



NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

LGFA UPDATE FOR COUNCILS



March 2017

☐ Primary Objective – to optimise the debt funding terms and conditions for participating local authorities:

- Savings in interest costs;
- Availability of longer term borrowings;
- Enhance certainty of access to debt markets.

☐ Additional Objectives

- Operate with a view to make a profit sufficient to pay a dividend;
- Provide at least 50% of aggregate long term funding for participating local authorities;
- Ensure products and services are delivered at a cost in line with budget;
- Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating;
- Achieve financial forecasts;
- Meet or exceed performance targets;
- Comply with Treasury policy.

Source: LGFA SOI 2015-16

DEVELOPMENTS : OCTOBER 2015 to JANUARY 2017

- | | |
|--|---------------|
| ➤ Commenced LGFA Bill issuance | October 2015 |
| ➤ LGFA Bonds listed on NZX Debt Market | November 2015 |
| ➤ Commenced short term lending to councils | November 2015 |
| ➤ Governance change – 2 new directors , one retirement | November 2015 |
| ➤ INFINZ Excellence in Treasury Award | May 2016 |
| ➤ Transitioned to Financial Markets Conduct Act | May 2016 |
| ➤ Bond lending facility established | October 2016 |
| ➤ S&P and Fitch affirm LGFA ratings at AA+ | November 2016 |
| ➤ Private placements of LGFA Bills available | January 2017 |
| ➤ NZ\$7.21 billion of loans outstanding to forty-nine councils as at 1 st March 2017 | |
| ➤ Lending book quality improved – four councils received credit rating or outlook upgrade | |
| ➤ Seven new council members join taking total membership to fifty-two councils | |
| ➤ South Wairarapa, Kaipara, Gore, Buller, Central Hawkes Bay District Councils and Canterbury, Northland Regional Councils | |
| ➤ Bespoke lending increasingly popular – in excess of 32% of new loans | |
| ➤ Support of councils boosts LGFA market share to 70% and 75% (excluding Auckland) | |

LGFA HISTORY DECEMBER 2011 to JUNE 2016

Six months to June 2012

- ☐ Incorporated December 2011
- ☐ Commenced bond issuance in February 2012
- ☐ 2015 and 2017 bonds issued
- ☐ Nineteen shareholders
- ☐ \$819 million of loans to fourteen councils

July 2012 to June 2013

- ☐ Twelve new council shareholders bringing total to thirty-one
- ☐ KangaNews NZ Domestic Issuer of the Year – 2012
- ☐ Inaugural dividend of \$1.5 million declared – double the original business case
- ☐ 2019 bond issued
- ☐ INFINZ award for Best Bond Issue of 2012
- ☐ Inaugural LGFA Borrowers Forum
- ☐ \$2.48 billion of loans outstanding to thirty-seven councils

July 2013 to June 2014

- ☐ New issues of 2021 and 2023 bonds
- ☐ Inaugural Chief Executive Phil Combes resigned
- ☐ \$3.7 billion of loans outstanding to forty-three councils

July 2014 to June 2015

- ☐ New issues of 2020 and 2027 bonds
- ☐ Bespoke lending introduced
- ☐ Successful refinancing of April 2015 bond maturity and on-lending
- ☐ Capital structure review
- ☐ Governance review
- ☐ New Treasury Management System implemented
- ☐ Transitioned front/middle/back office from NZDMO
- ☐ \$4.97 billion of loans outstanding to forty-four councils

July 2015 to June 2016

- ☐ LGFA Bonds listed on NZX in November 2015
- ☐ Commenced LGFA Bill issuance
- ☐ Commenced short term lending to councils
- ☐ Governance change – 2 new directors , one retirement
- ☐ Five new council members join taking total membership to fifty councils
- ☐ Transitioned to Financial Markets Conduct Act
- ☐ \$6.4 billion of loans outstanding to forty-nine councils

NEW ZEALAND DOLLAR DOMESTIC BENCHMARK PROGRAMME – BONDS AND BILLS



LGFA BONDS OUTSTANDING as at 6 February 2017

Maturity	Coupon	Amount on Issue (NZ\$ million)	Date of initial Issuance
15-Dec-2017	6.00%	1,015	15/02/2012
15-Mar-2019	5.00%	1,250	6/06/2012
15-Apr-2020	3.00%	685	13/08/2014
15-May-2021	6.00%	1,400	15/05/2013
15-Apr-2023	5.50%	1,380	2/04/2014
15-April-2025	2.75%	475	20/06/2016
15-April-2027	4.50%	910	16/03/2015
	Total	7,115	

Average bond tender sizes – calendar years

2012: NZ\$171 million 2013: NZ\$189 million
 2014: NZ\$187 million 2015: NZ\$150 million
 2016: NZ\$128 million

