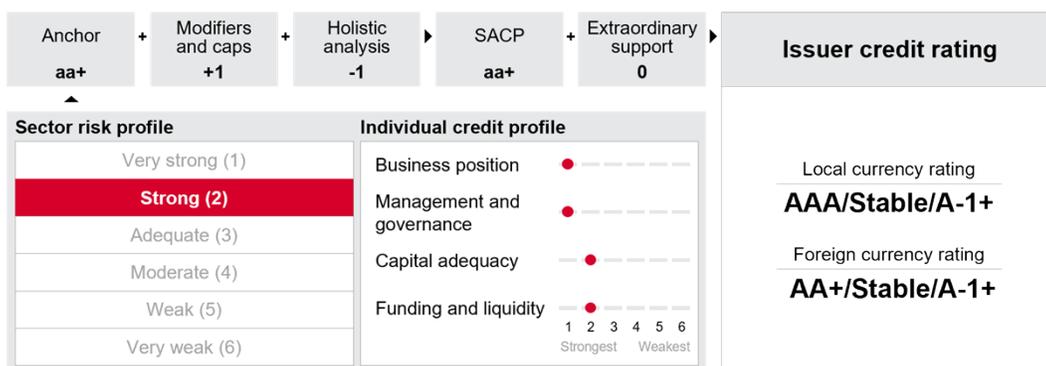


New Zealand Local Government Funding Agency Ltd.

March 16, 2026

This report does not constitute a rating action.

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths

Low-risk lending because borrowers are highly rated New Zealand local government authorities, and nearly all members are liable for the agency's obligations under a joint and several guarantee

Strong market position rooted in a well-defined public sector mandate

Well capitalized with reliable access to diversified funding

Robust risk management, bolstered by an experienced executive team

Key risks

Concentrated loan portfolio that leads to credit risk as borrowing councils could face rising debt and infrastructure pressures, especially related to water services.

New Zealand Local Government Funding Agency Ltd. (LGFA) will maintain its dominant market share. The agency counts 77 of New Zealand's 78 local councils as its members. Together, these councils account for the bulk of local-government debt in New Zealand.

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Rated councils have an average credit rating in the 'AA-' category, slightly lower than in the past. A total of 74 councils jointly and severally guarantee LGFA's obligations, with 30 councils holding equity in LGFA.

LGFA's strengthening capital position tempers rising risk associated with its lending book. The agency has strengthened its capital base by doubling its borrower note requirement for new lending to 5%. LGFA's borrower base has also expanded, reducing single name concentration.

The agency's loan asset quality could weaken. This situation could arise if LGFA starts lending to council-owned water entities that may have lower credit ratings and be more leveraged than local councils. We believe these developments will generally be negative for the credit quality of a sector that is highly indebted by international standards.

LGFA continues to diversify its access to global capital markets. This strategy supports its positive funding profile and strong liquidity position.

Government support to remain. Our ratings reflect our assessment of LGFA's stand-alone credit profile (SACP) of 'aa+', and our view of an extremely high likelihood of extraordinary financial support from the New Zealand government in a stress scenario.

Outlook

The stable rating outlook on LGFA reflects that on the [New Zealand](#) sovereign (foreign currency: AA+/Stable/A-1+; local currency: AAA/Stable/A-1+) and our view of an extremely high likelihood of extraordinary support from the sovereign for the New Zealand public-sector funding agency in a stress scenario.

The stable outlook also reflects our expectation that LGFA will maintain its strong credit profile and dominant market position over the next 24 months at least.

Downside scenario

We could lower our ratings on LGFA if we consider the agency's SACP to be weakening. This could occur if we observe a weakening of management, such as lending to water council-controlled organizations (CCOs) that are not supported by councils, without any measures to offset increased credit risk.

Downward pressure could also emerge if we perceive that LGFA's policy role or link to the New Zealand government are weakening. We could also lower our ratings if we were to downgrade New Zealand.

Upside scenario

We could raise our foreign currency issuer credit rating on LGFA if we were to take the same action on New Zealand, all else being equal.

Rationale

Sector Risk Profile: High quality loan book and local councils' strong institutional settings underpin ratings

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LGFA lends about 97% of its portfolio to local councils. Councils have high, albeit weakening, credit quality. The remaining lending is to council-backed organizations. We currently have credit ratings on 24 of the largest borrowing councils in New Zealand.

We view the institutional framework that New Zealand councils operate in as strong compared with those of global peers, ranking at the second highest assessment on our six-point scale.

