

# Financing New Zealand councils' infrastructure investment

## Te tuku pūtea ki te haumitanga hanganga kaunihera o Aotearoa

Half Year Report  
31 December 2020



NEW ZEALAND LOCAL  
GOVERNMENT FUNDING AGENCY  
TE PŪTEA KĀWANATANGA Ā-ROHE

*Mā te huruhuru ka rere te manu* is a traditional saying literally meaning 'birds need feathers to fly'.

Its wider meaning is that 'investment is needed for success'.

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# Message from the Chair and Chief Executive

## He karere mai i te Toihau me te Tumuaki

**for the six-months ended  
31 December 2020**

*“LGFA continues to meet the challenges of COVID-19 while providing cost effective financing solutions for its growing council membership base and offering New Zealand dollar fixed income investors a choice of high-grade investment maturities”*



Craig Stobo, Board Chair

We are pleased to highlight another period of positive financial and non-financial performance by the company for the six-month period to 31 December 2020.

### **Strong Financial and Operational Performance**

LGFA total interest income for the six-month period of \$190.38 million was a 2.9% increase over the 2019-20 comparable period result of \$185.10 million while net operating profit of \$5.92 million was a 2.5% decrease on the 2019-20 comparable period result of \$6.10 million.



Mark Butcher, Chief Executive

While operating profit was lower than the prior period due to the lower interest rate environment, it was ahead of the Statement of Intent (SOI) forecast due to the early refinancing of council loans maturing in May 2021 and a higher level of new council borrowing.

Expenses have been managed under budget over the past six months. In terms of composition, lower fees paid on the NZDM facility, and lower Approved Issuer Levy payments were somewhat offset by higher legal and NZX costs from higher than forecast lending and bond issuance activities.

LGFA bonds continue to be an attractive investment for investors while LGFA has also delivered savings in borrowing costs, extended the tenor of lending available by four years and rolled out the provision of standby facilities to council members.

The financial strength of LGFA was reaffirmed by Fitch Ratings who maintained our domestic currency credit rating at 'AA+' in November 2020 and our 'AA+' rating from S&P Global Ratings remains on positive outlook, both of which are the same as the New Zealand Government.

## Borrowing activity

LGFA issued a record \$1.90 billion of bonds over the past six months and just eclipsed the prior six-month record of \$1.80 billion. Nominal outstandings of LGFA bonds total \$13.71 billion (including \$950 million of treasury stock) across ten maturities from 2021 to 2037. The debut of a new April 2037 bond maturity by syndication of \$500 million in July 2020 was another successful issue and the bond tenders were well supported by market participants.

LGFA is the largest issuer of New Zealand dollar securities after the New Zealand Government and our bonds are amongst the largest and most liquid New Zealand dollar debt instruments available for investors. We have seen a shift in investor composition over the past six months as offshore investors have become less attracted to the lower yielding NZD fixed income asset class while domestic banks and investors have increased their nominal holdings based on the outlook for lower interest rates and lack of supply of other high-grade bonds. The Reserve Bank has continued to support the domestic capital markets through the purchase of LGFA bonds in the Large-Scale Asset Purchase Programme and hold \$1.79 billion or 14% of our bonds outstanding as at 31 December 2020. Our offshore investors hold 21.6% of LGFA bonds on issue while NZ Institutional and retail investors hold 29.7% and domestic banks hold 34.6%

The performance of LGFA bonds over the past six months has been pleasing with LGFA bond spreads to both swap and New Zealand Government Bonds (NZGB) tighter on positive credit market sentiment as well as investors seeking additional yield in what is a low interest-rate environment. Outright yields on LGFA bonds have declined modestly over the past six months by between 2 basis points (bps) (0.02%) on the 2022 maturity and 12 bps (0.12%) on the 2027 maturity. It was another period of volatility with the 2027 LGFA bond yield trading in a 60 bps (0.60%) range over the six-month period, trading to a low of 0.49% in early November before rising to 0.87% on 31 December 2020.

LGFA continues to issue short-dated LGFA Bills ranging in maturities from three months to 12 months through a combination of monthly tenders and private placements. As at 31 December 2020, outstandings under the programme were \$612.5 million. These instruments provide a source of funding for short-dated lending to our council borrowers and assist LGFA with liquidity management.

## Lending to the sector

LGFA was established in December 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. Over the past six months, we added four new members with South Waikato, Waitaki and Central Otago District Councils joining as guarantors and Kawerau District Council joining as a non-guarantor. Total membership of 71 councils is very pleasing and this is expected to increase slightly in the coming six months as several councils are partly through the joining process.

Long-dated lending over the six-month period was \$1.74 billion with the lending activity a mix of new borrowing and the refinancing of council loans due to mature on 15 May 2021. The average tenor of borrowing by councils at 7.1 years was longer than the average term of borrowing of 5.4 years over the 12-month period to June 2020.

Short-dated lending for terms less than 12 months has been well supported by councils and, as at 31 December 2020, LGFA had \$343.4 million of short-term loans outstanding to 26 councils.

The underlying credit quality of the sector continues to remain very strong with all member councils remaining compliant with the LGFA lending covenants.



## The impact from COVID-19 on the sector and LGFA

The local government sector has felt the impact from COVID-19, albeit there has been a divergence of the severity of impact amongst councils. Councils have in general experienced a reduction in revenue from fees and charges and reduced income from their investment portfolios. It has also been difficult for many councils to implement planned rate increases given the financial impact from COVID-19 on some ratepayers within the community. Meanwhile there has been a need to continue, if not increase, capital expenditure on infrastructure.

LGFA responded by increasing the Net Debt / Total Revenue covenant for councils with a long-term credit rating of 'A' equivalent or higher from 1 July 2020. This will assist councils with greater financial flexibility through the COVID-19 economic recovery phase as well as reflecting the strong financial position of the sector. We have also introduced standby facilities for councils as an alternative to sourcing from banks. We have also extended the term of the LGFA bond curve from 2033 to 2037 and in doing so can now offer longer borrowing terms for councils. In line with the legislative change to extend statutory reporting

deadlines by two months due to COVID-19, we allowed councils an extension to provide their compliance certificates to LGFA. All have provided their certificates, and all remain compliant with our financial covenants.

