FitchRatings

New Zealand Local Government Funding Agency Limited (LGFA)

The New Zealand Local Government Funding Agency Limited (LGFA) is a government-related entity (GRE) under Fitch Ratings' GRE rating criteria and is credit-linked to the New Zealand government (AA+/Stable). LGFA's Issuer Default Rating (IDR) considers the government's significant responsibility and incentives to provide financial support to LGFA, given the agency's key policy role in providing most of the local government financing. LGFA's ratings are equalised with those of New Zealand accordingly.

Key Rating Drivers

Support Assessment 'Virtually Certain': We believe extraordinary support from the New Zealand government to LGFA would be 'Virtually Certain' if needed, as reflected in a support score of 55 out of a maximum 60 under our GRE criteria. This is based on our assessment of the government's responsibility and incentive to provide support.

Responsibility to Support: LGFA serves as New Zealand's primary lender to local governments, operating under strong central government oversight despite minority ownership of 20%. Its strategic alignment with national priorities — including water reform and emergency response — underscores its role as a key policy agent. LGFA's financial stability is supported by a committed liquidity facility, currently under review for expansion. Historical policy actions and a robust guarantee structure reinforce our expectations of extraordinary support if needed.

Incentive to Support: LGFA accounted for approximately 80% of local government debt as of August 2025, underscoring its dominance in New Zealand's local government financing landscape. Its role as the sole lender for many councils enables access to lower-cost, longer-tenor funding than alternative sources like bank loans or capital markets, which are less favourable.

A default by LGFA would severely disrupt infrastructure and essential services — notably water and transport — with material implications for economic stability and living standards. A failure by LGFA, as the second-largest New Zealand dollar bond issuer after the sovereign, would signal government inaction, triggering broader contagion risks across public-sector funding channels.

Public Finance
Government-Related Entities
New Zealand

Ratings

Foreign Currency	
Long-Term IDR	AA+
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	AA+
Short-Term IDR	F1+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
Debt Ratings	
Senior Unsecured Debt - Long-Term Rating	AA+
Senior Unsecured Debt - Short-Term Rating	F1+

Issuer Profile Summary

LGFA is a centralised financing entity for New Zealand's local government sector. Its primary objective is to raise debt for local authorities to optimise their debt funding terms and conditions.

Financial Data Summary

(NZDm)	FY24	FY25
Interest revenue	1,213	1,267
Net interest income	19.5	34.8
Net profit (loss)	10.1	19.0
Total assets	23,508	26,468
Total debt	21,857	25,270
Net interest income/earning assets (%)	0.1	0.1
Long-term debt/total equity and reserves (%)	15,337	17,035

Source: Fitch Ratings, Fitch Solutions, LGFA

Applicable Criteria

Government-Related Entities Rating Criteria (July 2025)

Public Policy Revenue-Supported Entities Rating Criteria (January 2024)

Related Research

Fitch Affirms New Zealand at 'AA+'; Outlook Stable (August 2025)

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Rating Synopsis

New Zealand Local Government Funding Agency Limited Rating Derivation

Summary	
Government LT IDR	AA+
GRE Standalone Credit Profile (SCP)	No SCP
Support category	Virtually certain
Notching expression	Equalised
Single equalisation factor	No
GRE LT IDR	AA+
GRE Key Risk Factors and Support Score	
Responsibility to support	15
Decision making and oversight	Very Strong
Precedents of support	Strong
Incentives to support	40
Preservation of government policy role	Very Strong
Contagion risk	Very Strong
Support score	55 (max 60)
Stylized Notching Guideline Table	
Support score	**Notching expression**
>=45	Equalised
35-42.5	Top down - 1
30-32.5	Top down - 2
20-25	Top down - 3
<=15	Not ratable

Government LT IDR	GRE LT IDR
AAA	AAA
AA+	AA+
AA	AA
AA-	AA-
A+	A+
A	A
A-	A-
BBB+	BBB+
BBB	BBB
BBB-	BBB-
BB+	BB+
BB	BB
BB-	BB-
B+	B+
B	B
B-	B-
CCC+	CCC+
CCC	CCC
CCC-	CCC-
CC	CC
C	C
RD	RD
D	D

Note: Refer to the GRE criteria for further details

LT IDR – Long-Term Issuer Default Rating; GRE – Government-related entity

Source: Fitch Ratings

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Positive rating action on the New Zealand sovereign would result in the same action on LGFA's ratings.

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

LGFA's ratings could be downgraded on negative rating action on the New Zealand sovereign or a weaker assessment of the government's responsibility or incentive to provide support that leads to a support score of less than 45 under our GRE criteria.

