAR limit of NZ\$3,000,000 – current exposure (as at 30 April 2024) NZ\$1,118,510

❑ Credit Risk

All councils that borrow from LGFA are obliged to:

- provide security in relation to their borrowing from LGFA and related obligations;
- issue securities (bonds/FRNs/CP) to LGFA;
- comply with their own internal borrowing policies; and
- comply with the LGFA financial covenants within either the Lending Policy or Foundation Policy.

Auckland Council is limited to a maximum of 40% of LGFA's total Local Authority assets.

All CCOs that borrow from LGFA are obliged to comply with requirements set by the LGFA Board.

❑ Liquidity and Funding Risk

Cash and Investments

- LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations (including any collateral required to be posted under its swaps) when they fall due; and
- LGFA only invests in NZD senior debt securities, money market deposits and registered certificates of deposits within strict counterparty limits.

NZ Government liquidity facility

- The New Zealand Government provides a committed liquidity facility up to NZ\$1.5 billion that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall; and
- Facility size is set by LGFA at NZ\$1.5 billion (as at 30 April 2024).

Collateral posting

- Under LGFA's swaps with NZDM, there was an unrealised mark to market valuation loss of \$1.22 billion as at 30 April 2024. However, LGFA is, in summary, only required to post collateral to NZDM under its swaps to the extent the valuation loss exceeds the facility size of the NZ Government liquidity facility.

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<280% ¹
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

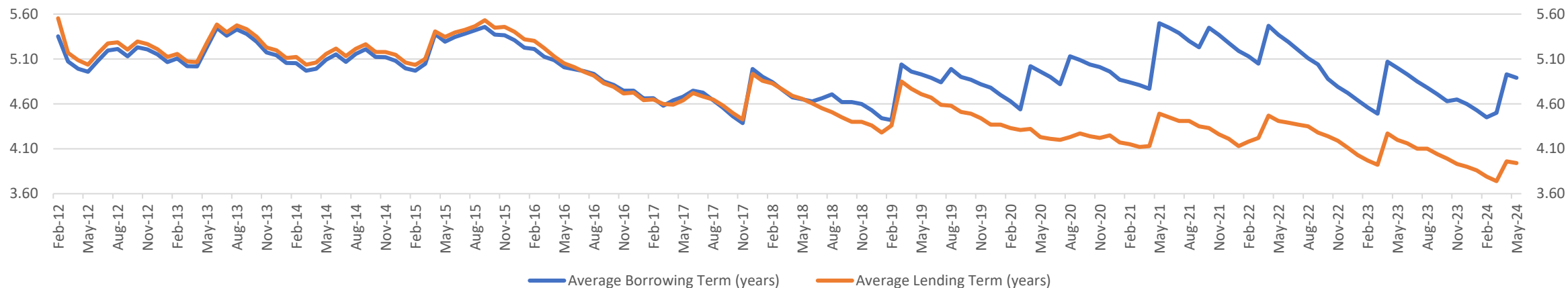
¹ There is an alternative Net Debt / Total Revenue foundation policy covenant for councils with a long-term credit rating of 'A' equivalent or higher.

Liquidity position as at 30 April 2024 ²	NZ\$ million
Cash and cash equivalents	\$418.3
Deposits and Marketable Securities	\$1,523.1
Total	\$1,941.4

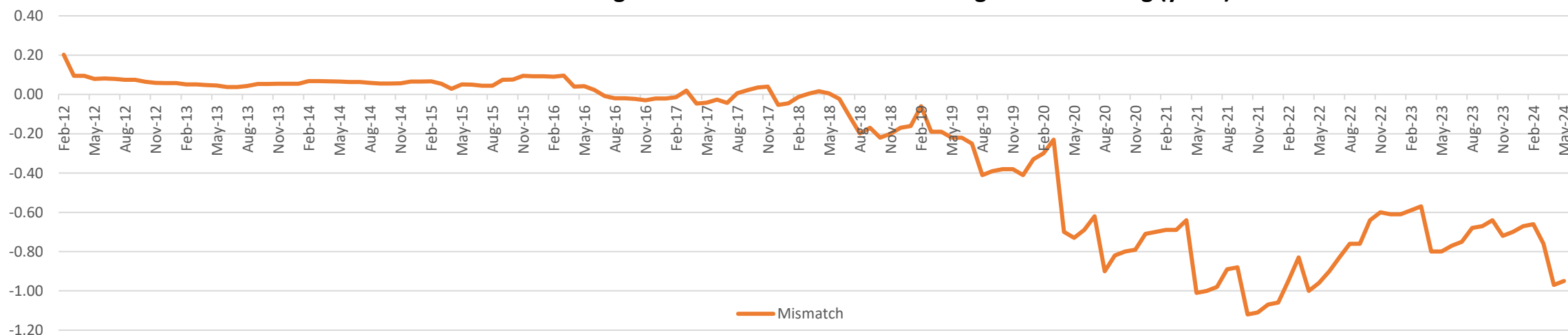
² Excluding assets to back standby facilities provided to councils

MISMATCH BETWEEN LGFA BONDS AND LOANS TO COUNCILS AND CCOS

Average term of LGFA bonds outstanding and on-lending (years)



Mismatch between average term of LGFA bonds outstanding and on-lending (years)