New Zealand's local government sector is more leveraged than that of many other advanced economies. Council debt was close to 200% of operating revenue in fiscal 2024 (ended June 30). In comparison, sectorwide debt ratios for municipal governments in northern Europe and Canada are generally below 100% for the highest institutional framework assessment.

In our view, government policy predictability is lower now than in the past. LGFA has announced lending support to water CCOs that are financially backed by councils. The leverage of these public water utilities could be up to twice that of councils that the agency currently finances. The SACPs of water CCOs are likely to be weaker than the average rating on councils. The potential deviation from traditional low risk government lending to higher risk entities such as ratepayer schemes could lower the credit quality of the LGFA's lending book.

The New Zealand central government's announcement to cap general property rates could reduce financial flexibility for councils. On Dec. 1, 2025, the central government announced that it will limit growth in local councils generally property rates to 2%-4% per year. This policy shift, coupled with mounting budgetary pressures caused by high population growth, inflation, and historical underinvestment, could weaken councils' creditworthiness.

Individual Credit Profile: Dominant market position and strong risk management

Business position: LGFA is the primary debt funding vehicle for New Zealand local authorities and their CCOs.

We consider LGFA to be a near-monopoly lender to councils, excluding New Zealand's largest subnational borrower, Auckland Council. Outside of Auckland, LGFA holds a 98.7% share of the local government market.

LGFA has a dominant market position in New Zealand, accounting for 80% of all the domestic borrowings of councils in 2025. The agency limits its lending to Auckland to reduce concentration risks. Currently, Auckland accounts for 13.2% of the total borrowing and it hasn't borrowed through the agency since March 2024, diluting its concentration. LGFA has had a strong record since 2011 of fulfilling its policy mandate.

LGFA was established in December 2011 to provide debt finance to councils, following the enactment of the Local Government Borrowing Act 2011. The Crown (the New Zealand government) owns 20% of LGFA. Thirty council shareholders own the remaining 80%. LGFA counts 77 of New Zealand's 78 councils as members.

LGFA lends on terms that are generally more attractive than if the councils borrowed in their own names or through the banking system. Evidence of this includes the secondary market spreads between LGFA's bonds and the New Zealand dollar-denominated bonds that Auckland, Dunedin City Council (via Dunedin City Treasury Ltd.), and the major banks issue. Historically, the agency has also helped councils lengthen the average tenor of their borrowings.

Governance and management expertise: Management team is highly competent and prudent.

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We consider LGFA's management and governance to be a key strength that mitigates potential risks. A seven-member board governs the agency, of which six are independent directors, including the chairperson. The board is responsible for strategic direction and control.

LGFA also has a shareholders' council, with five to ten appointees. This council recommends appointments to the board and coordinates governance decisions. The agency has a highly qualified management team that has experience in council treasury operations, debt management, and private financial institutions.

In December 2025, LGFA underwent some board updates, with a new chair appointed. We believe the agency's strategic direction remains unchanged despite this transition. Additionally, LGFA has introduced a maximum tenure cap for the board of 10 years.

Like many of its international peers, LGFA is not subject to banking regulations. However, given that the agency's bonds are quoted on the NZX Debt Market, the agency is required to comply with continuous disclosure obligations.

In addition, the Financial Markets Conduct Act 2013 regulates the securities that LGFA issues to retail investors. The agency produces annual financial statements, with external auditors appointed by the auditor-general of New Zealand. It also publishes half-yearly reports and annual statements of intent. LGFA pays dividends to its shareholders, although such payments are discretionary and subject to board approval.

Capital adequacy: The increasing risk-adjusted capital ratio supports a strong capital position.

LGFA's capital adequacy position is improving as its lending portfolio becomes less concentrated and its capital base strengthens due to an increase in borrower note margin.

We estimate the risk-adjusted capital ratio for LGFA was 36.0% before diversification and 12.7% after adjustments for single-name concentration, as of Dec. 31, 2025. The agency's two largest borrowers, Auckland and Christchurch City Council, represent less than 25.0% of its loan book. Its 20 largest borrowers account for about 74.7%. Smaller councils are borrowing proportionally more than the larger ones, diluting concentration.

The increase in LGFA's borrower note margin to 5.0% from 2.5% will help the agency raise its capital base over time. As of Dec. 31, 2025, the capital structure comprised NZ\$25 million of paid-in shareholder capital, about NZ\$99 million of retained earnings, and about NZ\$740 million in borrower notes, which we view as equity-like.

LGFA also has NZ\$20 million of uncalled shareholder capital, which we exclude from our capital calculations because it is not paid in. The agency could call on this amount to support its financial position in a stress scenario.

