

LGFA financing to local government for water services – January 2026 update

In December 2025, LGFA wrote to the Mayors and CEOs of councils to outline the financial covenant framework that would apply to water CCOs.

Over the past month we have been working through the legal process as the water CCOs that will commence operations in 2026 seek to join LGFA.

As part of LGFA's negotiations with new water CCOs there have been some issues that have arisen that have needed clarification. LGFA Directors have considered these with the decisions based on:

- That LGFA has a framework that is applied equally to all water CCOs.
- Lending to CCOs is undertaken in accordance with LGFA's Foundation Policies (which cannot be changed without approval from LGFA shareholders).
- LGFA will not compromise its lending standards, so as to ensure the risk to the seventy-four councils who are guarantors of LGFA is minimised.
- LGFA will be flexible to assist water CCOs providing there is no change to the credit risk.

The key updates and progress to date are outlined below:

1. Council Guarantee of Water CCOs

For water CCOs that wish to borrow from LGFA, all shareholder councils in a water CCO will need to provide a guarantee to the water CCO. This is a requirement of LGFA's Foundation Policies.

- The guarantee needs to be joint and several. This principle is consistent with the joint and several guarantee that councils offer in respect of their guarantee of LGFA.
- The guarantee will be for any LGFA lending to a water CCO. It is not a guarantee of all the water CCO's liabilities.
- LGFA has previously indicated that a council's share of the guarantee will be based on drinking water connections as at 30 June each year. While this is still our preference, LGFA is willing to accept a guarantee based on different percentages as set out in the water CCO's shareholder agreement.
- While LGFA will accept a guarantee based on percentages set out in the water CCO's shareholder agreement, LGFA believes that transitioning to a guarantee based on drinking water connections in the future will be fairest outcome. This is because changes in the number of drinking connections will change depending on the different growth rates of councils. LGFA is happy to discuss this issue with each water CCO.

2. Allowing Other Lenders to Share the Guarantee

LGFA's position has been that the guarantee structure agreed between LGFA and councils that will apply to their water CCO will only be in respect of LGFA's lending.

- LGFA confirms that this will remain our position.
- All other lenders will share in security over water charges. This is the same security that Watercare provides to lenders.
- There is nothing that prevents councils from offering a guarantee to other lenders if they wish to do so.

3. Security of Existing Councils Loans to a Water CCO

LGFA has been asked by councils who have existing loans to their new water CCO, if their loans will rank equally with loans of other lenders.

- Normally lending by a shareholder to a company would rank subordinate to other senior lending obtained by that entity.
- There is also a circularity in that the councils are required to guarantee the water CCO's debt obligations to LGFA but are also lending on an equal basis to the water CCO.
- LGFA recognises that there will be a transitional period for new water CCOs to refinance existing loans that exist from their parent councils.
- To accommodate the transitional arrangements, LGFA is willing to agree to any council loans made to their water CCO to share equally in the security over water charges with any lending made by LGFA. This sharing of security will be for a period of three years, or any other term as agreed to be LGFA and the water CCO.
- Councils will not have any voting rights in respect of their loans to the water CCO in the event of any enforcement action.
- LGFA has indicated that it is willing to refinance any council loans to the water CCO. This means the water CCO can borrow from LGFA and repay all the council's lending. Once this is completed there will be no shared security arrangements needed.

4. LGFA Debt Transfer Options for a Council to a Water CCO

There are no changes to the debt transfer options that LGFA have previously proposed. These are:

- Novation of a council loan or part of a council loan to the water entity.
- The water entity borrows from LGFA and then repays the council. The council is then able to determine how the proceeds are used including the options of buying back loans from LGFA.
- A water entity could agree to repay debt owed to the council over a set period. This would involve scheduled repayments of principal.

LGFA will engage with water CCOs and councils on their debt transfer strategy ahead of any proposed transfer dates so that new loan term sheets can be arranged and any cashflow implications managed.

5. LGFA Establishment Financing for Water CCOs

LGFA's previous position was that it would not provide any establishment financing to a water CCO until councils had transferred their water assets to the water CCO. LGFA has reconsidered its position after a request from one of the water CCOs. LGFA can now confirm that:

- If requested, LGFA will provide establishment financing to a water CCO prior to the water CCO being established.
- Guarantees between the shareholder councils and the water CCO in favour of LGFA will need to be in place before any lending is made.

6. Legal Negotiations Update

LGFA is currently in advanced stages of the legal negotiations with Selwyn Water. It is expected that Selwyn Water will accede shortly with several other water CCOs to follow shortly thereafter.

There are five water CCOs expected to commence offering water services by July 2026. These water CCOs will be prioritised in joining LGFA. Once these water CCOs have acceded, LGFA will be able to commence legal negotiations with the water CCOs that will commence offering water services by July 2027.

7. Sustainable Lending Product for Water CCOs

LGFA is working on a new sustainable lending product for water CCOs. Water CCOs who borrow under this format will be eligible for a discounted loan margin. For further information on sustainable borrowing please contact helen.mahoney@lgfa.co.nz

Further support and information

LGFA continues to work closely with council finance teams, water CCO transitional teams, and the Department of Internal Affairs to provide information and support for councils as you work through the establishment of your water CCO.

We encourage you to contact us directly by emailing cameron.walker@lgfa.co.nz or andrew.michl@lgfa.co.nz if you would like further information.

LGFA is looking to assist you with your decision-making process. We look forward to continuing to support you to enable the successful delivery of water services.