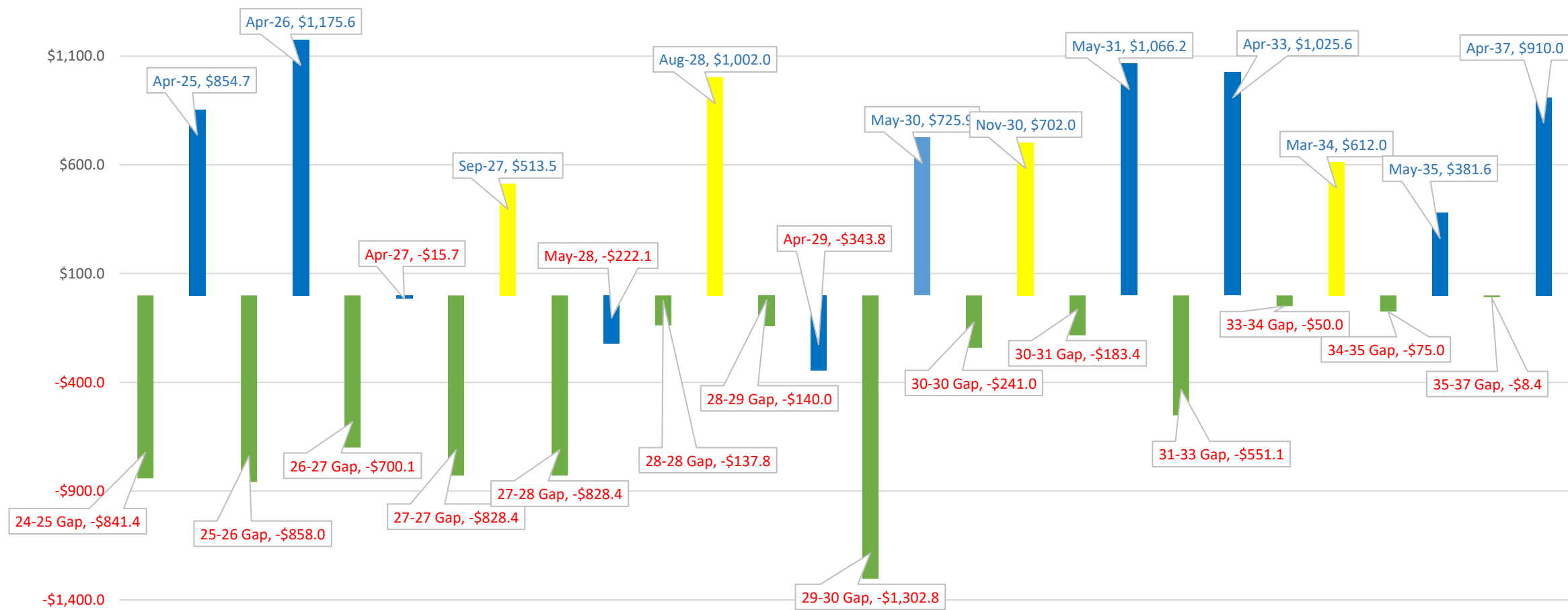


Negative = longer term of bond issuance than on-lending.

LGFA bonds include NZD and A\$ bonds.

Source: LGFA

ASSET LIABILITY MISMATCHES



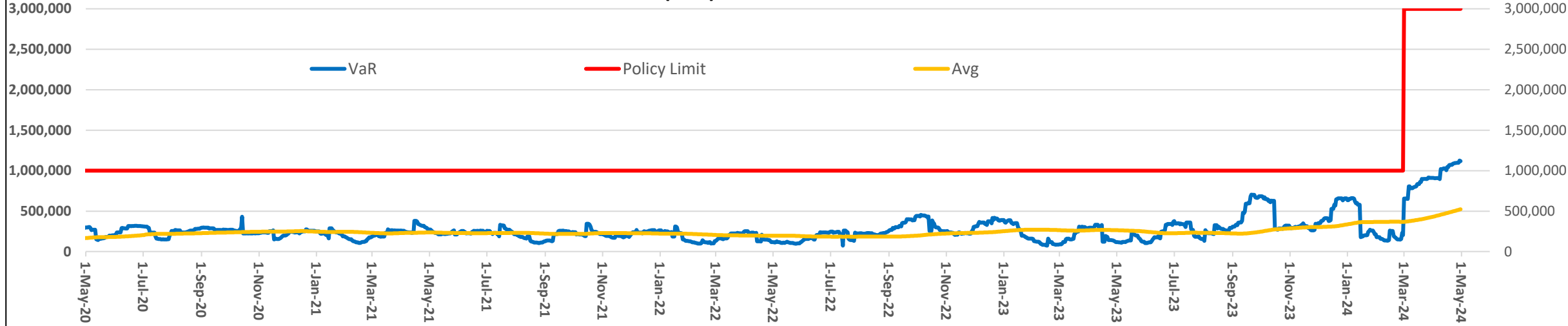
The asset liability mismatch is the difference between LGFA bonds issued (in NZD and A\$) and loans to councils and CCOs for each date or period. The positive outcomes show more LGFA bonds (in NZD and A\$) have been issued than loans made to councils and CCOs for that date or period. The negative outcomes show loans made to councils and CCOs with maturity dates between LGFA NZD and A\$ bond maturities.