Issuer Profile

LGFA began operating as a centralised borrowing vehicle for New Zealand's councils in 2011 following the enactment of the Local Government Borrowing Act. Its main objective is to raise debt for local governments and associated entities – known as council-controlled organisations (CCOs) – to optimise debt funding terms and conditions. This includes facilitating access to debt capital, minimising interest costs and providing borrowing flexibility, such as long-term loans and liquidity facilities. The LGFA borrowing channel is optional for councils and CCOs.

LGFA had 18 foundation council shareholders at incorporation as well as the New Zealand government. It currently has 30 council shareholders in addition to the government. LGFA is also a CCO given the councils' ownership of the agency, and operates under the Local Government Act 2002. Governance includes a six-person shareholder-appointed board along with the LGFA shareholders' council, consisting of appointees from the government and council shareholders. LGFA membership has risen over the years, with 77 of New Zealand's 78 local councils and eight CCOs currently borrowing from the entity. LGFA lending accounts for 80%-90% of local-government sector debt.

Support Rating Factors

Summary

Responsibility to support		Incentives to support			
Decision making and oversight	Precedents of support	Preservation of government policy role	Contagion risk	Support score	Support category
Very Strong	Strong	Very Strong	Very Strong	55 (max 60)	Virtually certain

Source: Fitch Ratings

Decision Making and Oversight

LGFA's strategic role as New Zealand's primary lender to local governments is reinforced by tight government oversight and operational influence. The central government owns a minority share but exercises strong oversight through legislative mandates, regular reporting to the Department of Internal Affairs, and representation on the shareholders' council. LGFA's alignment with national priorities — such as water reform and emergency response — demonstrates its function as a key policy instrument, operating under close government scrutiny to deliver public-sector financing.

Precedents of Support

LGFA benefits from a strong record of government support, reinforcing its strategic role in public-sector financing. A NZD1.5 billion committed liquidity facility — currently under review for expansion — acts as a financial backstop, ensuring LGFA's financial stability. Past policy responses, including the Reserve Bank of New Zealand's asset purchases and legislative provisions for direct lending, highlight the government's readiness to act. LGFA has not required substantial financial support to date, but its central role and robust guarantee structure underpin our strong expectation of extraordinary support if needed.

Preservation of Government Policy Role

Local councils' sector-wide reliance on LGFA for long-term funding makes it integral to the delivery of essential public services across New Zealand. A default would severely disrupt infrastructure projects and undermine economic stability and living standards. Councils have alternative funding options, but these are less favourable and insufficient to fully replace LGFA's role. Its centrality to public-service delivery and economic continuity creates a very strong incentive for the government to ensure LGFA's uninterrupted operation.

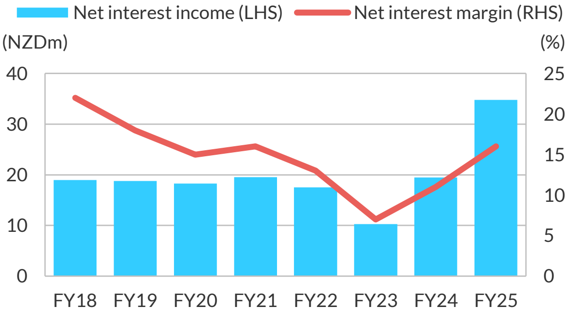
Contagion Risk

LGFA's position as New Zealand's second-largest New Zealand dollar bond issuer after the sovereign underscores its systemic importance in domestic capital markets. This visibility and its deep integration into both local and offshore debt markets make LGFA a reference issuer in New Zealand's capital markets. Any default would trigger investor concern over the government's willingness or ability to support public-sector entities. Such an event could severely impair broader market access and funding conditions. Legislative provisions for government support reinforce our expectation of intervention to safeguard financial stability.

Operating Performance

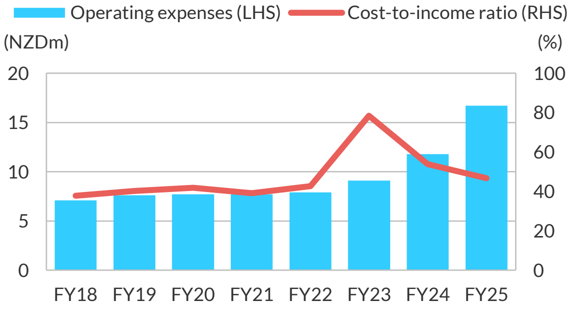
Net operating profit rose 89% yoy to NZD19.0 million in the financial year ended June 2025 (FY25), driven by lower offshore borrowing costs and increased liquid asset holdings. Total operating income increased 63% to NZD35.6 million and net interest income surged 79% to NZD34.8 million. Operating expenses rose 42%, largely due to a NZD5.4 million approved issuer levy; excluding this, expenses were contained at NZD11.3 million, a 15% yoy increase. LGFA remains income tax-exempt.