While COVID-19 has restricted travel, we were able to hold our annual shareholder-borrower day for council members and held events to update investors on the proposed water industry reform.

## Acknowledgments

On behalf of the Board we are pleased to be part of the continued success of this organisation and wish to thank our council shareholders, guarantors and borrowers as well as the Reserve Bank of New Zealand, NZ Debt Management, our financial intermediaries, investors and staff for their continued support.

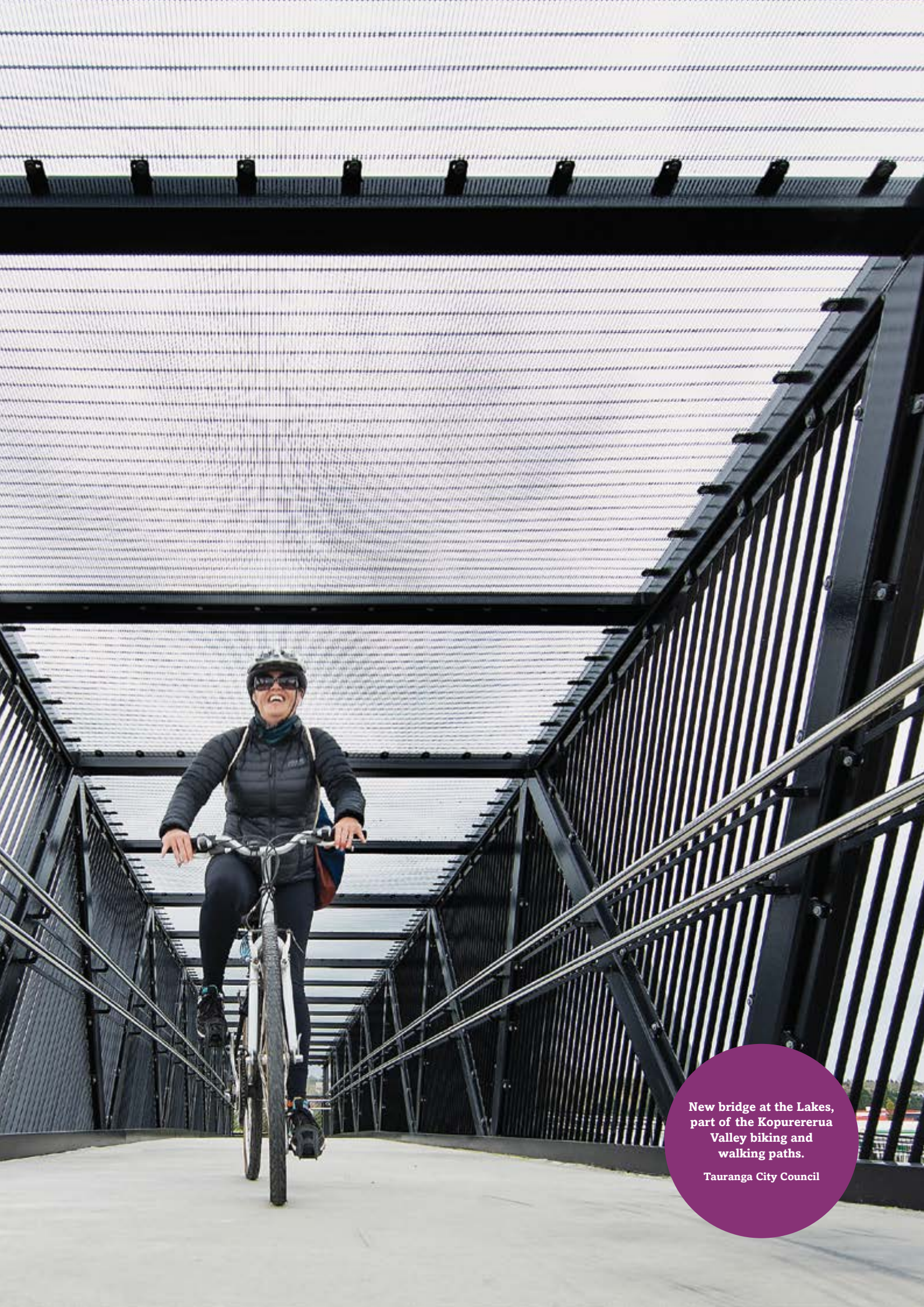


**Craig Stobo**  
Chair, LGFA Board



**Mark Butcher**  
Chief Executive





New bridge at the Lakes,  
part of the Kopurererua  
Valley biking and  
walking paths.

Tauranga City Council



# Performance against objectives Ko ngā whakatutukinga ki ngā whāinga

The statement of service performance details LGFA's performance for the first half of the year against the objectives and targets set out in the LGFA Statement of Intent 2020-21 (SOI)

## 2020-21 performance objectives

The SOI sets out two primary performance objectives and seven additional objectives for the year ended 30 June 2021.

### Primary objectives

LGFA will optimise the debt funding terms and conditions for Participating Borrowers. Among other things, this includes:

- Providing interest cost savings relative to alternative sources of financing;
- Offering flexible short and long-term lending products that meet Participating Borrowers' borrowing requirements;
- Delivering operational best practice and efficiency for its lending services;
- Ensuring certainty of access to debt markets, subject always to operating in accordance with sound business practice.

LGFA will ensure its asset book remains at a high standard by ensuring it understands each Participating Borrower's financial position, as well as general issues confronting the Local Government sector. Amongst other things, LGFA will:

- Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies;
- Analyse finances at the Council group level where appropriate and report to shareholders;
- Endeavour to visit each Participating Borrower annually, including meeting with elected officials as required, or if requested; and
- Take a proactive role to enhance the financial strength and depth of the local government debt market and work with key central government and local government stakeholders on sector and individual council issues.



## Additional objectives

LGFA has the following seven measurable and achievable additional objectives which complement the primary objective. Performance against these objectives is reported annually.