Average bond tender bid cover ratio : 3.2 times

LGFA TENDER BILLS OUTSTANDING as at 6 February 2017

Maturity	Amount on Issue (NZ\$ million)
15-February-2017	50
15-March-2017	50
12-April-2017	50
17-May-2017	25
14-June-2017	25
12-July-2017	25
Bespoke maturities	125
Total	350

The LGFA securities constitute unsecured debt obligations of LGFA

Source: LGFA

LGFA BOND ISSUANCE

LGFA Bonds Issued by Financial Year (NZ\$ millions)

Maturity	2011-12 (4 months)	2012-13	2013-14	2014-15	2015-16	2016-17 (ytd)
15-Apr-15	155	10	75			
15-Dec-17	605	245	110	55		
15-Mar-19	75	900	95	40	70	70
15-Apr-20				365	200	115
15-May-21		445	625	100	150	80
15-Apr-23			355	655	275	95
15-Apr-25					100	375
15-Apr-27				285	470	150
	835	1600	1260	1500	1265	885

Average term to maturity of issuance

2011-12: 5.34 years

2012-13: 6.57 years

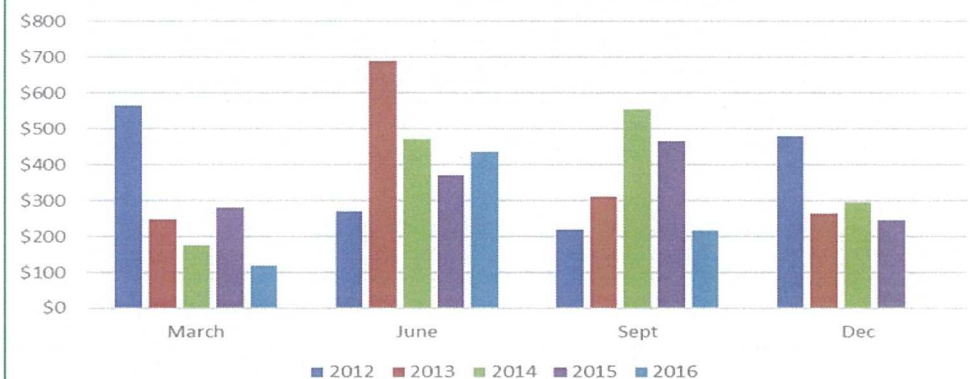
2013-14: 7.04 years

2014-15: 7.92 years

2015-16: 8.10 years

2016-17 year to date: 7.61 years

LGFA issuance by quarter (\$ millions)