Net Interest Margin



Source: Fitch Ratings, LGFA

Stable Costs

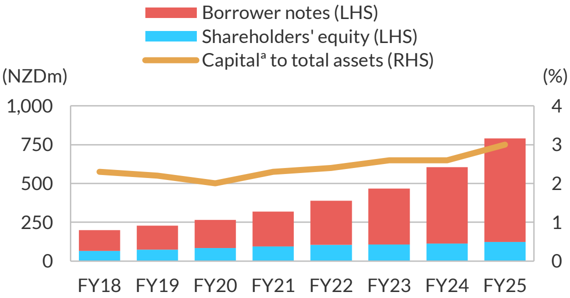


Source: Fitch Ratings, LGFA

Loans outstanding grew 10% to NZD22.7 billion in FY25, with long-term lending comprising 95% of the portfolio. This growth reflects LGFA's role in financing local government infrastructure and reform initiatives. Councils' preference for shorter tenors (average 4.6 years in FY25) widened the asset-liability mismatch, as councils increasingly opted for shorter maturities to manage costs and prepare for water sector reform. LGFA's top-three borrowers now account for 34% of total lending, down from 56% in FY15, with Auckland Council's exposure reduced to 14%.

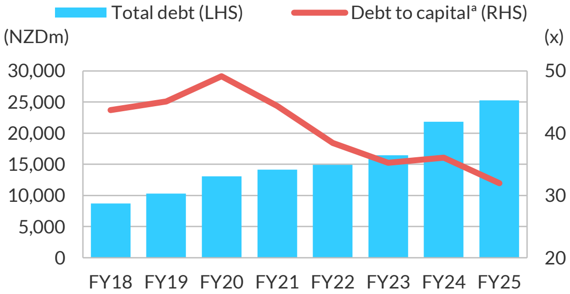
Equity increased 8% yoy to NZD121.8 million in FY25, enhancing LGFA's capital resilience. Borrower notes rose to NZD669 million following a policy change, lifting the capital ratio - equity plus borrower notes to assets - to 3.0%, above the 2% minimum threshold. LGFA has a right to convert borrower notes into redeemable shares if it still needs capital after making calls for all unpaid capital, which amounted to NZD20 million in FY25, to be paid in full. This enhances LGFA's loss-absorbing capacity and overall financial resilience.

Enhanced Capital Buffer



[a] shareholders' equity + borrower notes
Source: Fitch Ratings, LGFA

Leverage



[a] shareholders' equity + borrower notes
Source: Fitch Ratings, LGFA

Interest Income Summary, FY25

	(NZDm)	% of interest revenue
Interest on loans	1,086.3	85.7
Interest on securities	100.0	7.9
Interest on deposits with banks	47.0	3.7
Other interest revenue	33.8	2.7
Interest revenue	**1,267.1**	**100**
Interest expenditure	-1,232.3	-
Net interest income	34.8	-
Net interest margin (%)	0.1	

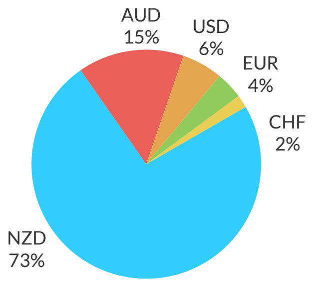
Source: Fitch Ratings, Fitch Solutions, New Zealand Local Government Funding Agency Limited (LGFA)

Debt and Liquidity Analysis

LGFA maintains diversified funding sources and high borrower credit quality. Total borrowings rose 16% yoy to NZD25.3 billion in FY25, reflecting sustained demand from councils for infrastructure financing. Offshore issuance under its euro medium-term note and Australian dollar programmes made up 59% of FY25 issuance, offering cost advantages over domestic funding but introducing foreign-exchange hedging complexity and exposure to global market volatility. Liquidity remains strong, backed by NZD2.8 billion in cash and marketable securities (excluding collateral), NZD579 million in deposits, and a NZD1.5 billion liquidity facility from the Treasury (NZD750 million undrawn as of FY25).