LGFA will:

- Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency.
- Provide at least 85% of aggregate long-term debt funding to the Local Government sector.
- Achieve the financial forecasts for net interest income and operating expenses, including provision for a shareholder dividend payment in accordance with approved dividend policy.
- Meet or exceed the Performance Targets.
- Comply with the Health and Safety at Work Act 2015.
- Comply with the Shareholder Foundation Policies and the Board-approved Treasury Policy at all times.
- Assist the local government sector with their COVID-19 response.

## Performance against primary objectives

This section sets out LGFA's performance for the six months ended 31 December 2020 against the two primary objectives set out in the 2020-21 SOI.

**LGFA will optimise the debt funding terms and conditions for Participating Borrowers. Among other things, this includes:**

### ***Providing interest cost savings relative to alternative sources of financing;***

LGFA continues to borrow at very competitive spreads compared to Sovereign, Supranational and Agencies (SSA) issuers who borrow in the New Zealand debt capital markets, the domestic banks and our closest domestic peer issuer Kainga Ora. The benefits are greater the longer the term of financing.

In the latest stakeholder survey result in August 2020, respondents recorded a 99% satisfaction result to the questions "How would you rate LGFA in adding value to your borrowing requirements?" and "How satisfied are you in general as a borrower?"

### ***Offering flexible short and long-term lending products that meet Participating Borrowers' borrowing requirements;***

Both short and long-term borrowing has been well supported by member councils. Over the six-month period to 31 December 2020:

- there were 37 new short-term loans transacted with loan terms ranging between one month and 12 months. As at 31 December 2020, \$343 million of short-term loans were outstanding to 26 councils.
- 46 councils borrowed \$1,738 million in 137 new long-term loans, across 169 maturity dates ranging between 2021 and 2037.

In July 2020, LGFA issued a new April 2037 bond providing councils with the opportunity to extend their long term borrowing if desired. The average borrowing term by councils (excluding short-dated borrowing) was 7.22 years for the September quarter and 6.77 years for the December quarter, with both quarters exceeding the average term of 5.42 years for the year to June 2020.

In December 2020, LGFA launched the Standby Facility Agreement as a new product that will help reduce overall financing costs for councils and we entered into the first agreement with a council for a \$100 million facility.

### ***Delivering operational best practice and efficiency for its lending services;***

Over the six months, LGFA operations successfully processed 2,900 financial payments and 2,386 financial receipts without settlement error.

In the latest stakeholder survey result in August 2020, respondents recorded a 94% satisfaction result to the question "How satisfied are you with the settlement process?"

### ***Ensuring certainty of access to debt markets, subject always to operating in accordance with sound business practice.***

For LGFA to provide certainty of access to markets for our council borrowers we need to have a vibrant primary and secondary market in LGFA bonds. The primary market is the new issuance market and we measure strength with participation by investors at our tenders through bid-coverage ratios and successful issuance yield ranges. The secondary market is the trading of LGFA bonds following issuance and a healthy market implies high turnover.

Over the six months, LGFA issued \$1.9 billion in bonds, through five tenders and a syndication, as well as \$612.5 million bills through six tenders and private

placements. LGFA uses proceeds from LGFA bills and LGFA bond issuances to fund lending to councils and invests the balance in our liquid asset portfolio.

We estimated secondary market turnover across all maturities in LGFA bonds of \$3.9 billion in the six month period. This compares favourably to turnover of \$3.7 billion in the prior corresponding period.

LGFA documented an Australian Medium-Term Notes Programme in November 2017. We have no immediate intention to use this programme, but it provides flexibility if there is a market disrupting event in the future.

***LGFA will ensure its asset book remains at a high standard by ensuring it understands each Participating Borrower's financial position, as well as general issues confronting the Local Government sector. Amongst other things, LGFA will:***

***Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies;***

LGFA reviews all councils' financial statements on an annual basis and the agendas and management reports on an ongoing basis for all councils on the LGFA borrower watch-list.

We have received compliance certificates from all Participating Borrowers, and all remain compliant as at 30 June 2020. There are seven councils who, due to COVID-19 delays in finalising the audit process, have provided outcomes based on unaudited financial statements. LGFA has reviewed these financial statements and are comfortable with them.

***Analyse finances at the Council group level where appropriate and report to shareholders;***

No council has yet to request to LGFA that they be measured on a group basis.

***Endeavour to visit each Participating Borrower annually, including meeting with elected officials as required, or if requested; and***

Following the lifting of COVID-19 travel restrictions, LGFA commenced council visits again in the later months of 2020. We met with 22 councils over the six months and that number will increase in the second half of the current financial year.

***Take a proactive role to enhance the financial strength and depth of the local government debt market and work with key central government and local government stakeholders on sector and individual council issues.***

Over the six months, LGFA management met with representatives from Reserve Bank of New Zealand, Department of Internal Affairs, Office of

the Auditor General, SOLGM, the New Zealand Debt Management section of the Treasury (NZDM) and members of the Three Waters Reform Group. We held investor conference calls for investors and banks relating to bond issuance and provided updates on the impact on the local government sector from COVID-19 and the proposed water industry reforms.

In our 2020 Annual Report, LGFA outlined our commitment to develop lending products to assist councils finance projects that promote environmental and social wellbeing. LGFA is committed to exploring opportunities in Green, Social and Sustainable lending and we are actively progressing development in this area, with the objective of launching inaugural Green, Social and Sustainable lending products.

LGFA continues to assist the sector and the advisers in finding ways for LGFA to play a supporting role in providing solutions to off balance sheet financing for councils and are currently providing technical input into the Cameron Partners Ratepayer Financing Scheme.

## Additional objectives

***LGFA has the following seven measurable and achievable additional objectives which complement the primary objective. Performance against these objectives is reported annually. LGFA will:***

***Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency.***

LGFA has an annual review process regarding our credit ratings from Standard and Poor's and Fitch Ratings and meets with both agencies at least annually. Formal review meetings were last held in November 2019 with S&P and in October 2020 with Fitch.