Average issuance by quarter

March: NZ\$278 million

June: NZ\$447 million

September: NZ\$353 million

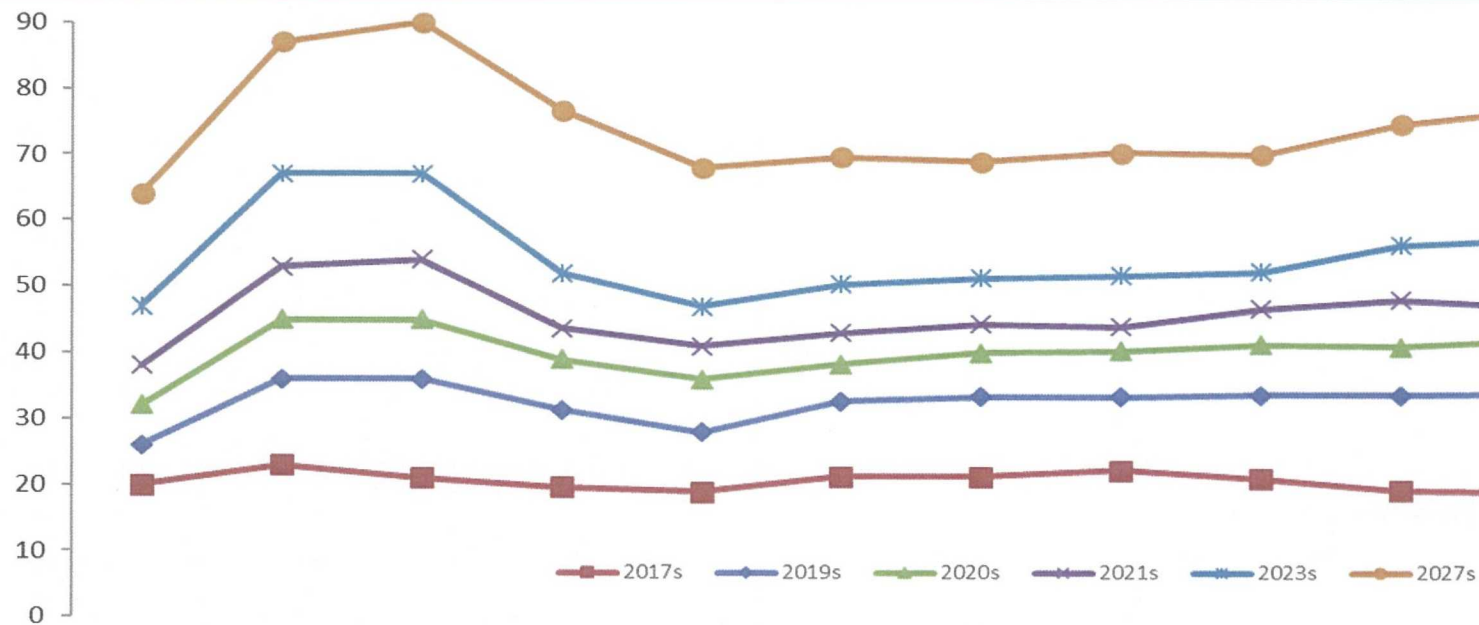
December: NZ\$333 million

Source: LGFA

LGFA YIELDS – 2019s, 2023s, 2027s



LGFA SPREADS TO SWAP (bps)



	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
2017s	20	23	21	20	19	21	21	22	21	19	19	18	17
2019s	26	36	36	31	28	33	33	33	34	34	34	33	30
2020s	32	45	45	39	36	38	40	40	41	41	42	41	37
2021s	38	53	54	44	41	43	44	44	47	48	47	45	42
2023s	47	67	67	52	47	50	51	52	52	56	57	53	47
2027s	64	87	90	77	68	70	69	70	70	75	77	72	67

Secondary market levels as at end of each month

Source: LGFA

1. Frequent tenders in year prior to maturity – currently we hold eight tenders that are 6 to 8 weeks apart. Nine tenders are scheduled for 2017.
2. Communication with councils and their advisers.
3. Ability for councils to repay their loans early (although in 2015 we found most councils who refinanced early then invested the surplus cash).
4. Significant borrower concentration both an advantage and disadvantage
 - our two largest borrowers (Auckland and Christchurch) having borrowed \$458 million or 47% of the total council borrowings into that maturity date.
 - our ten largest council borrowers have borrowed \$783 million or 80% of the total borrowings into that maturity date.
5. Likely to issue a April 2033 LGFA bond maturity (subject to council demand). This will give councils more maturity options as will then be able to select any maturity date between 2027 and 2033.

Why?

- ☐ More flexible borrowing option for councils
- ☐ Councils not wanting to be restricted to borrowing to LGFA Bond maturity dates (2015s,17s,19s,21s,23s)
- ☐ Councils having borrowing requirements between the LGFA scheduled tender dates
- ☐ Councils concerned over concentration risk of borrowing alongside other councils i.e. significant amount of sector borrowing maturing on common dates
- ☐ LGFA desire to increase market share
- ☐ LGFA balance sheet of sufficient size and change in approach to risk management and investments

	Standard LGFA Tender Settlement Date	Bespoke Settlement Date
Standard LGFA Bond Maturity Date	Fixed	Fixed
	Floating	Floating
Bespoke Maturity Date	Fixed	Fixed
	Floating	Floating

Bespoke Pricing Fundamentals

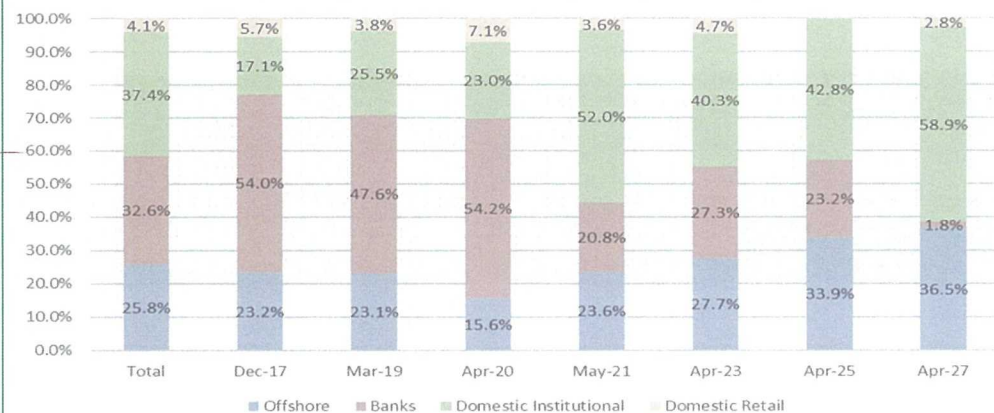
- ☐ Bespoke lending only out to longest dated LGFA Bond maturity (2027)
- ☐ Base margin from tender levels or prevailing secondary market levels (interpolated if required)
- ☐ Standard margins (interpolated if required)
 - ☐ On-lending margin
 - ☐ Any additional credit margin
- ☐ Two basis point intra tender margin if not priced at time of a LGFA tender

- ☐ Maturities from 30 days to 364 days
- ☐ Minimum amounts of \$1 million
- ☐ As at 1 March 2017, eighteen councils had borrowed \$264 million