We consider LGFA's risk management to be a credit strength because it helps to mitigate the impact of lending concentration risk and the weakening credit quality of the lending book. LGFA restricts its investments to approved financial instruments such as term deposits and highly rated bonds, under its board-approved treasury policy. The agency fully hedges any foreign-currency exposure back to New Zealand dollars.

LGFA's loan portfolio has not experienced any arrears in payments or loan impairments since inception. Council borrowers must comply with various covenants on their net debt, interest expenses, and liquidity. However, debt covenants have been increased in recent years as councils increased their leverage.

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In fiscal 2025, LGFA approved an increase to its net debt covenant for high-growth councils at board discretion to a maximum 350% of revenues. This could raise the indebtedness of the sector over time, and potentially weaken the credit quality of LGFA's lending book, in our assessment.

In 2020, LGFA relaxed one of its foundation policy covenants to give councils an extra buffer during COVID-19. The agency allowed councils rated 'A' or higher to have net debt up to 300% of their revenues, up from 250%. It will reduce this limit back to 280% by 2026.

All council borrowers must provide debenture security by way of a charge over council property rates and rates revenues. This supports the financial profile of LGFA. We view this as a positive factor because: (1) rates revenue is the largest and most stable source of income for New Zealand councils; and (2) rates collection ranks ahead of all other claimants on residents, including mortgages and New Zealand's Inland Revenue Department. On the other hand, the central government's rate cap proposal for local governments could curb councils' financial flexibility.

Lending to CCOs could affect LGFA's credit metrics. Historically, the agency only provided debt finance to councils. Since 2021, eight CCOs have joined LGFA. These are financially backed by their parent councils with uncalled capital. The agency's exposure to these entities remains very small.

Under the Crown's "Local Water Done Well" initiative, many councils have decided to shift water-related assets and operations to water-specific CCOs. This will increase LGFA's exposure to CCO lending. To date, the agency has announced that it will lend only to financially supported water CCOs (i.e., those backed by uncalled capital or guarantees from parent councils).

Further strengthening our credit assessment of LGFA is the joint and several guarantee of its obligations. Other than the New Zealand government, each LGFA shareholder must be a guarantor of the agency's obligations. Also, if the principal amount of a council's borrowing exceeds NZ\$20 million, that council must become party to a deed of guarantee. LGFA currently has 74 such guarantors.

Funding and liquidity: LGFA benefits from diversified funding channels and a strong liquidity position.

LGFA historically concentrated its funding in New Zealand. It is the second-largest borrower in the New Zealand dollar market, behind only the sovereign.

The agency is broadening its access to capital markets. In fiscal 2024, it debuted four Australian dollar-denominated issuances for maturities ranging from three to 10 years. It intends to be a regular issuer in Australia for diversification purposes and has since issued twice in fiscal 2025 into existing Australian lines.

In January 2025, LGFA established a euro medium-term note program. Since March 2025, the agency has issued several bonds under the programme. It includes two bonds of US\$500 million each maturing in March 2028 and September 2030, €500 million bonds maturing in April 2030, and CHF220 million and CHF180 million bonds maturing in April 2032 and October 2034, respectively. LGFA also has about US\$475 million and HK\$700 million borrowed through its euro commercial paper program.

In December 2023, the Reserve Bank of New Zealand (RBNZ) confirmed that LGFA's bonds will count as "level two" liquid assets. This will support demand for the bonds from banks. LGFA's domestic bonds are spread across 11 maturities. They are mostly in series of NZ\$1 billion or more

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to promote secondary market liquidity. Their repurchase eligibility with RBNZ at a low haircut provides demand support for the bonds. Since 2015, the agency has also issued short-dated bills via tenders and private placements.

We consider LGFA's liquidity to be strong. This reflects the agency's portfolio of liquid financial assets and potential access to a committed facility from the New Zealand Debt Management (NZDM) office.

LGFA is planning to launch a new cash advance facility in March 2026, designed to offer an immediate flexible borrowing option for councils. This will be an alternative product to their existing standby facilities, which require funds to be drawn over a longer 30-day period. The facility will be supported by 50% of LGFA's readily available assets.

We believe LGFA can generally meet its obligations even under stressed market conditions, without the need to call on additional resources from members. New Zealand councils could also cut back their borrowing requirements in such circumstances, in our view.

Recent growth in LGFA's liquid asset portfolio to backstop its standby facility offering supports its liquidity metrics. Since late 2020, the agency has offered standby facilities of its own to member councils. Eighteen councils signed up for these facilities with an aggregate amount of NZ\$732 million as of December 2025.