- **Standard and Poor's (S&P).** On 28 February 2020, S&P affirmed our long-term local currency credit rating (AA+) and our long-term foreign currency credit rating (AA). Both ratings remain on positive outlook and the same as the New Zealand Government.
- **Fitch Ratings (Fitch).** On 4 November 2020, Fitch affirmed our long-term local currency credit rating as AA+ and classified LGFA as a corporate mission, government-related entity (GRE) under its GRE rating criteria. Fitch equalises our ratings with those of the New Zealand Government. Our foreign currency credit rating of AA remains on positive outlook.

***Provide at least 85% of aggregate long-term debt funding to the Local Government sector.***

LGFA's estimated market share of 82% for the rolling twelve-month period to 31 December 2020 and our market share is strong compared to our global peers.<sup>1</sup>

Over the six months, four new councils became members of LGFA, lifting total participating members to 71 as at 31 December 2020. South Waikato District Council, Waitaki and Central Otago District Councils joined as guarantors and Kawerau District Council joined as a non-guarantor.

***Achieve the financial forecasts for net interest income and operating expenses, including provision for a shareholder dividend payment in accordance with approved dividend policy.***

Net interest income (NII) over the six months, on an unaudited basis, was \$609k above budget while expenses were \$30k below budget. The six-month net operating profit of \$5.918 million was \$673k above budget.

Included in the NII is the unrealised mark-to-market movement in fixed rate swaps that are not designated effective for hedge accounting purposes. These swaps reduce exposure to fixed rate loans made outside of the normal tender process and to reduce mismatches between borrowing and on-lending terms in our balance sheet. The unrealised loss increases as interest rates fall but turns to a profit if interest rates rise. Due to a rise in interest rates since June 2020, the year to date revaluation is a profit of \$317k.

Expenses for the six-month period, on an unaudited basis, were \$3.938 million which is \$30k below budget. Key drivers for the variance are:

- **Issuance and on-lending costs** (excluding Approved Issuer Levy) at \$1.4 million were \$14k above budget. A larger amount of bond issuance and short-term lending increased these costs relative to budget, primarily in relation to higher NZX costs and legal costs. These were offset to some extent from lower fees than budgeted relating to the NZDM facility.
- **Operating costs** at \$1.945 million were \$33k below budget due to lower travel and consulting costs offset by higher legal and personnel costs relative to budget.

- **Approved Issuer Levy** (AIL) payments of \$593k were \$11k below budget. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment and offshore investor holdings are just below our SOI forecasts.

***Comply with the Health and Safety at Work Act 2015.***

LGFA has a Health and Safety Staff Committee and reporting on health and safety issues is made to the LGFA board on a regular basis by the Risk and Compliance Manager. There were no health and safety incidents during the six months.

***Comply with the Shareholder Foundation Polices and the Board-approved Treasury Policy at all times.***

There were no compliance breaches during the six-month period.

***Assist the local government sector with their COVID -19 response.***

On 30 June 2020, in response to COVID-19, shareholders approved a change to LGFA's Foundation Policy covenants to provide short term relief to councils from any temporary reduction in revenue and to allow councils to co-invest alongside Central Government in infrastructure projects. For the financial year ending 30 June 2021, the net debt/total revenue covenant for borrowers with an external credit rating of at least A+ has been increased from 250% to 300%. In addition to this direct response:

- LGFA continues to provide input into the Ratepayer Financing Scheme project that, if successful, could offer temporary financial relief to ratepayers via rates postponement.
- The new Standby Facility product will provide greater certainty of access to cost-effective standby funding for councils as an alternative to the traditional bank provider.
- LGFA has extended the longest dated borrowing maturity for councils from 2033 to 2037 to enable councils to better match assets with liabilities and to benefit from record lows in interest rates and borrowings spreads.

1. LGFA use the PwC Local Government Debt Report as source data for calculating market share.



### ***Meet or exceed the Performance Targets.***

As at 31 December 2020, LGFA were meeting eight out of the ten performance targets.

Performance measure	Result to 31 December 2020	Outcome
LGFA net interest income for the period to June 2021 will be greater than \$18.8 million	\$9.85 million	✓
Annual issuance and operating expenses (excluding AIL) will be less than \$6.30 million	\$3.93 million	✓
Total nominal lending (short and long term) to participating councils to be at least \$9.79 billion	\$12,289 million	✓
Conduct an annual survey of councils and achieve 85% satisfaction score as to the value added by LGFA to council borrowing activities	August 2020 survey outcome of 98.8%	✓
Meet all lending requests from participating councils	100%	✓
Achieve 85% market share of all council borrowing in New Zealand <sup>1</sup>	81.8%	✗
Review each participating council's financial position, its headroom under LGFA policies and arrange to meet each council at least annually	22 council visits but behind plan due to COVID travel difficulties	✗
No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Nil	✓
Successful refinancing of existing loans to councils and LGFA bond maturities as they fall due	100%	✓
Maintain a credit rating equal to the New Zealand Government rating where both entities are rated by the same credit rating entity	AA+/AA+	✓

1. After excluding Auckland Council borrowing, LGFA's share of councils' borrowing in New Zealand was 94.0% at 31 December 2020.



**Waikawa flood  
prevention work  
commences.**

**Marlborough District  
Council**

# Financial statements

## Nga taukī pūtea



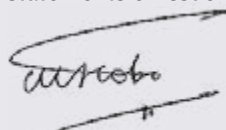
## Statement of comprehensive income

For the six months ended 31 December 2020 in \$000s

	Note	Unaudited six months ended 31 December 2020	Unaudited six months ended 31 December 2019
Interest income			
Cash and cash equivalents		385	216
Marketable securities		1,911	2,072
Deposits		3,493	3,065
Derivatives		107,810	69,933
Loans		76,776	109,786
Fair value hedge ineffectiveness	2	-	-
<b>Total interest income</b>		<b>190,375</b>	<b>185,072</b>
Interest expense			
Bills		1,149	3,521
Bond repurchase transactions		325	257
Lease liability		9	14
Bonds		177,963	169,918
Borrower notes		1,077	1,562
<b>Total interest expense</b>		<b>180,523</b>	<b>175,272</b>
<b>Net interest income</b>		<b>9,852</b>	<b>9,800</b>
Other operating income	3	5	-
<b>Total operating income</b>		<b>9,857</b>	<b>9,800</b>
Operating expenses			
Issuance and on-lending expenses	4	1,993	1,846
Operating expenses	5	1,945	1,851
<b>Total expenses</b>		<b>3,938</b>	<b>3,697</b>
<b>Net operating profit</b>		<b>5,918</b>	<b>6,103</b>
<b>Total comprehensive income</b>		<b>5,918</b>	<b>6,103</b>

These statements are to be read in conjunction with the notes to the financial statements.