NZ\$ million
As at 1 May 2024

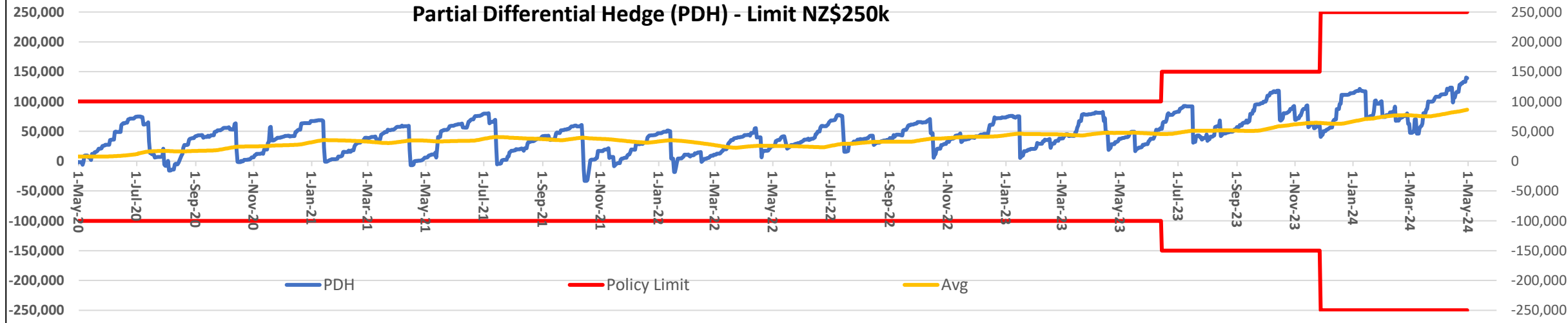
Source: LGFA 57

MINIMAL VaR AND PDH EXPOSURES

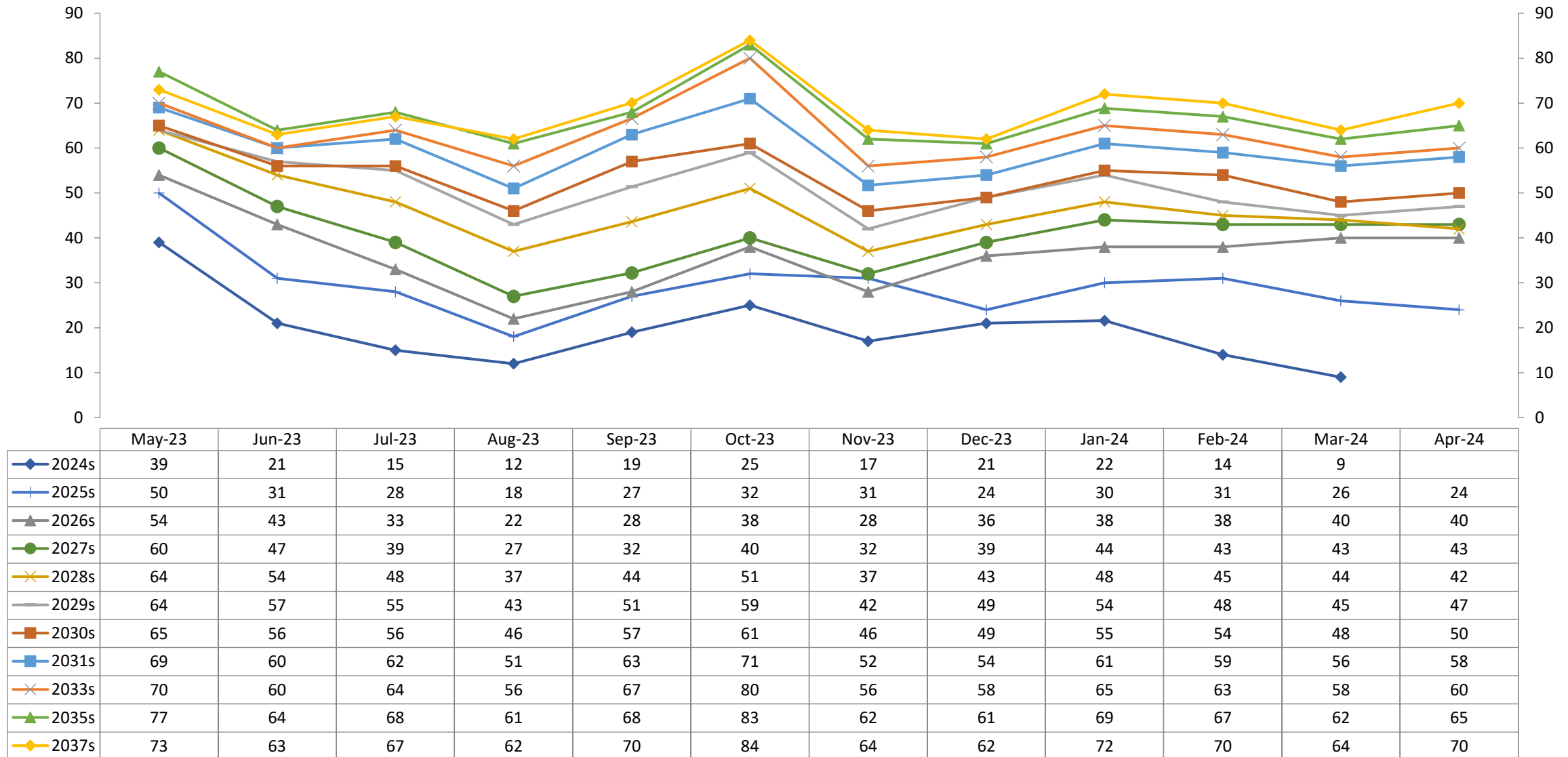
Value at Risk (VaR) - Limit NZ\$1 million



Partial Differential Hedge (PDH) - Limit NZ\$250k



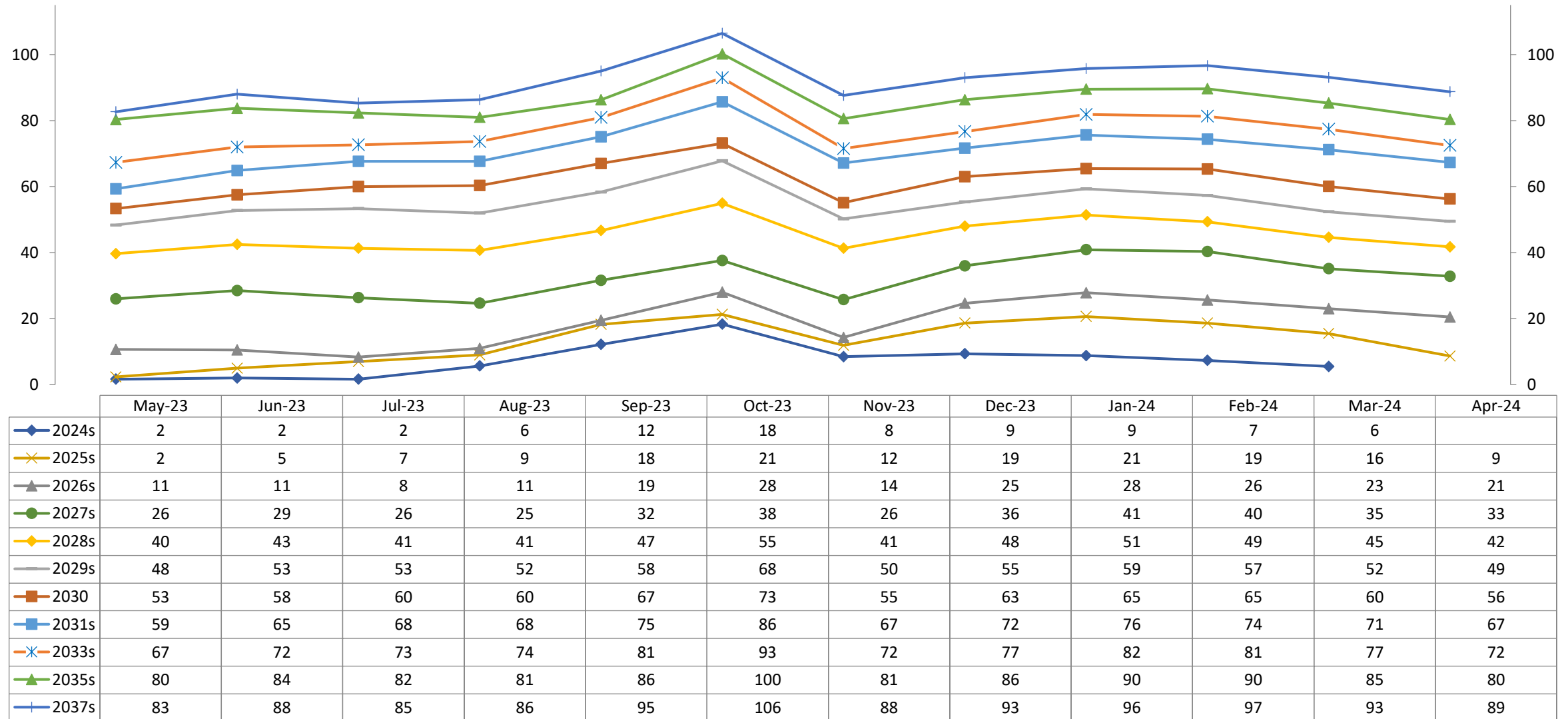
LGFA NZD BONDS - SPREADS TO NZGB (bps)