Extremely high likelihood of support from government in a stress scenario

We see an extremely high likelihood of timely and sufficient extraordinary support from the New Zealand government to LGFA in the event of financial stress. We base our assessment on LGFA's:

- Critical role in meeting the New Zealand government's objectives. The agency is a near-monopoly source of debt finance for most local authorities. It offers cost savings and access to longer-term borrowings to participating councils. LGFA has also helped to deepen domestic capital markets. A default by the agency could substantially delay or lead to the cancellation of local government projects in transport, water, and sewerage infrastructure, to the major detriment of the economy.
- Very strong link with the New Zealand government. The agency's enabling legislation allows the Crown to lend it money if it is in the public interest to do so, or to meet a temporary shortfall in a timely manner. LGFA has access to a committed liquidity facility from NZDM, which NZDM expanded to NZ\$3 billion and extended until 2037.

Key Statistics

New Zealand Local Government Funding Agency Ltd.--Selected indicators

(Mil. NZ\$)	--Year ended June 30 --				
	2025A	2024A	2023A	2022A	2021A
Business position					
Total adjusted assets	26,467	23,508	17,175	16,250	14,485
Customer loans (gross)	22,657	20,549	16,314	14,042	12,066
Growth in loans (%)	10	26	16	16	11
Net interest revenues	35	19	10	18	20

New Zealand Local Government Funding Agency Ltd.--Selected indicators

(Mil. NZ\$)	--Year ended June 30 --				
	2025A	2024A	2023A	2022A	2021A
Noninterest expenses	17	12	9	8	9
Capital and risk position					
Total liabilities	25,677	22,902	17,708	15,862	14,166
Total adjusted capital	791	607	466	388	319
Assets/capital (x)	33	39	39	42	45
RAC ratio before diversification (%)	36.0	39.0	18.8	21.9	18.3
RAC ratio after diversification (%)	12.7	10.5	4.0	2.9	2.3
Gross nonperforming assets/gross loans (%)	0.0	0.0	0.0	0.0	0.0
Funding and liquidity					
Liquidity ratio with loan disbursement (1 year)	1.37	0.92	0.96	1.14	1.21
Liquidity ratio without loan disbursement (1 year)	1.60	1.08	1.19	1.42	1.47
Funding ratio (1 year)	1.44	1.11	1.26	1.48	1.58

RAC—Risk-adjusted capital. N.A.—Not available. A—Actual.

Rating Component Scores

New Zealand Local Government Funding Agency Ltd.--Rating component scores

Issuer credit rating	
Local currency	AAA/Stable/A-1+
Foreign currency	AA+/Stable/A-1+
Sector Risk Profile	Strong
Individual credit profile	
Business Position	Very Strong
Management and Governance	Very Strong
Capital Adequacy	Strong
Funding & Liquidity	Strong
Anchor	aa+
Overriding factors and caps	1
Holistic analysis	-1
Stand-alone credit profile	aa+
Extraordinary support	0 (foreign currency) / +1 (local currency)

Related Criteria

- [Criteria | Governments | International Public Finance: Methodology For Rating Non-U.S. Public-Sector Funding Agencies](#), July 25 2024

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- [Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology](#), April 30 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10 2021
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7 2017
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 24 2015
- [General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#), Nov. 19 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16 2011

Related Research

- [New Zealand Local Government Brief: Rates Cap Tightens The Financial Screws](#), Dec. 2, 2025
- [New Zealand Local Governments Face Rising Fiscal Imbalances And Less Certain Policy Settings](#), March 17, 2025
- [New Zealand Councils' Institutional Framework Lowered On Rising Debt](#), Feb. 26, 2025
- [Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S.](#), Feb. 24, 2025
- [New Zealand's Water Infrastructure Reshuffle Could Alter Local Government Funding Agency's Lending Mix](#), Aug. 12, 2024
- [New Zealand Councils Will Lean Into Rising Credit Risk](#), May 6, 2024

Ratings Detail (as of March 16, 2026)*

New Zealand Local Government Funding Agency Ltd.

Issuer Credit Rating	
<i>Foreign Currency</i>	AA+/Stable/A-1+
<i>Local Currency</i>	AAA/Stable/A-1+
Commercial Paper	A-1+
Senior Unsecured	AA+
Senior Unsecured	AAA
Short-Term Debt	A-1+

Issuer Credit Ratings History

21-Feb-2021	<i>Foreign Currency</i>	AA+/Stable/A-1+
03-Feb-2019		AA/Positive/A-1+
06-Dec-2011		AA/Stable/A-1+
21-Feb-2021	<i>Local Currency</i>	AAA/Stable/A-1+
03-Feb-2019		AA+/Positive/A-1+
06-Dec-2011		AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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