The Board of Directors of the New Zealand Local Government Funding Agency Limited authorised these statements or issue on 26 February 2021.



Craig Stobo, Director  
Board Chair



Linda Robertson, Director  
Chair, Audit and Risk Committee

## Statement of changes in equity

For the six months ended 31 December 2020 in \$000s

	Note	Share capital	Retained earnings	Total equity
<b>Equity as at 1 July 2019</b>		<b>25,000</b>	<b>49,149</b>	<b>74,149</b>
Net operating profit			6,103	6,103
Total comprehensive income for the year			6,103	6,103
Transactions with owners			-	-
Dividend paid on 6 September 2019			(1,155)	(1,155)
Unaudited closing balance as at 31 December 2019		25,000	54,097	79,097
<b>Equity as at 1 July 2020</b>		<b>25,000</b>	<b>58,616</b>	<b>83,616</b>
Net operating profit			5,918	5,918
Total comprehensive income for the year			5,918	5,918
Transactions with owners			-	-
Dividend paid on 4 September 2020			(878)	(878)
<b>Unaudited closing balance as at 31 December 2020</b>		<b>25,000</b>	<b>63,656</b>	<b>88,656</b>

These statements are to be read in conjunction with the notes to the financial statements

## Statement of financial position

As at 31 December 2020 in \$000s

	Note	Unaudited as at 31 December 2020	Audited as at 30 June 2020
<b>Assets</b>			
Financial assets			
Receivables		5	-
Cash and bank balances		323,854	165,826
Marketable securities		613,360	589,124
Deposits		640,500	499,824
Derivatives in gain		913,793	1,018,775
Loans	6	12,319,999	10,899,756
Non-financial assets			
Prepayments		963	642
Other assets	11	471	419
<b>Total assets</b>		<b>14,812,945</b>	<b>13,174,365</b>
<b>Equity</b>			
Share capital	13	25,000	25,000
Retained earnings		57,738	58,616
Total comprehensive income for the period		5,918	-
<b>Total equity</b>		<b>88,656</b>	<b>83,616</b>
<b>Liabilities</b>			
Financial liabilities			
Payables and provisions		909	706
Bills	7	612,111	647,021
Bond repurchases	10	36,935	202,755
Derivatives in loss		41,351	19,075
Bonds	8	13,811,478	12,038,468
Borrower notes	9	221,088	182,272
Non-financial liabilities			
Other liabilities		417	453
<b>Total liabilities</b>		<b>14,724,289</b>	<b>13,090,749</b>
<b>Total equity and liabilities</b>		<b>14,812,945</b>	<b>13,174,365</b>

These statements are to be read in conjunction with the notes to the financial statements



## Statement of cash flows

For the six months ended 31 December 2020 in \$000s

	Note	Unaudited six months ended 31 December 2020	Unaudited six months ended 31 December 2019
<b>Cash Flow from Operating Activities</b>			
Cash applied to loans		(1,420,594)	(847,625)
Interest paid on bonds issued		(212,221)	(184,896)
Interest paid on bills issued		(1,149)	(3,498)
Interest paid on borrower notes		(137)	(48)
Interest paid on bond repurchases		(599)	(278)
Interest received from loans		77,156	117,942
Interest received from cash & cash equivalents		377	215
Interest received from marketable securities		5,376	1,711
Interest received from deposits		2,978	1,534
Net interest on derivatives		139,963	75,341
Payments to suppliers and employees		(4,177)	(4,270)
Cash proceeds from provision of standby facilities		5	-
<b>Net cash flow from operating activities</b>	<b>12</b>	<b>(1,413,023)</b>	<b>(843,872)</b>
<b>Cashflow from Investing Activities</b>			
Purchase of marketable securities		(27,701)	3,734
Purchase of deposits		(140,161)	(164,334)
<b>Net Cashflow from Investing Activities</b>		<b>(167,862)</b>	<b>(160,600)</b>
<b>Cashflow from Financing Activities</b>			
Cash proceeds from bonds issued		2,026,534	1,137,733
Cash proceeds from bills issued		(34,910)	(100,489)
Cash proceeds from bond repurchases		(165,546)	(23,570)
Cash proceeds from borrower notes		37,876	10,882
Dividends paid		(878)	(1,155)
Cash applied to derivatives		(124,161)	(29,729)
<b>Net Cashflow from Financing Activities</b>		<b>1,738,914</b>	<b>993,672</b>
<b>Net (Decrease) / Increase in Cash</b>		<b>158,029</b>	<b>(10,800)</b>
Cash, Cash Equivalents and Bank overdraft at beginning of year		165,826	56,198
<b>Cash, Cash Equivalents and Bank overdraft at end of year</b>		<b>323,854</b>	<b>45,398</b>

These statements are to be read in conjunction with the notes to the financial statements

## 1 Statement of accounting policies

### a. Reporting entity

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

LGFA is controlled by participating local authorities and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating local authorities.

The registered address of LGFA is Level 8, City Chambers, 142 Featherston Street, Wellington Central, Wellington 6011.

These financial statements were authorised for issue by the Directors on 26 February 2021.

### b. Statement of compliance

The interim financial statements are for the six months ended 31 December 2020 and are to be read in conjunction with the annual report for the year ended 30 June 2020.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and in compliance with NZ IAS 34 Interim Financial Reporting.

