

# New Zealand Local Government Funding Agency Limited (LGFA)

## Update

### Ratings

#### Foreign Currency

Long-Term IDR	AA
Short-Term IDR	F1+

#### Local Currency

Long-Term IDR	AA+
Short-Term IDR	F1+

#### Senior unsecured

Long-Term Rating	AA+
Short-Term Rating	F1+

### Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

### Financial Data

#### New Zealand Local Government Funding Agency Limited (LGFA)

	30 Jun 18	30 Jun 17
Interest revenue (NZDm)	342.8	320.7
Net operating income (NZDm)	11.7	11.0
Loans (NZDm)	7,975.7	7,783.9
Total debt (NZDm)	8,574.4	8,213.5
Total assets (NZDm)	8,835.1	8,491.3
Equity and reserves (NZDm)	64.3	53.9
Interest revenue on loans/loans (%)	2.86	2.83
Net interest income/earning assets %	0.21	0.21
Impaired loans/total loans (%)	0	0
Liquid assets/total assets (%)	0.57	0.59
Loans/equity and reserves (%)	12,403	14,441

Source: Fitch Ratings, Fitch Solutions, LGFA

### Key Rating Drivers

**Strong Links to Sovereign:** New Zealand Local Government Funding Agency Limited (LGFA) is a council-controlled organisation under the Local Government Act 2002 and enabled by the Local Government Borrowing Act 2011. The sovereign's legal links to LGFA are evident from New Zealand's institutional framework, supportive legislation and the central government's (Crown) 20% ownership of LGFA's shares alongside the local councils' 80% shareholding.

**Consistent Support Track Record:** The New Zealand Debt Management Office (DMO) has provided a 10-year, committed liquidity facility to LGFA since its inception in December 2011. The facility's maximum aggregate principal amount is set at NZD1.0 billion unless LGFA chooses a lower amount. As of 30 June 2018, this undrawn facility had been set at a maximum limit of NZD600 million. The DMO also assists the LGFA to mitigate counterparty credit risk by acting as the government-related entity's (GRE) derivatives counterparty.

**Strong Socio-Political Implications of Default:** LGFA's primary role is to provide more efficient costs and diversified sources of funding for New Zealand local authorities. The GRE has been able to raise debt on behalf of local authorities on more favourable terms than if they were to raise the debt directly. Fitch Ratings believes that in an unforeseen default scenario, the local-government sector would have the ability to access emergency financial support from the sovereign (AA/AA+/Stable) and alternative funding from private-sector lenders.

However, a default would have significant socio-political implications as it is likely to cause significant delays to public-sector projects and affect the provision of essential services by local authorities. Consequently, we believe a default would carry significant economic and political implications due to the wider impact on New Zealand's citizens and economy.

**Significant Financial Implications of Default:** We consider LGFA to be an important financing vehicle for the New Zealand local-government sector. It was established with the support of the Crown as a means of providing an alternative and cost-effective borrowing option for local governments and since inception, the LGFA has helped to increase domestic capital market liquidity and tenor while lowering funding costs to local councils. LGFA currently has 59 participating local authorities, representing 97% of New Zealand local government debt.

The Local Government Borrowing Act 2011 also permits the Crown to lend money to LGFA to meet an exceptional and temporary liquidity shortfall if it is necessary or expedient in the public interest to do so. The legislation and guarantees signed by shareholders and borrowers ensure that a LGFA default could realistically occur only in the event of the entity's own insolvency and the inability of the Crown and the entity's other shareholders to honour their obligations.

### Rating Sensitivities

**Credit-Linked:** LGFA's ratings are credit-linked to those of the New Zealand sovereign. Positive or negative rating action would stem from a similar move on the sovereign's ratings.

**Weaker Integration:** A weakening in LGFA's integration with the sovereign, such as the removal of liquidity support, lower creditor protection and a poorer general credit profile of New Zealand's local governments, could result in LGFA being rated lower than the sovereign.

### Related Research

[Fitch Affirms New Zealand at 'AA'; Outlook Stable \(February 2018\)](#)

[Institutional Framework for New Zealand Subnationals \(May 2014\)](#)

### Analysts

Barry Keenan  
+61 2 8256 0326  
[barry.keenan@fitchratings.com](mailto:barry.keenan@fitchratings.com)

Samuel Kwok  
+852 2263 9961  
[samuel.kwok@fitchratings.com](mailto:samuel.kwok@fitchratings.com)

Appendix A

New Zealand Local Government Funding Agency Limited (LGFA)