Secondary market levels as at end of each month taken from end of month closing rate sheets

Source: LGFA

LGFA NZD BONDS - SPREADS TO SWAP (bps)

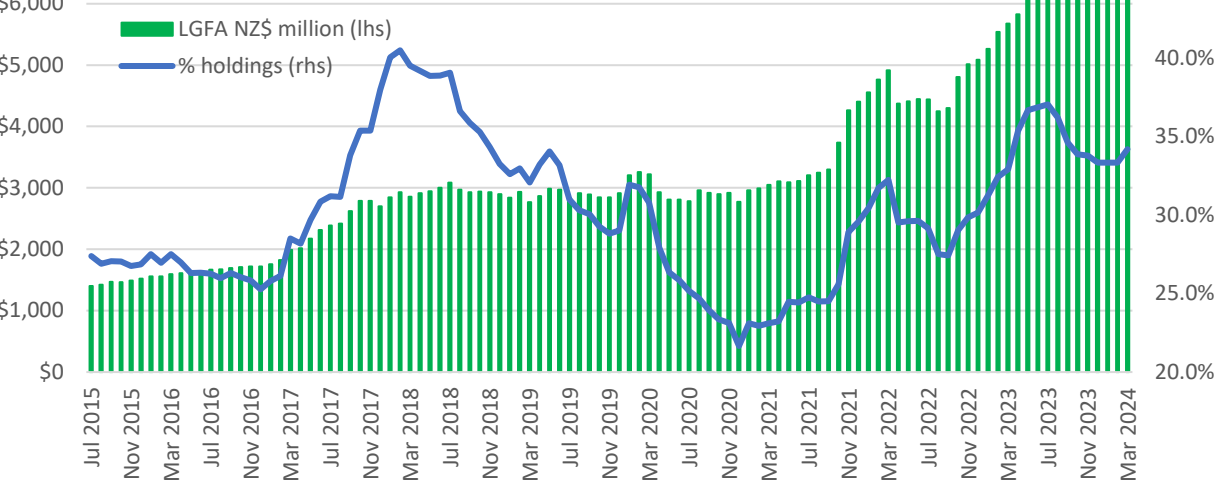


Secondary market levels as at end of each month taken from end of month closing rate sheets published by NZ banks