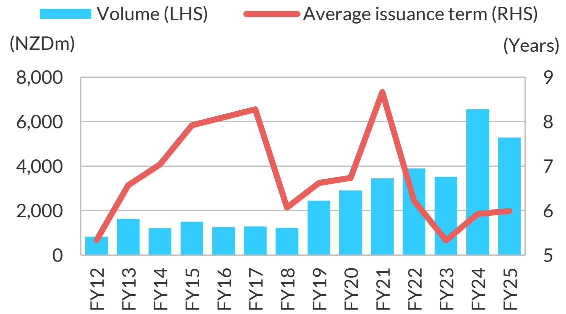
The average tenor of council borrowing of 4.6 years at FYE25 was shorter than the average bond issuance term of six years during the year, limiting LGFA to issuing longer-dated bonds and increasing refinancing frequency. The asset-liability mismatch remains a risk, though mitigated by strong loan demand and portfolio rebalancing.

Debt by Currency in FY25



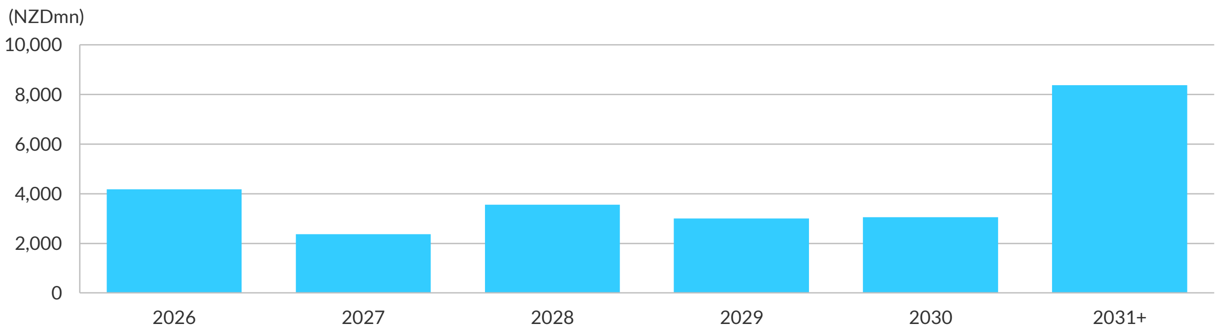
Note: before fair value adjustment.
Source: Fitch Ratings, LGFA

Annual Bond Issuance



Source: Fitch Ratings, LGFA

Principal Debt Repayment in Nominal Value (as of FY25)



Source: Fitch Ratings, New Zealand Local Government Funding Agency Limited (LGFA)

Debt Analysis

(NZDm)	FY25	% of total debt
Total debt	25,270	-
Issued debt	25,270	100.0%
Short-term debt	4,524	17.9%
Government-related debt	0	0.0%
Debt in foreign currency	6,755	26.7%
Apparent cost of debt (%)	3.9	-
Weighted-average life of debt (years)	4.6	-

Source: Fitch Ratings, Fitch Solutions, New Zealand Local Government Funding Agency Limited (LGFA)

Short-Term Rating Derivation

LGFA's Short-Term IDRs are equalised with those of the sovereign, given the equalisation of the Long-Term IDRs.

Debt Ratings

LGFA's long-term debt obligations are rated in line with its Long-Term IDR. Its short-term programme ratings are aligned to its Short-Term IDR.

Peer Analysis

Peer Comparison

	Sponsor	Support category	Notching expression	Single equalisation factor	Long-Term IDR
New Zealand Local Government Funding Agency Limited (LGFA)	New Zealand	Virtually Certain	Equalised	No	AA+/Stable
Agence France Locale S. A.	Pool of French local governments	Very Likely	Top-down - 2	Yes	A+/Stable
Export Finance Australia	Australia	Virtually Certain	Equalised	Yes	AAA/Stable
Korea Ocean Business Corporation	Korea	Virtually Certain	Equalised	No	AA-/Stable
Agence Francaise de Developpement	France	Virtually Certain	Equalised	No	A+/Stable
EPIC Bpifrance	France	Virtually Certain	Equalised	No	A+/Stable
Power Finance Corporation Limited	India	Virtually Certain	Equalised	No	BBB-/Stable

Source: Fitch Ratings

Peer analysis highlights varying degrees of government support across financial GREs. Entities assessed in the highest support category, including LGFA, typically exhibit tight sovereign linkage, strong contagion risk implications, and direct oversight. Lower support categories reflect diluted ownership structures, narrower policy roles, or substitutability of services. Equalisation to sponsor government ratings is generally driven by explicit guarantees or robust support frameworks. Differences in legal obligations, ownership concentration and strategic importance influence the assessment of support strength across peers.

