

LGFA An overview

Business Description

The New Zealand Local Government Funding Agency (LGFA) is an agency specialised in financing the New Zealand local government sector. LGFA was established to raise debt on behalf of local authorities ("councils") on terms that are more favourable to them than if they raised the debt directly.

LGFA was incorporated as a limited liability company under the Companies Act 1993 on 1 December 2011, following the enactment of the Local Government Borrowing Act 2011. As LGFA is majority owned by councils, it constitutes a "council-controlled organisation" under the Local Government Act 2002.

Credit Ratings

Domestic Currency AAA/ Foreign Currency AA+ (Stable Outlook) – Standard & Poor's

Domestic Currency AA+ / Foreign Currency AA+ (Stable/Positive) – Fitch Ratings

These credit ratings are the same as the New Zealand sovereign ratings.

Ownership

As at 31 December 2024 LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. There are currently 31 shareholders, comprising the New Zealand Government at 20% and 30 councils at 80%. Any councils wanting to become new shareholders are required to purchase shares from existing council shareholders.

Capital Structure

The capital structure of LGFA comprises fully paid shares, unpaid shares, retained earnings and borrower notes.

Borrower Notes

Borrower Notes are subordinated convertible debt instruments which each council that borrows from LGFA must subscribe for (in an amount equal to 5% of the total borrowing from LGFA by that council) LGFA will redeem Borrower Notes when the councils' related borrowings are repaid or no longer owed to LGFA. Currently there are NZ\$599 million of Borrower Notes on issue.

Guarantee Structure

LGFA's obligations in relation to its Securities issued are guaranteed by seventy-two councils that are Guarantors under the Guarantee. Other than the New Zealand Government, each shareholder in LGFA must be a Guarantor. In addition any council that borrows in aggregate greater than NZ\$20 million must be a Guarantor. The guarantee will be in favour of the obligations of LGFA. Any call under the guarantee will be allocated across all the guarantors on a pro rata basis in relation to their rates ("property tax") revenue.

Liquidity Facility

The New Zealand Debt Management Office provides LGFA with a committed liquidity facility. The facility has an expiry date of December 2031. The facility's maximum aggregate principal amount is set at NZ\$1.5 billion unless LGFA selects a lower amount; and will vary depending on LGFA's credit rating (the available facility may reduce if LGFA's credit rating decreases). LGFA had selected a maximum aggregate principal amount of NZ\$1.0 billion at the end of 31 December 2024.

Funding

LGFA operates with the primary objective of optimising the debt funding terms and conditions for participating councils. To date this has been undertaken via tender operations and mainly issuing bonds with identical coupons and maturities as NZ Government Bonds. As at 31 December 2024 there are NZ\$19.7 billion of LGFA retail bonds on issue across eleven maturities. These bonds are listed on the NZX Debt market. In addition to the retail bonds listed on NZX, LGFA has issued AUD \$3.45 billion of Kangaroo Bonds.

As at 31 December 2024

- Enabled by Local Government Borrowing Act 2011
- Owned by 30 Local Authorities and New Zealand Government
- Same credit rating as New Zealand Sovereign
- Supported by New Zealand Government liquidity facility
- RBNZ Repo Eligible
- NZD Bonds are listed on the NZX Debt Market

Year to June 30	Funding p.a. (NZ\$m)	Securities on issue (NZ\$m)
FY 2017	1,285	7,505
FY 2018	1,229	7,719
FY 2019	2,456	8,935
FY 2020	2,905	10,860
FY 2021	3,450	12,680
FY 2022	3,900	14,975
FY 2023	3,533	16,678
FY 2024	6,500	21,080
FY 2025	5,400	23,702 est.*
FY 2026	5,500	26,277 est.*
FY 2027	5,900	29,485 est.*

*SOI Forecast

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LGFA also issues 3 month and 6 month LGFA Bills via monthly tenders and private placements. As at 31 December 2024 there are \$643 million LGFA Bills on issue. LGFA also issues ECP and had USD 325 million and EUR 270 million on issue as at 31 December 2024.

About New Zealand Local Government

There are 78 local authorities in New Zealand comprising:

- 11 Regional Councils – 7 in the North Island and 4 in the South Island;
- 12 City Councils – 8 in the North Island and 4 in the South Island;
- 54 District Councils – 34 in the North Island and 20 in the South Island;
- 1 Unitary Territorial Authority – Auckland Council

Councils in New Zealand provide water, wastewater, storm water, regional transport and rubbish collection services, local amenities and parks.