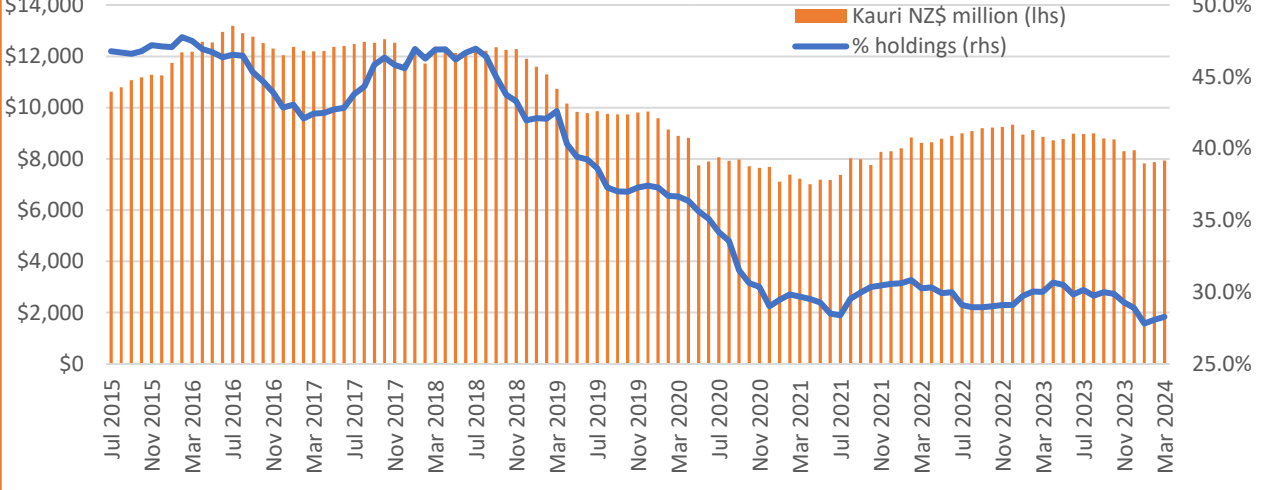
Source: LGFA

OFFSHORE HOLDINGS – NZGB, KAURI AND LGFA NZD BONDS

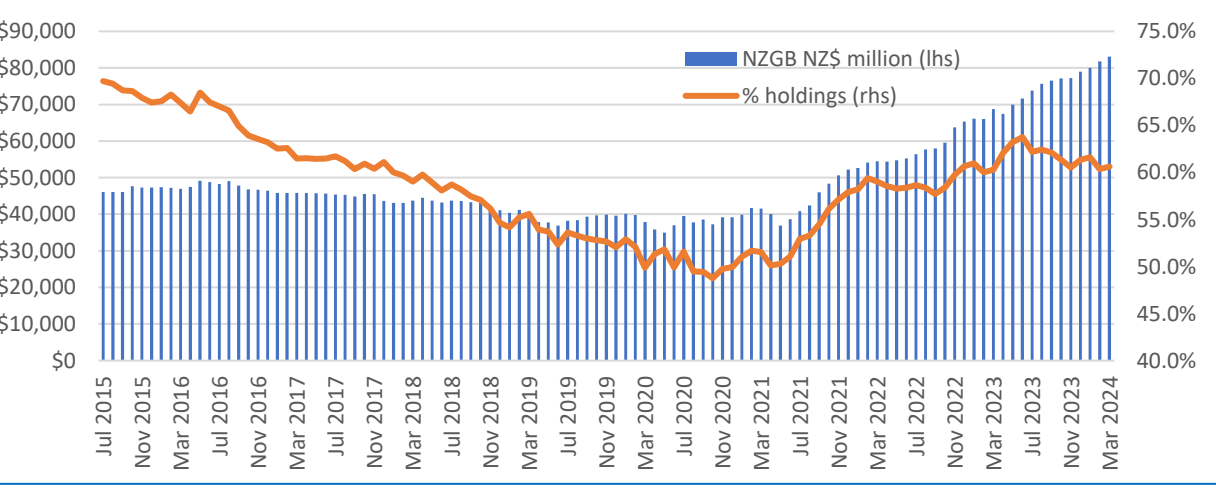
Offshore holdings - LGFA



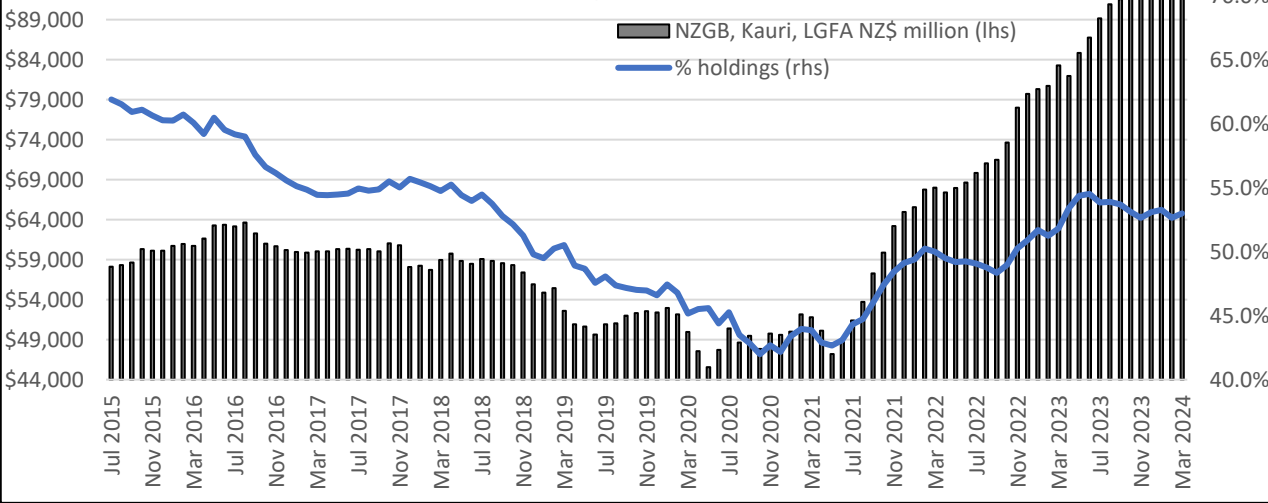
Offshore holdings - Kauri



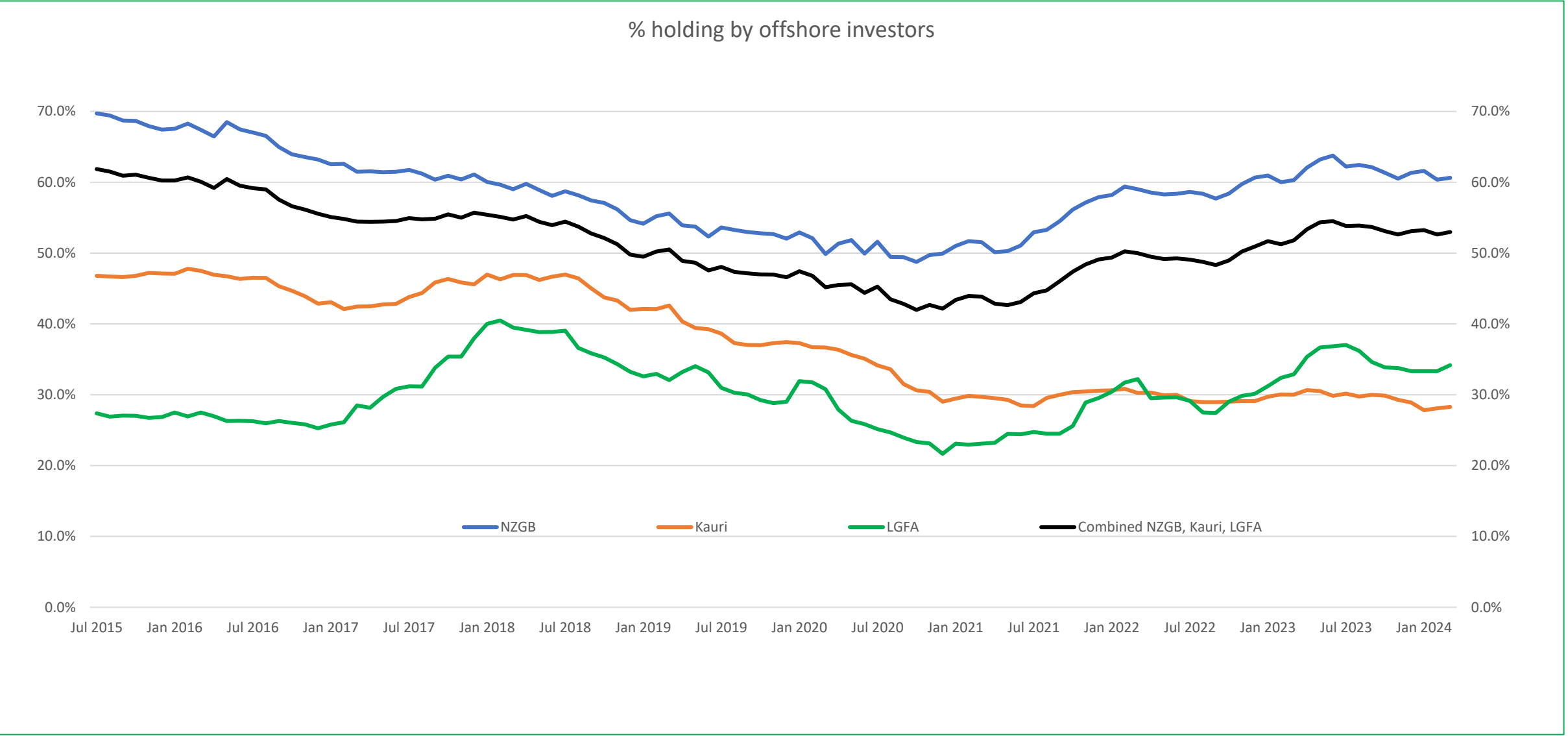
Offshore holdings - NZGB



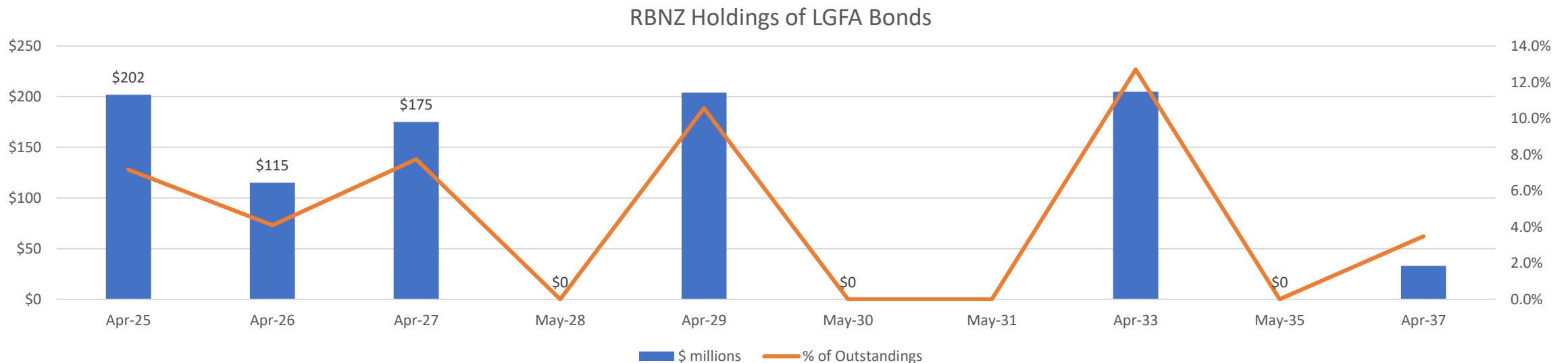
Offshore holdings - NZGB, Kauri, LGFA



OFFSHORE HOLDINGS – NZGB, KAURI AND LGFA NZD BONDS



- ❑ RBNZ first purchased LGFA NZD bonds on market during week of 6 April 2020.
- ❑ Announced adding LGFA NZD bonds to Large Scale Asset Purchase (“LSAP”) programme on 7 April 2020.
- ❑ Commenced buying under LSAP programme on 16 April 2020.
- ❑ Total purchases of LGFA NZD bonds amounted to NZ\$1.904 billion.
- ❑ RBNZ ceased purchases in late February 2021.
- ❑ RBNZ holds NZ\$934 million or 5.1% of LGFA NZD bonds on issue (excluding LGFA treasury stock) as at 30 April 2024
- ❑ RBNZ announced in February 2022 they will hold the LGFA NZD bonds until maturity.



LGFA HISTORIC FINANCIAL PERFORMANCE

Financials (NZ\$ million)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Interest Income	\$10.9	\$73.7	\$149.1	\$222.8	\$278.2	\$320.7	\$342.8	\$361.1	\$370.2	\$377.2	\$393.5	\$763.6
Interest Expense	\$9.9	\$68.1	\$138.9	\$208.9	\$262.6	\$303.2	\$323.9	\$342.3	\$351.9	\$357.7	\$376.0	\$753.3
Net Interest Income	\$1.0	\$5.7	\$10.2	\$13.9	\$15.5	\$17.5	\$18.9	\$18.8	\$18.3	\$19.5	\$17.5	\$10.3
Total Income	\$1.0	\$5.7	\$10.2	\$13.9	\$15.5	\$17.5	\$18.9	\$18.8	\$18.3	\$19.7	\$18.6	\$11.6