Criteria Variation

A variation to the *Government-Related Entities Rating Criteria* was applied to the "Issuers with no SCPs" provision, under which Fitch determined that assigning a Standalone Credit Profile (SCP) to LGFA is unnecessary for the analysis, even though the specific conditions to consider an SCP "not meaningful" defined in the criteria were not strictly met.

Government support, underpinned by a clear policy mandate, is assessed as 'Virtually Certain'. This, along with our assessment that the entity is not in financial distress (where default is a real possibility) and the supporting government would have ample access to the cash or assets of the GRE such that the rating would be constrained by that of the New Zealand government, leads to our conclusion there is no risk that the IDR would differ if an SCP were assigned, nor would an assessment of an SCP enhance the analysis at this stage.

ESG Considerations

Fitch does not provide ESG relevance scores for LGFA. Where Fitch does not provide ESG relevance scores in connection with the credit rating of a transaction, programme, instrument or issuer, Fitch will disclose any ESG factor that is a key rating driver in the key rating drivers section of the relevant rating action commentary. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products.

Appendix A: Financial Data

New Zealand Local Government Funding Agency Limited (LGFA)

(NZDm)	FY21	FY22	FY23	FY24	FY25
Income statement					
Interest revenue	377	394	764	1,213	1,267
Interest expenditure	-358	-376	-753	-1,194	-1,232
Net interest income	20	18	10	19	35
Net fees and commissions	0.2	1	1	1	2
Operating expenses	-8	-8	-9	-12	-17
Net gains and losses on securities and trading	0	0	0	1	-1
Net operating income (loss)	12.0	10.7	2.5	10.1	19.0
Taxation	0	0	0	0	0
Net profit (loss)	12.0	10.7	2.5	10.1	19.0
Balance sheet					
Assets					
Cash and cash equivalents	392	158	226	474	326
Deposits with banks	655	463	348	718	579
Loans	12,066	14,042	16,314	20,549	22,657
Other earning assets	768	1,491	1,221	1,649	2,646
Fixed assets	0.2	0.2	0.1	0.3	0.4
Intangible assets	0.2	0	0	0	0
Other long-term assets	604	96	65	117	259
Total assets	14,485	16,250	18,175	23,508	26,468
Liabilities & equity					
Short-term borrowing	2,350	2,601	3,139	4,496	4,524
Other short-term liabilities	1	1	1	1	6
Debt maturing after one year[a]	11,812	12,292	13,294	17,360	20,746
Other provisions and reserves	0.2	0.3	0.3	0.4	0.5
Other-long term liabilities	228	1,251	1,634	1,536	1,070
Share capital	25	25	25	25	25
Reserves and retained earnings	70	80	81	88	97
Equity and reserves	95	105	106	113	122
Total liabilities and equity	14,485	16,250	18,175	23,508	26,468

[a] Including borrower notes: LGFA can convert borrower notes into redeemable shares and these act as a form of contingent capital, strengthening LGFA's capital base and loss-absorbing capacity.
Source: Fitch Ratings, Fitch Solutions, New Zealand Local Government Funding Agency Limited (LGFA)

Appendix B: Financial Ratios

New Zealand Local Government Funding Agency Limited (LGFA)

(%)	FY21	FY22	FY23	FY24	FY25
Performance					
Interest revenue on loans/loans	1.3	1.6	4.2	5.2	4.8
Interest expense on borrowings/borrowings	2.5	2.5	3.1	3.4	3.9
Net interest income/earning assets	0.1	0.1	0.1	0.1	0.1
Net operating income/net interest income and other operating revenue	60.9	57.4	21.5	48.0	52.3
Net operating income/equity and reserves	12.7	10.2	2.4	8.9	15.6
Net operating income/total assets	0.08	0.07	0.01	0.04	0.07
Credit portfolio					
Growth of total assets	10.0	12.2	11.8	29.3	12.6
Growth of loans	10.7	16.4	16.2	26.0	10.3
Impaired loans/total loans	0.0	0.0	0.0	0.0	0.0
Debt and liquidity					
Long-term debt/equity and reserves	12,467	11,756	12,560	15,337	17,035
Liquid assets/total assets	2.7	1.0	1.2	2.0	1.2
Total debt/total assets	97.8	91.7	90.4	93.0	95.5
Liquid assets/short-term borrowing	16.7	6.1	7.2	10.5	7.2
Capitalization					
Equity and reserves/total assets	0.7	0.6	0.6	0.5	0.5
Profit after tax/equity and reserves	12.7	10.2	2.4	8.9	15.6
Loans/equity and reserves	12,735	13,430	15,412	18,155	18,604

Source: Fitch Ratings, Fitch Solutions, New Zealand Local Government Funding Agency Limited (LGFA)

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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