### c. Basis of preparation

Accounting judgements, estimates and assumptions

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2020.

#### Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

#### Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless separately identified. The functional currency of LGFA is New Zealand dollars.

#### Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

#### Changes in accounting policies

There have no changes to accounting policies.

#### Early adoption standards and interpretations

LGFA has not early adopted any standards.

#### Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements.

### d. Financial instruments

#### Financial assets

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents include cash on hand; cash in transit and bank accounts and deposits with an original maturity of no more than three months.

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date, an expected credit loss assessment is performed for all financial assets and is calculated as either:

- Credit losses that may arise from default events that are possible within the next 12 months, where no significant increase in credit risk has arisen since acquisition of the asset, or
- Credit losses that may arise from default events that are possible over the expected life of the financial asset, where a significant increase in credit risk has arisen since acquisition of the asset.

Impairment losses on financial assets will ordinarily be recognised on initial recognition as a 12-month expected loss allowance and move to a lifetime expected loss allowance if there is a significant deterioration in credit risk since acquisition.

#### Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

## Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

### Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

## e. Other assets

### Property, plant and equipment (PPE)

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

### Intangible Assets

Intangible assets comprise software and project costs incurred for the implementation of the treasury management system. Capitalised computer software costs are amortised on a straight-line basis over the estimated useful life of the software (three to seven years). Costs associated with maintaining computer software are recognised as expenses.

## f. Other liabilities

### Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

## g. Revenue and expenses

### Revenue

#### Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

#### Other operating income

Other operating income is recognised as services are performed and the related performance obligations are fulfilled.

#### Expenses

Expenses are recognised in the period to which they relate.

#### Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

#### Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

#### Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

## h. Segment reporting

LGFA operates in one segment being funding of participating local authorities in New Zealand.

## i. Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future depends critically on judgements regarding future cash flows, including inflation assumptions and the risk-free discount rate used to calculate present values.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

## 2. Hedge accounting

LGFA is exposed to interest rate risk from fixed rate borrowing and variable rate lending to councils. LGFA uses interest rate swaps to manage this interest rate risk. For hedge accounting purposes, LGFA has designated these swaps in fair value relationships to its fixed rate borrowings and loans.

The following table shows the gain or loss on the hedging instrument and the hedged item attributable to the hedged risk for fair value hedge relationships.

in \$000s	Unaudited gain/(loss) for the six months ended 31 December 2020	Unaudited gain/(loss) for the six months ended 31 December 2019
Hedging instruments – interest rate swaps	635,001	465,184
Hedged items attributable to the hedged risk – fixed rate bonds	(635,001)	(465,184)
<b>Ineffectiveness recognised in profit or loss from fair value hedges</b>	-	-

The gains or losses on the hedging instrument (interest rate swaps) and the hedged item (bonds or loans) are mapped to the same fair value account.

For this reason, the statement of comprehensive income will only report any ineffectiveness arising from the fair value hedge.

## 3. Other operating income

in \$000s	Unaudited six months ended 31 December 2020	Unaudited six months ended 31 December 2019
Standby facilities fee income	5	-
<b>Total other operating income</b>	<b>5</b>	<b>-</b>



#### 4. Issuance and on-lending expenses

Issuance and on-lending expenses are those costs that are incurred as a necessary expense to facilitate the ongoing issuance of LGFA debt securities.

in \$000s	Unaudited six months ended 31 December 2020	Unaudited six months ended 31 December 2019
Rating agency fees	311	301
NZDM facility fee	308	308
Legal fees – issuance	294	223
NZX	340	235
Trustee fees	50	50
Regulatory, registry, other fees	97	79
Approved Issuer Levy <sup>1</sup>	593	650
	<b>1,993</b>	<b>1,846</b>

1. The amount of Approved Issuer Levy is a function of the number of the offshore holders of certain LGFA bond maturities.

#### 5. Operating expenses

Operating expenses are all other expenses that are not classified as issuance and on-lending expenses.

in \$000s	Unaudited six months ended 31 December 2020	Unaudited six months ended 31 December 2019
Information technology	367	358
Consultants	16	52
Directors fees	200	199
Insurance	42	35
Legal fees	95	73
Other expenses	159	192
Auditors' remuneration		
Statutory audit	54	53
Advisory services	-	-
Personnel	1,012	889
	<b>1,945</b>	<b>1,851</b>

## 6. Loans

in \$000s	Unaudited as at 31 December 2020		Audited as at 30 June 2020	
	Short-term loans	Loans	Short-term loans	Loans
Ashburton District Council	20,010	52,250	10,001	32,279
Auckland Council	-	3,215,451	-	2,766,155
Bay of Plenty Regional Council	-	232,150	-	192,077
Buller District Council	-	20,004	-	20,005
Canterbury Regional Council	6,002	64,145	6,002	48,129
Central Hawkes Bay District Council	-	20,108	-	20,107
Christchurch City Council	9,005	2,080,650	25,094	1,904,271
Clutha District Council	2,002	11,036	2,003	7,030
Far North District Council	-	56,714	10,001	46,686
Gisborne District Council	-	73,755	-	58,754
Gore District Council	6,011	23,554	6,004	16,538
Greater Wellington Regional Council	-	450,898	-	425,877
Grey District Council	3,991	15,144	3,967	15,196
Hamilton City Council	-	531,033	-	481,064
Hastings District Council	-	185,368	-	150,335
Hauraki District Council	-	49,104	-	44,102
Hawkes Bay Regional Council	-	8,821	-	2,507
Horizons Regional Council	6,993	37,202	6,987	37,199
Horowhenua District Council	16,003	90,213	16,003	90,618
Hurunui District Council	8,005	33,063	8,005	30,065
Hutt City Council	-	206,491	-	216,523
Invercargill City Council	25,013	78,698	25,013	65,165
Kaikoura District Council	-	5,014	4,007	3,008
Kaipara District Council	-	44,082	-	44,089
Kapiti Coast District Council	-	220,339	-	210,353
Manawatu District Council	11,523	72,687	11,519	65,669
Marlborough District Council	30,222	73,155	27,224	73,157
Masterton District Council	-	55,609	-	51,215
Matamata-Piako District Council	-	33,573	-	26,561
Nelson City Council	-	90,143	-	75,118
New Plymouth District Council	-	185,010	-	139,939
Northland Regional Council	-	14,148	-	9,729
Opotiki District Council	-	8,611	-	8,620
Otorohanga District Council	-	3,029	-	3,035
Palmerston North City Council	-	167,305	-	137,267