Operating Expenses	(\$5.2)	(\$3.0)	(\$3.2)	(\$4.7)	(\$6.0)	(\$6.5)	(\$7.1)	(\$7.6)	(\$7.7)	(\$7.7)	(\$7.9)	(\$9.1)
Net Profit	(\$4.2)	\$2.6	\$7.0	\$9.2	\$9.5	\$11.0	\$11.8	\$11.2	\$10.6	\$12.0	\$10.7	\$2.5
Liquid Assets Portfolio	\$52.8	\$66.3	\$101.7	\$107.9	\$266.3	\$327.5	\$482.8	\$448.1	\$1,254.8	\$1,815.2	\$2,112.0	\$1703.0
Loans to Local Government	\$832.7	\$2,514.9	\$3,742.5	\$5,031.9	\$6,451.3	\$7,783.9	\$7,975.7	\$9,310.6	\$10,899.8	\$12,029.0	\$14,041.0	\$16,314.0
Other Assets	\$57.5	\$107.0	\$74.0	\$271.9	\$539.7	\$380.0	\$321.1	\$623.6	\$1,019.8	\$605.0	\$97.0	\$158.4
Total Assets	\$943.0	\$2,688.2	\$3,918.2	\$5,411.8	\$7,257.3	\$8,491.4	\$8,779.6	\$10,382.3	\$13,174.4	\$14,485.0	\$16,250.0	\$18,175.0
Bonds on Issue	\$908.9	\$2,623.6	\$3,825.3	\$5,247.3	\$6,819.7	\$7,865.4	\$8,101.0	\$9,612.4	\$12,038	\$13,218	\$14,016	\$15,160
Bills on Issue	\$ nil	\$ nil	\$ nil	\$ nil	\$223.9	\$348.2	\$473.4	\$503.2	\$647.0	\$610.0	\$562.0	\$783.0
Borrower Notes	\$13.2	\$40.7	\$61.9	\$85.1	\$108.4	\$131.6	\$135.1	\$154.2	\$182.3	\$223.3	\$283.0	\$360.3
Other Liabilities	\$0.2	\$0.6	\$2.1	\$16.1	\$61.0	\$92.3	\$5.8	\$38.5	\$38.5	\$338.2	\$1,285.5	\$1,765.5
Total Liabilities	\$922.3	\$2,664.8	\$3,889.3	\$5,375.6	\$7,213.0	\$8,437.5	\$8,715.3	\$10,308.2	\$13,090.1	\$14,389.9	\$16,145.6	\$18,068.8
Shareholder Equity	\$20.8	\$23.4	\$28.8	\$36.3	\$44.2	\$53.9	\$64.3	\$74.1	\$83.6	\$94.8	\$104.6	\$105.8

Note: As at 30 June each year or for the twelve month period ending 30 June each year.