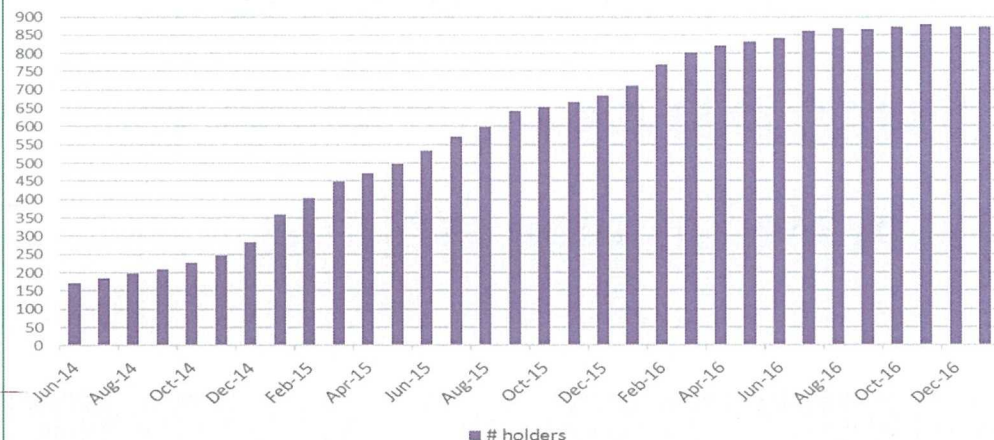
Short Term Lending Margins	30 to 181 days	182 to 364 days
Rated Council	8 bps over BKBM	13 bps over BKBM
Unrated Council	20 bps over BKBM	25 bps over BKBM

LGFA INVESTORS AS AT 31 JANUARY 2017

Holdings of LGFA Bonds by Investor Group

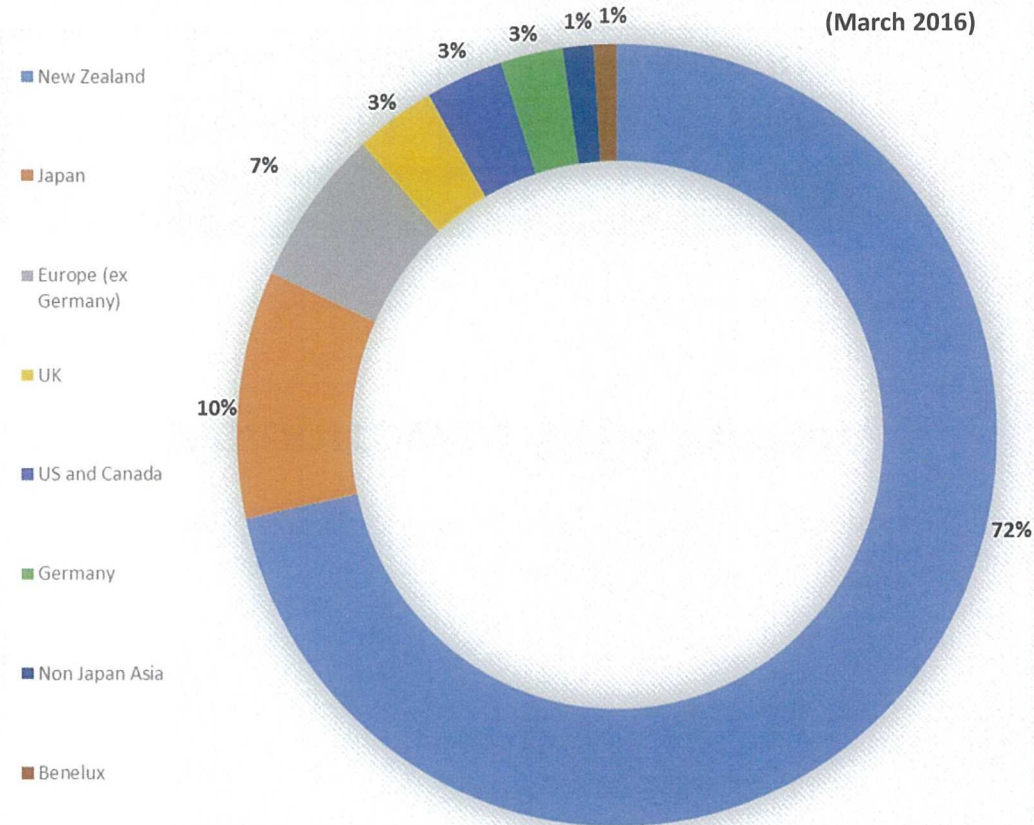


LGFA Bond Holders by number



Bond Holders by Country of Residence

(March 2016)