Councils typically borrow to fund infrastructure investment in those areas.

Summary financial statistics for the sector at June 2023 are:

Total sector assets of \$183 billion

Total sector debt of \$26 billion

Total sector revenue of \$13 billion

Total rates (property tax) revenue of \$7.96 billion

LGFA participants

- As at 31 December 2024 there are 77 Participating Local Authorities and 7 CCOs.
- There are 72 Guarantors of LGFA. The only non-Guarantors (due to their small amount of borrowing) are Opotiki, Buller, Wairoa, Kawerau and Kaikoura District Councils.
- There are 31 shareholders, comprising 30 councils (80% shareholding) and the New Zealand government (20% shareholding).
- Auckland Council is limited to a maximum of 40% of LGFA's total Local Authority assets.
- The 77 council and 7 CCO members cover approximately 99% of New Zealand local government sector debt.

Sustainability at LGFA

LGFA has adopted a positive stance on sustainability through achieving Toitu carbonzero certification, a commitment to reduce employee emissions by 30% by 2030, a Sustainability Committee that advises the Board and senior management on sustainability issues and the adoption of Climate Related Disclosures Reporting.

Green, social and sustainability lending

LGFA offers two financing options for member councils and CCOs.

Green, Social and Sustainability (GSS) Loans provide finance for projects that promote environmental and social wellbeing in New Zealand, as well as progressing the UNSDGs. GSS loans are offered to councils and CCOs (at a discounted margin to standard loans) to finance projects that meet any of nine green borrowing and three social borrowing categories, following guidelines from the International Capital Markets Association (ICMA). The ICMA guidelines are outlined in their Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines. Currently \$401.2 million of GSS loans have been advanced to six councils.

Climate Action Loans (CALs) are similar to a Sustainability Linked Loan that incentivises a council or CCO to act on climate change and reduce greenhouse gas emissions. To qualify for a CAL a council or CCO borrower must have an Emissions Reduction Plan (ERP) in place to achieve net zero by 2050 and be meeting the emission reduction targets contained within the ERP. Currently \$3.2 billion of CALs have been lent to seven councils and CCOs.

Sustainable Financing Bonds

LGFA has established a Sustainable Financing Bond Framework. The proceeds from any issuance will be notionally applied to a sustainable asset pool of GSS loans and CALs. LGFA issued \$1.96 billion of a May 2030 bond and \$650 million of a May 2032 bond under the Framework.

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Borrowers as at 31 December 2024

Lending	NZ\$m	%
Auckland	\$3,615	16.3
Christchurch	\$2,681	12.1
Wellington	\$1,640	7.4
Tauranga	\$1,267	5.7
Wellington	\$1,040	4.7
Hamilton	\$1,000	4.5
Queenstown-Lakes	\$685	3.1
Hutt	\$592	2.7
Hastings	\$472	2.1
Rotorua	\$465	2.1
74 others	\$8,699	39.3
Total	\$22,155	100

LGFA Bonds on Issue as at 31 December 2024

Coupon	Maturity	NZ\$m
2.75%	15/04/2025	2,719
1.50%	15/04/2026	2,755
4.50%	15/04/2027	2,321
2.25%	15/05/2028	1,693
1.50%	20/04/2029	1,992
4.50%	15/05/2030	1,960
2.25%	15/05/2031	2,195
4.50%	14/05/2032	650
3.50%	14/04/2033	1,735
3.00%	15/05/2035	590
2.00%	15/04/2037	1,130
Total NZD		19,740

Coupon	Maturity	A\$m
4.40%	8/09/2027	1,000
4.70%	1/08/2028	1,000
5.10%	28/11/2030	650
5.00%	8/03/2034	800
Total AUD		3,450

Shareholders as at 31 December 2024

Shareholders	%
New Zealand Government	20.00
Auckland	7.46
Christchurch	7.46
Hamilton	7.46
Bay of Plenty	7.46
Greater Wellington	7.46
Tasman	7.46
Tauranga	7.46
Wellington	7.46
Western Bay of Plenty	7.46
21 Others	12.86
Total	100



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