(NZDm)	2014	2015	2016	2017	2018
<b>Profit and loss</b>					
Interest revenue	149.1	222.8	278.1	320.7	342.8
Interest expenditure	-138.9	-208.9	-262.7	-303.2	-323.9
Net interest income	10.2	13.9	15.4	17.5	18.9
Net fees and commissions	-	-	-	-	-
Other operating income	-	-	-	-	-
Personal expenses	-1.2	-1.3	-1.5	-1.7	-1.8
Other operating expenses	-2.1	-3.4	-4.5	-4.8	-5.4
Net gains and losses on securities and trading	-	-	-	-	-
Net operating income/(loss)	6.9	9.2	9.4	11.0	11.7
Provisions	0.0	0.0	0.0	0.0	0.0
Operating profit (loss) after provisions	6.9	9.2	9.4	11.0	11.7
Other non-operating revenues/expenses	-	-	-	-	-
Contributions from state budgets	-	-	-	-	-
Profit (loss) before tax	6.9	9.2	9.4	11.0	11.7
Taxation	0.0	0.0	0.0	0.0	0.0
Net profit (loss)	6.9	9.2	9.4	11.0	11.7
<b>Balance sheet</b>					
<b>Assets</b>					
Cash and cash equivalents	55.1	31.7	37.1	49.9	50.3
Liquid securities	-	-	-	-	-
Deposits with banks	46.5	70.9	89.8	149.9	201.1
Loans	3,742.5	5,031.9	6,451.3	7,783.9	7,975.7
Other earning assets	73.8	275.8	676.7	506.3	606.8
Long term investments	0.0	-	-	-	-
Fixed assets	-	-	-	-	-
Intangible	-	-	-	-	-
Other long-term assets	0.2	1.4	2.3	1.3	1.2
Total assets	3,918.1	5,411.7	7,257.2	8,491.3	8,835.1
<b>Liabilities &amp; equity</b>					
Customer deposits	-	-	-	-	-
Deposits from banks	-	-	-	-	-
Short-term borrowing	-	-	223.9	348.1	473.4
Other short term liabilities	0.4	16.1	61.0	92.3	61.3
Debt maturing after one year	3,825.3	5,274.3	6,819.7	7,865.4	8,101.0
Other long term funding	61.9	85.1	108.4	131.6	135.1
Other provisions and reserves	-	-	-	-	-
Other long term liabilities	1.7	-	-	-	-
Equity	25.0	25.0	25.0	25.0	25.0
Reserves	3.8	11.2	19.2	28.9	39.3
Total liabilities & equity	3,918.1	5,411.7	7,257.2	8,491.3	8,835.1
<b>Memo</b>					
Guarantees and other contingent liabilities	0.0	0.0	0.0	0.0	0.0

Source: Fitch Ratings, Fitch Solutions, LGFA

**Related Criteria**

[Government-Related Entities Rating Criteria \(October 2018\)](#)

[International Local and Regional Governments Rating Criteria - Outside the United States \(April 2016\)](#)

Appendix B

New Zealand Local Government Funding Agency Limited (LGFA)

	2014	2015	2016	2017	2018
<b>Ratios</b>					
<b>Performance</b>					
Interest revenue on loans/loans (%)	3.27	4.00	3.29	2.83	2.86
Interest expense/borrowings and deposits (%)	3.57	3.9	3.67	3.63	3.72
Net interest income/earning assets (%)	0.26	0.26	0.21	0.21	0.21
Net operating income/net interest income and other operating revenue (%)	67.65	66.19	61.04	62.86	61.9
Net operating income/equity and reserves (%)	23.96	25.41	21.27	20.41	18.2
Net operating income/total assets (%)	0.18	0.17	0.13	0.13	0.13
<b>Credit</b>					
Growth of total assets (%)	45.75	38.12	34.1	17.01	4.05
Growth of loans (%)	48.81	34.45	28.21	20.66	2.46
Impaired loans/total loans (%)	-	-	-	-	-
Reserves for impaired loans/impaired loans (%)	-	-	-	-	-
Loan impairment charges/loans (%)	-	-	-	-	-
<b>Liquidity and funding</b>					
Long term debt/total equity and reserves (%)	13,282.29	14,569.89	15,429.19	14,592.58	12,598.76
Liquid assets/total assets (%)	1.41	0.59	0.51	0.59	0.57
Total deposits and debt/total assets (%)	99.21	99.03	98.55	98.28	98.58
Liquid assets/short-term deposits and borrowing (%)	-	-	16.57	14.33	10.63
<b>Capitalization</b>					
Equity and reserves/total assets (%)	0.74	0.67	0.61	0.63	0.73
Net profit/total equity and reserves (%)	23.96	25.41	21.27	20.41	18.2
Loans/equity and reserves (%)	12,994.79	13,900.28	14,595.7	14,441.37	12,403.89
Regulatory capital adequacy ratio (%)	-	-	-	-	-

n.a.: Not available

Source: Fitch Ratings, Fitch Solutions, LGFA

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.