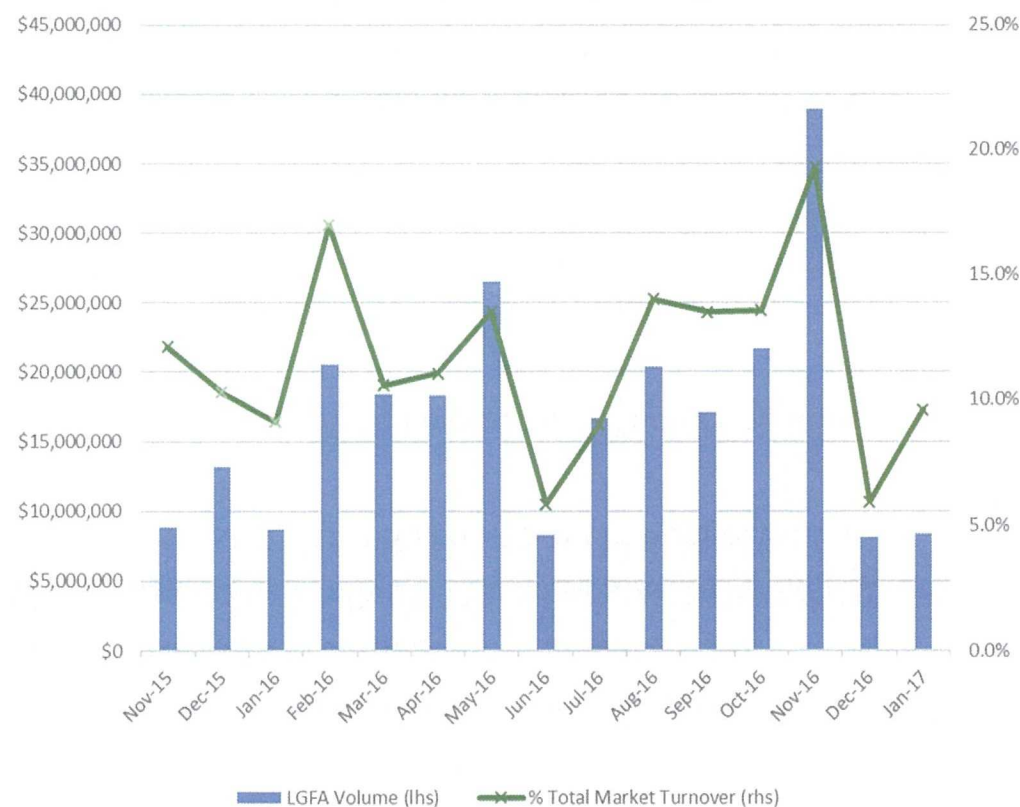


Source: LGFA

NZX LISTING AND RETAIL INVESTORS

- Listing on NZX Debt Market on 16 November 2015 for LGFA Bonds
- Compliance listing of NZ\$5.56 billion
- All seven LGFA Bond maturities listed and LGFA's current intention is to seek quotation of any future new LGFA Bond maturities¹
- No intention to list LGFA Bills
- NZX Limited is a licensed market operator and the NZX Debt Market is a licensed market under the Financial Markets Conduct Act 2013
- 2020s (at 20.8% of LGFA turnover on NZX) and 2021s (at 18.9%) most active LGFA maturities
- Listing Objectives include:
 - Increase domestic retail investor holdings
 - Increase offshore holdings
 - Increase liquidity of LGFA curve
 - Best practice from a corporate governance perspective
 - Easier access for ratepayers to invest in sector debt

LGFA Turnover on NZX (monthly)



¹ No application has been made to NZX Limited for permission to quote future LGFA Bonds on the NZX Debt Market and such LGFA Bonds have not been approved for trading

Source: NZX, LGFA

FINANCIAL OUTCOMES

2015-16 FULL YEAR (12 months to June 2016)

- ☐ Net Interest Revenue \$15.53m compared to budget \$16.36m
- ☐ Expenses \$5.98m compared to budget \$5.94m
- ☐ Net Operating Profit \$9.55m compared to budget \$10.42m
- ☐ Bond Issuance \$1.265b compared to budget \$1.2b