Source: LGFA Annual Reports

Ratios as at 30 June each year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Liquid Assets / Funding Liabilities	5.7%	2.5%	2.6%	2.0%	3.8%	4.1%	5.6%	4.4%	9.9%	13.5%	14.8%	11.0%
Liquid Assets / Total Assets	5.6%	2.5%	2.6%	2.0%	3.7%	3.9%	5.5%	4.3%	9.5%	13.1%	13.0%	9.4%
Net Interest Margin	0.12%	0.23%	0.27%	0.28%	0.24%	0.23%	0.22%	0.18%	0.15%	0.16%	0.13%	0.07%
Cost to Income Ratio	531.2%	53.6%	31.8%	33.8%	38.7%	37.1%	37.6%	40.4%	42.0%	39.1%	42.5%	78.1%
Return on Average Assets	-0.45%	0.10%	0.18%	0.17%	0.13%	0.13%	0.13%	0.11%	0.09%	0.09%	0.07%	0.01%
Shareholder Equity / Total Assets	2.2%	0.9%	0.7%	0.7%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%
Shareholder Equity + Borrower Notes / Total Assets	3.6%	2.4%	2.3%	2.2%	2.1%	2.2%	2.3%	2.2%	2.0%	2.3%	2.4%	2.6%
Asset Growth	n/a	185.1 %	45.8%	38.1%	34.1%	17.0%	13.4%	18.3%	26.9%	9.9%	12.2%	11.8%
Loan Growth	n/a	202%	48.8%	34.5%	28.2%	20.7%	2.4%	16.7%	17.1%	10.7%	16.4%	16.2%
Return on Equity	n/a	12.7%	29.8%	31.9%	26.3%	25.0%	21.9%	15.1%	12.7%	14.3%	11.3%	2.4%
Capital Ratio	18.0%	11.9%	11.6%	11.2%	10.5%	10.9%	11.4%	11.0%	10.1%	11.0%	11.9%	11.9%

Note: As at 30 June each year or for the twelve month period ending 30 June each year.

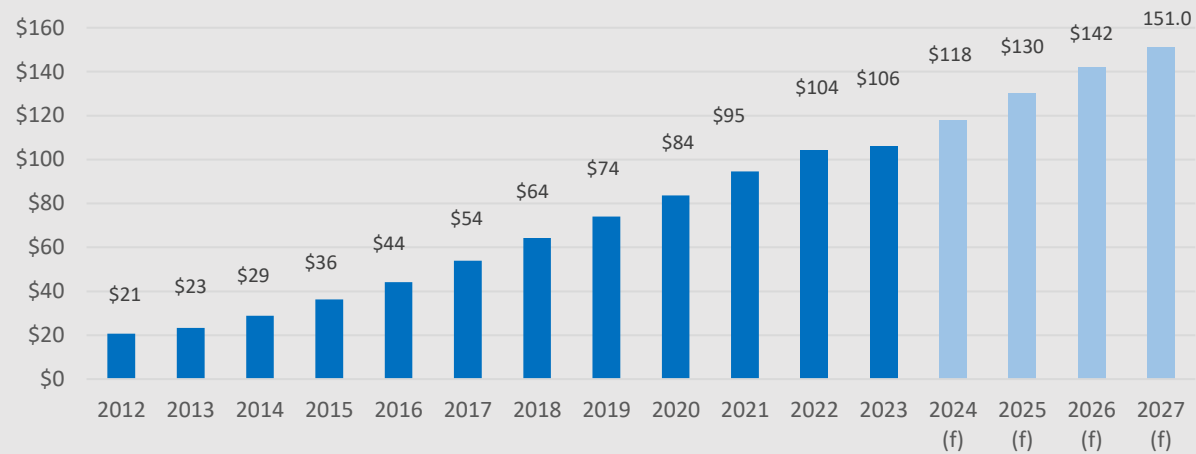
Source: LGFA Annual Reports

LGFA HISTORIC AND FORECAST FINANCIALS

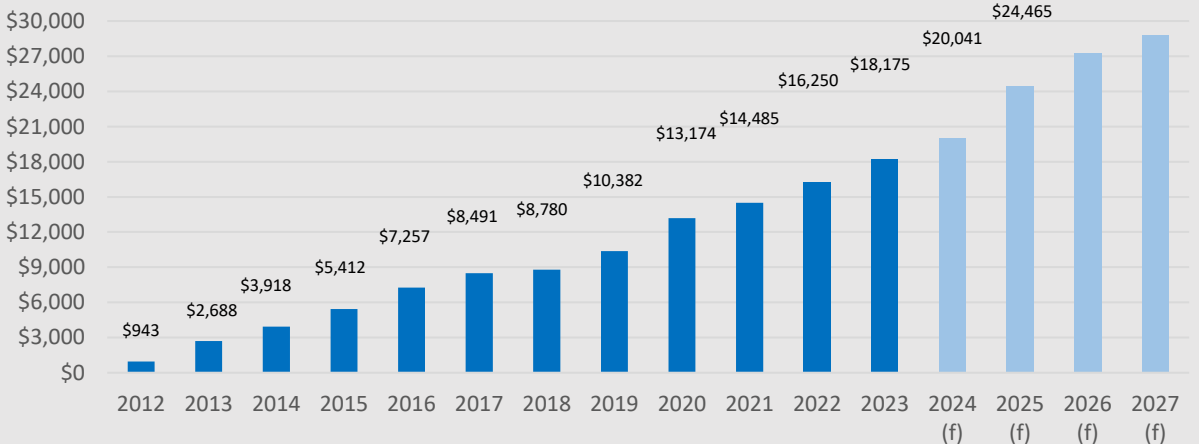
Net Operating Gain (NZ\$ million)