in \$000s	Unaudited as at 31 December 2020		Audited as at 30 June 2020	
	Short-term loans	Loans	Short-term loans	Loans
Porirua City Council	-	141,772	-	131,787
Queenstown Lakes District Council	25,025	120,481	20,027	95,525
Rangitikei District Council	-	3,020	-	3,020
Rotorua District Council	2,821	205,105	22,855	195,105
Ruapehu District Council	8,004	17,063	8,005	17,061
Selwyn District Council	-	60,117	-	35,092
South Taranaki District Council	-	107,214	-	101,232
South Waikato District Council	24,966	-	-	22,018
South Wairarapa District Council	-	22,020	-	-
Stratford District Council	-	22,774	-	15,571
Taranaki Regional Council	3,997	-	3,992	-
Tararua District Council	-	45,090	2,006	33,080
Tasman District Council	27,071	177,062	31,143	177,039
Taupo District Council	-	135,178	-	115,177
Tauranga City Council	19,986	566,724	-	526,768
Thames-Coromandel District Council	-	69,150	-	61,147
Timaru District Council	22,507	67,194	22,577	67,203
Upper Hutt City Council	-	57,120	2,993	46,108
Waikato District Council	-	95,201	-	95,222
Waikato Regional Council	-	32,079	-	32,085
Waimakariri District Council	-	160,529	-	160,550
Waipa District Council	15,805	57,113	13,503	40,053
Wairoa District Council	-	9,046	-	9,045
Waitaki District Council (WD)	2,498	12,517	-	-
Waitomo District Council	6,008	30,043	7,022	30,044
Wellington City Council	-	806,414	-	635,684
West Coast Regional Council	2,001	6,611	2,001	6,610
Western Bay Of Plenty District Council	-	90,183	-	90,212
Westland District Council	-	23,856	-	19,652
Whakatane District Council	-	78,185	-	67,178
Whanganui District Council	7,506	104,295	7,510	94,290
Whangarei District Council	9,994	165,317	9,992	142,301
	<b>322,970</b>	<b>11,997,029</b>	<b>315,456</b>	<b>10,584,299</b>

As at 31 December 2020, \$1,920 million of loans are due to mature within 12 months. This comprises all short-term loans and \$1,597 million of loans.

## 7. Bills on issue

Unaudited as at 31 December 2020 in \$'000's	Face value	Unamortised premium	Accrued interest	Total
6 January 2021	20,000	-	(1)	19,999
15 January 2021	140,000	-	(16)	139,984
5 February 2021	25,000	-	(8)	24,992
10 February 2021	85,000	-	(30)	84,970
10 March 2021	50,000	-	(28)	49,972
15 March 2021	87,500	-	(58)	87,442
7 April 2021	25,000	-	(20)	24,980
15 April 2021	25,000	-	(20)	24,980
12 May 2021	55,000	-	(54)	54,946
9 June 2021	25,000	-	(32)	24,968
14 June 2021	25,000	-	(34)	24,966
14 September 2021	50,000	-	(88)	49,912
	<b>612,500</b>	<b>-</b>	<b>(389)</b>	<b>612,111</b>

Audited as at 30 June 2020 in \$'000's	Face value	Unamortised premium	Accrued interest	Total
8 July 2020	110,000	-	(21)	109,979
17 July 2020	58,500	-	(31)	58,469
22 July 2020	12,000	-	(9)	11,991
6 August 2020	225,000	-	(102)	224,898
12 August 2020	75,000	-	(79)	74,921
9 September 2020	50,000	-	(59)	49,941
7 October 2020	17,000	-	(36)	16,964
11 November 2020	50,000	-	(63)	49,937
9 December 2020	25,000	-	(37)	24,963
15 December 2020	25,000	-	(43)	24,957
	<b>647,500</b>	<b>-</b>	<b>(479)</b>	<b>647,021</b>



## 8. Bonds on issue

Bonds on issue do not include \$950 million face value of issued LGFA bonds subscribed by LGFA and held as treasury stock. Refer Note 10: Treasury stock and bond repurchase transactions.

Unaudited as at 31 December 2020 in \$000's	Face value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
Fixed interest bonds					
15 May 2021	1,450,000	8,241	11,296		
14 April 2022	1,605,000	25,268	9,579		
15 April 2023	1,660,000	58,789	19,564		
15 April 2024	1,348,000	11,809	6,499		
15 April 2025	1,469,000	(22,584)	8,657		
15 April 2026	1,150,000	7,139	3,696		
15 April 2027	1,426,000	76,592	13,751		
20 April 2029	952,000	(4,577)	2,864		
14 April 2033	1,130,000	34,748	8,584		
15 April 2037	570,000	3,894	2,443		
<b>Total fixed interest</b>	<b>12,760,000</b>	<b>199,318</b>	<b>86,933</b>	<b>635,001</b>	<b>13,681,252</b>
Floating rate notes					
14 October 2022	130,000	(45)	272	-	130,226
<b>Total</b>	<b>12,890,000</b>	<b>199,272</b>	<b>87,204</b>	<b>635,001</b>	<b>13,811,478</b>

As at 30 June 2020 in \$000's	Face value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
Fixed interest bonds					
15 May 2021	1,450,000	19,259	11,111		
14 April 2022	1,155,000	16,630	6,769		
15 April 2023	1,550,000	55,449	17,935		
15 April 2024	1,248,000	6,717	5,908		
15 April 2025	1,409,000	(31,014)	8,152		
15 April 2026	1,000,000	763	3,156		
15 April 2027	1,326,000	56,918	12,554		
20 April 2029	692,000	(14,904)	2,042		
14 April 2033	1,030,000	8,706	7,683		
<b>Total fixed interest</b>	<b>10,860,000</b>	<b>118,524</b>	<b>75,309</b>	<b>854,268</b>	<b>11,908,100</b>
Floating rate notes					
14 October 2022	130,000	(58)	426	-	130,368
<b>Total</b>	<b>10,990,000</b>	<b>118,465</b>	<b>75,735</b>	<b>854,268</b>	<b>12,038,468</b>

## 9. Borrower notes

Borrower notes are subordinated debt instruments which are required to be held by each local authority that borrows from LGFA in an amount equal to a fixed percentage of the aggregate borrowings by that local authority. The fixed percentage is 2.5% for loans issued from 1 July 2020. Prior to this date, the fixed percentage was 1.6%.