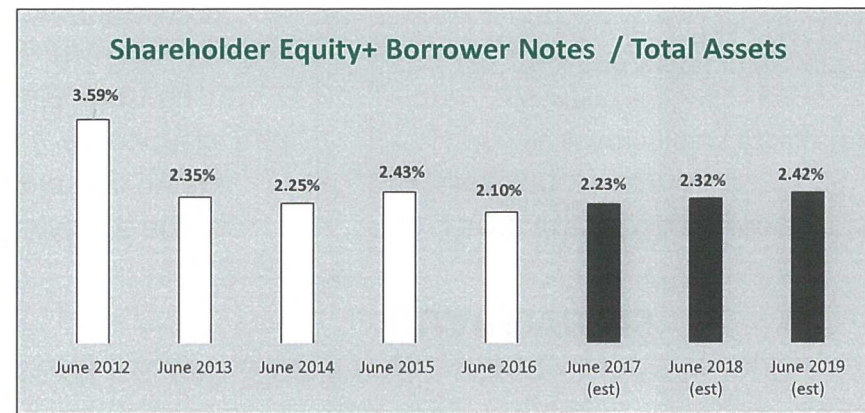
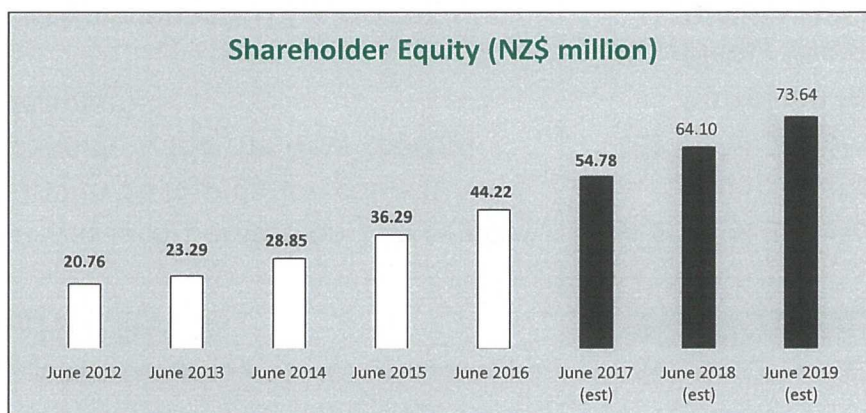
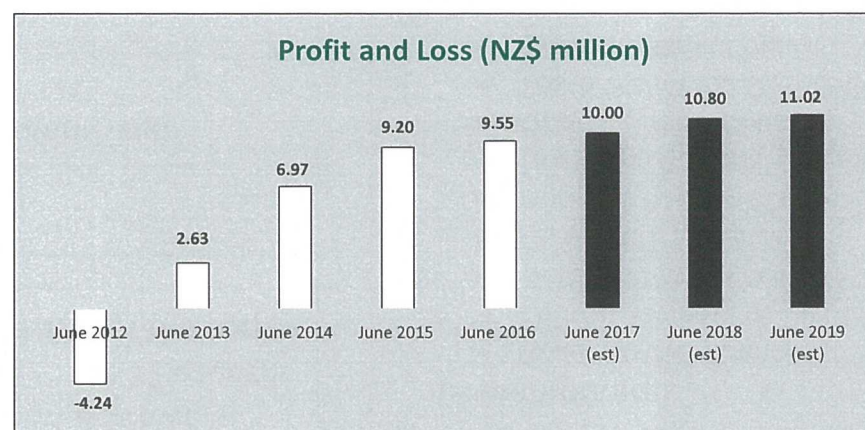
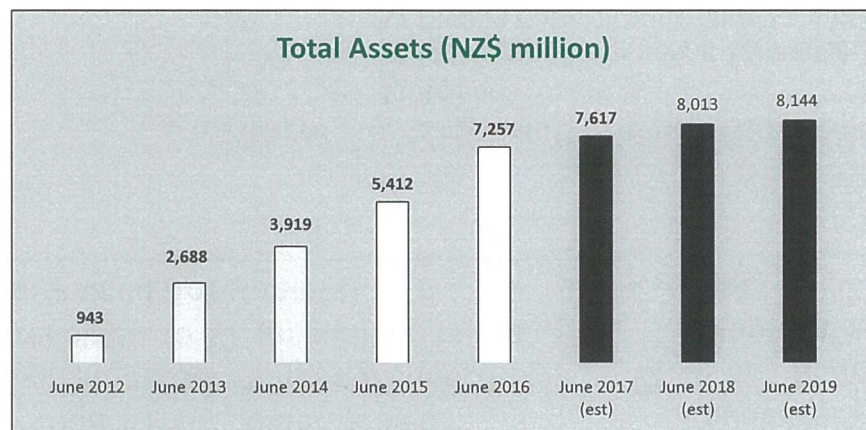
- ☐ Net Interest Revenue unfavourable difference to budget of \$830k
 - ☐ Lower interest rate impact on investment capital of \$430k
 - ☐ Amortisation differences of swaps with TMS transition of \$200k
 - ☐ A council “blend and extend” loan transaction of \$200k
- ☐ Expenses unfavourable difference to budget of \$40k
 - ☐ NZX listing fees
 - ☐ Legal costs with FMCA transition, NZX listing, 5 new council members, LGFA bills and short term lending
 - ☐ AIL impact slightly positive

2016-17 HY (6 months to Dec 2016 unaudited)

- ☐ Net Interest Revenue \$8.51m compared to budget \$8.20m
- ☐ Expenses \$3.2m compared to budget \$3.1m
- ☐ Net Operating Profit \$5.31m compared to budget \$5.07m
- ☐ Bond Issuance \$0.595b compared to budget \$0.6b

- ☐ Net Interest Revenue favourable difference to budget of \$314k
 - ☐ Timing benefit from portfolio accruals
 - ☐ Early repurchase of a December 2017 loan by a council
- ☐ Expenses unfavourable difference to budget of \$74k
 - ☐ NZX listing fees higher due to listing of Treasury Stock
 - ☐ AIL impact slightly positive

HISTORIC AND FORECAST FINANCIAL PERFORMANCE



Forecast performance based upon assumptions outlined in LGFA SOI 2016-17. The principal assumption is \$600 million to \$1.0 billion of net issuance per year in each of 2016-17, 2017-18 and 2018-19 financial years.