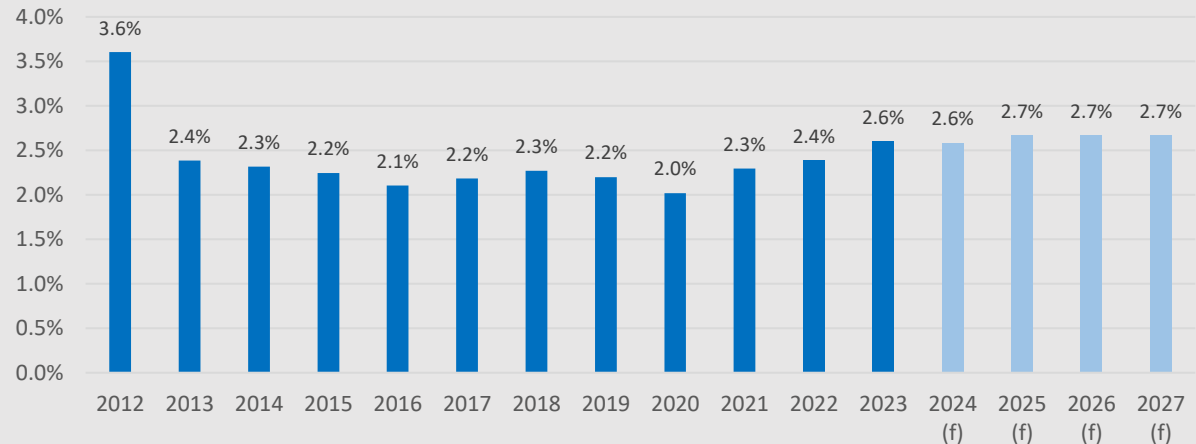
Shareholder Equity (NZ\$ million)



Total Assets (NZ\$ million)



Shareholder Funds + BNs / Total Assets

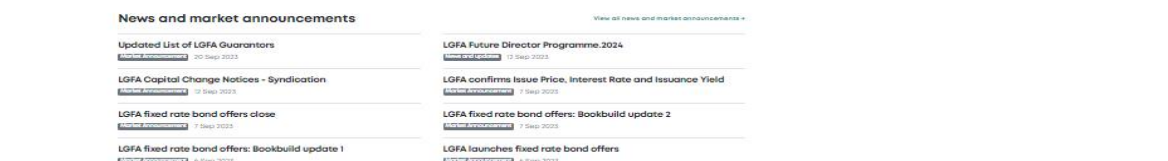
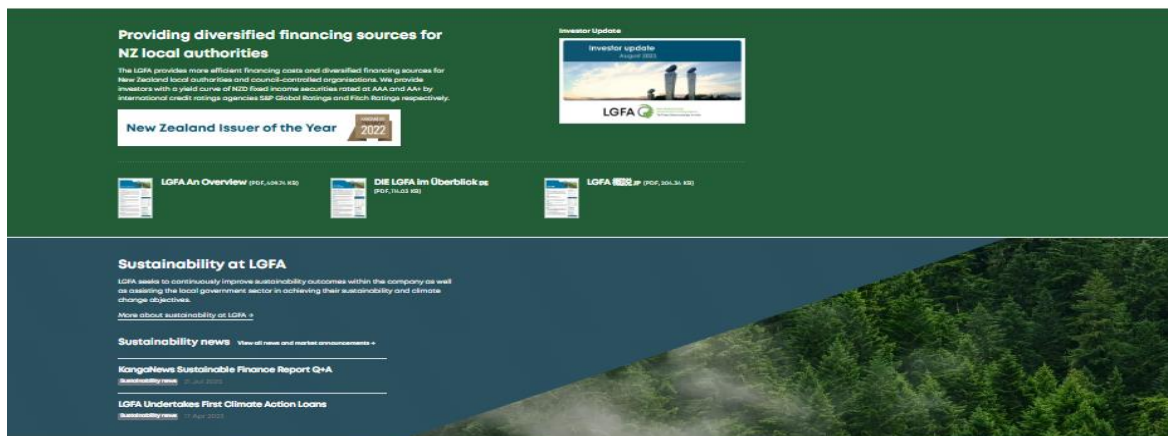
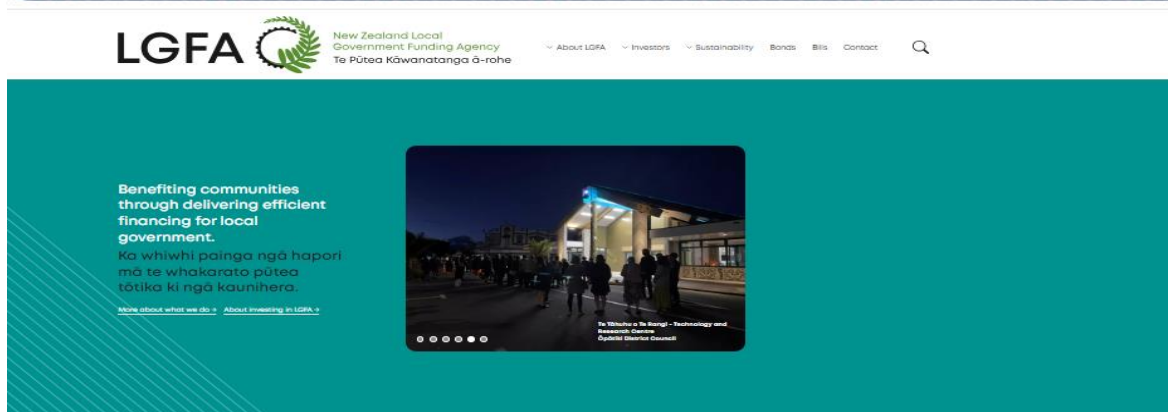


Note: Based upon nominal values

Source: LGFA Annual Reports and SOI

Forecast performance based upon assumptions outlined in LGFA DRAFT SOI 2024-27 available at www.lgfa.co.nz/investors/annual-reports-and-statement-intent

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