LGFA may convert borrower notes into redeemable shares if it has made calls for all unpaid capital to be paid in full and the LGFA Board determines it is still at risk of imminent default.

## 10. Treasury stock and bond repurchase transactions

Periodically, LGFA subscribes for LGFA bonds as part of its tender process and holds these bonds as treasury stock. LGFA bonds held by LGFA as treasury stock are derecognised at the time of issue and no liability is recognised in the statement of financial position. As at 31 December 2020, \$950 million of LGFA bonds had been subscribed as treasury stock.

LGFA makes these treasury stock bonds available to banks authorised as its tender counterparties to borrow under short-term repurchase transactions. The objective of the bond lending facility is to assist with improving secondary market liquidity in LGFA bonds. Bonds lent to counterparties are disclosed as a separate stock lending liability on the face of the statement of financial position.

As at 31 December 2020, bond repurchase transactions comprised:

Maturity date	Unaudited as at 31 December 2020	Audited as at 30 June 2020
15 May 2021	-	25,970
14 April 2022	-	25,196
15 April 2023	-	27,670
15 April 2024	-	25,139
15 April 2025	21,901	22,135
15 April 2026	-	-
15 April 2027	-	31,145
20 April 2029	-	22,899
14 April 2033	-	22,600
15 April 2037	15,034	-
	<b>36,935</b>	<b>202,755</b>

## 11. Other assets

	Unaudited as at 31 December 2020	Audited as at 30 June 2020
Intangible assets <sup>1</sup>	230	306
Right-of-use lease asset	241	113
<b>Total</b>	<b>471</b>	<b>419</b>

1. Intangible assets comprise acquired and internally developed software costs incurred on the implementation of LGFA's treasury management system.

## 12 Reconciliation of net profit to net cash flow from operating activities

For the year ended 30 June in \$000s	Unaudited six months ended 31 December 2020	Unaudited six months ended 31 December 2020
Net profit/(loss) for the period	5,948	6,103
Cash applied to loans	(1,420,594)	(847,625)
Non-cash adjustments		
Amortisation and depreciation	1,937	(1,700)
Working capital movements		
Net change in trade debtors and receivables	149	(248)
Net change in prepayments	(321)	(259)
Net change in accruals	(143)	(143)
<b>Net Cash From operating activities</b>	<b>(1,413,023)</b>	<b>(843,872)</b>

## 13 Share Capital

As at 31 December 2020, LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled.

All ordinary shares rank equally with one vote attached to each ordinary share. Ordinary shares have a face value of \$1 per share.

### Shareholder information

Registered holders of equity securities as at 31 December 2020	31 December 2020		30 June 2020	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional Council	3,731,958	8.3%	3,731,958	8.3%
Greater Wellington Regional Council	3,731,958	8.3%	3,731,958	8.3%
Tasman District Council	3,731,958	8.3%	3,731,958	8.3%
Tauranga City Council	3,731,958	8.3%	3,731,958	8.3%
Wellington City Council	3,731,958	8.3%	3,731,958	8.3%
Western Bay of Plenty District Council	3,731,958	8.3%	3,731,958	8.3%
Whangarei District Council	1,492,784	3.3%	1,492,784	3.3%
Hastings District Council	746,392	1.7%	746,392	1.7%
Marlborough District Council	400,000	0.9%	400,000	0.9%
Selwyn District Council	373,196	0.8%	373,196	0.8%
Gisborne District Council	200,000	0.4%	200,000	0.4%
Hauraki District Council	200,000	0.4%	200,000	0.4%
Horowhenua District Council	200,000	0.4%	200,000	0.4%
Hutt City Council	200,000	0.4%	200,000	0.4%
Kapiti Coast District Council	200,000	0.4%	200,000	0.4%
Manawatu District Council	200,000	0.4%	200,000	0.4%
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North District Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames - Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
Whanganui District Council	200,000	0.4%	200,000	0.4%
	<b>45,000,000</b>	<b>100%</b>	<b>45,000,000</b>	<b>100%</b>



## 14 Related parties

### Identity of related parties

LGFA is related to the local authorities set out in the Shareholder Information in note 13.

LGFA operates under an annual Statement of Intent with the respective local authorities that sets out the intentions and expectations for LGFA's operations and lending to participating local authorities.

Shareholding local authorities, and non-shareholder local authorities who borrow more than \$20 million, are required to enter into a guarantee when they join or participate in LGFA. The guarantee is in respect of the payment obligations of other guaranteeing local authorities to the LGFA (cross guarantee) and of the LGFA itself.

### Related party transactions

LGFA was established for the purpose of raising funds from the market to lend to participating councils.

The lending to individual councils is disclosed in note 6, and interest income recognised on this lending is shown in the statement of comprehensive income.

The purchase of LGFA borrower notes by councils who borrow from LGFA is disclosed in note 9.

The Treasury (New Zealand Debt Management) provides LGFA with a committed credit facility and is LGFA's derivatives counterparty.

## Other disclosures

### Net Tangible Assets

Net tangible assets per \$1,000 of listed bonds as at 31 December 2020 is \$6.86 (30 June 2020: \$7.09).

# Directory

## Rārangi tauwaea



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