SHAREHOLDERS

- ❑ LGFA was incorporated on 1 December 2011 with 18 foundation council shareholders and the New Zealand Government.
- ❑ On 30 November 2012 a further 12 new council shareholders joined bringing the total number of council shareholders to 30. (In addition to the New Zealand Government).

BORROWERS

- ❑ As of 1 March 2017 there are 52 councils who eligible borrowers.
- ❑ As at 1 March 2017, 49 councils had borrowed from LGFA with Bay of Plenty Regional, Central Hawkes Bay District and Northland Regional Council the only non-Borrowers.
- ❑ As at 1 March 2017, the 52 councils comprised around 97% of the sector debt.

GUARANTORS

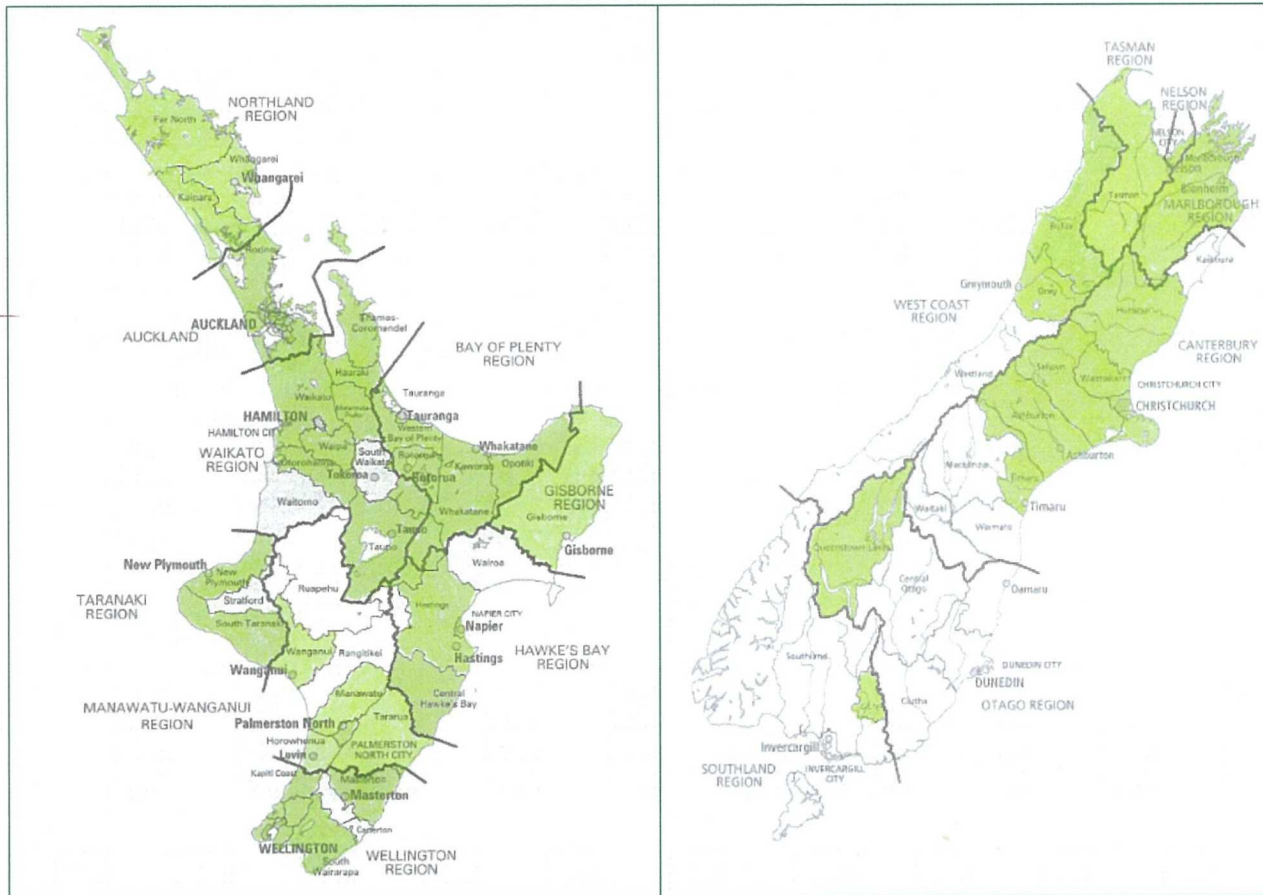
- ❑ There are 43 Guarantors of LGFA.
- ❑ Guarantors comprise:
 - All shareholders except the NZ Government
 - Any non shareholder who may borrow more than NZ\$20 million
- ❑ The only borrowers who are non-Guarantors are:
 - Buller District Council
 - Central Hawkes Bay District Council
 - Gore District Council
 - Grey District Council
 - Horizons Regional Council
 - Northland Regional Council
 - Opotiki District Council
 - South Wairarapa District Council
 - Tararua District Council
- ❑ The security granted by each of the Guarantors under their respective Debenture Trust Deeds secures their obligations under the Guarantee.

There are 78 local authorities in New Zealand comprising:

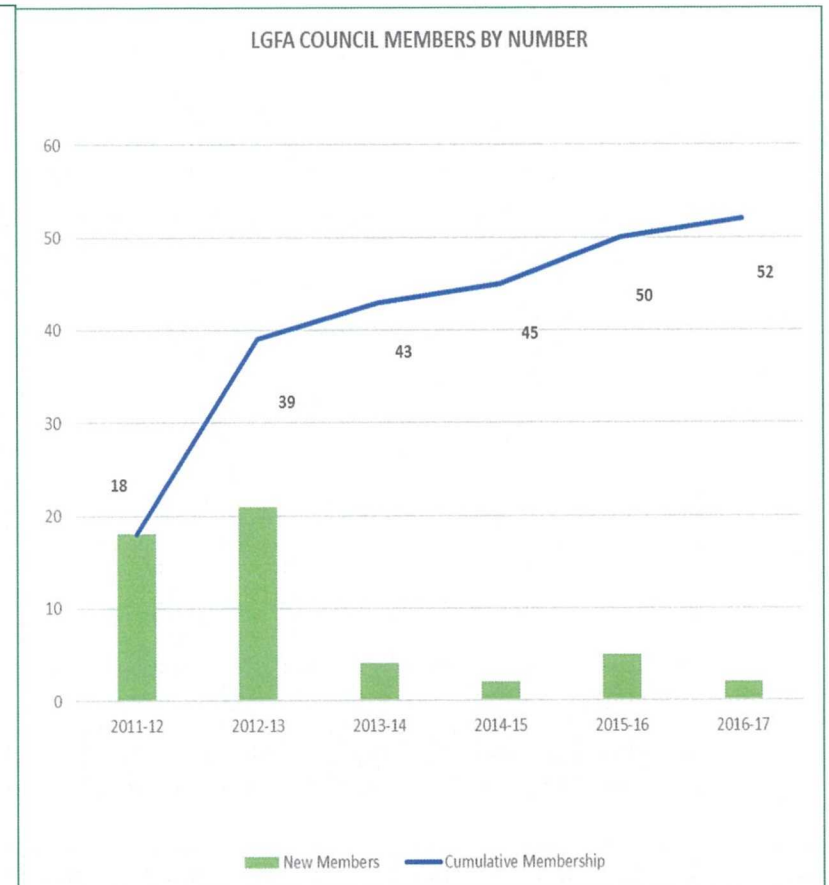
- 11 Regional Councils
- 12 City Councils (including 1 unitary)
- 54 District Councils (including 3 unitary)
- 1 Unitary Territorial Authority

LGFA COUNCIL MEMBERSHIP

LGFA council members highlighted



Council membership by number



LGFA MEMBERS (As at 1 March 2017)

Shareholders	Total Shares (NZ\$)	Shareholding (%)	Amount borrowed (NZ\$ million)	Borrowing (%)	Share of Guarantee (%)
New Zealand Government	5,000,000	11.1%			
Auckland Council	3,731,960	8.3%	2,357.0	32.7	33.9
Christchurch City Council	3,731,960	8.3%	1,447.0	20.1	8.6
Hamilton City Council	3,731,960	8.3%	280.0	3.9	2.9
Bay of Plenty Regional Council	3,731,958	8.3%	-	0.0	0.8
Wellington Regional Council	3,731,958	8.3%	255.0	3.5	2.9
Tasman District Council	3,731,958	8.3%	90.0	1.2	1.5
Tauranga City Council	3,731,958	8.3%	345.0	4.8	3.0
Wellington City Council	3,731,958	8.3%	278.0	3.9	5.9
Western Bay of Plenty District Council	3,731,958	8.3%	70.0	1.0	1.3
Whangarei District Council	1,492,784	3.3%	132.0	1.8	1.9
Hastings District Council	746,392	1.7%	65.0	0.9	1.5
Marlborough District Council	400,000	0.9%	84.0	1.2	1.3
Selwyn District Council	373,196	0.8%	35.0	0.5	0.9
Gisborne District Council	200,000	0.4%	27.0	0.4	1.2
Hauraki District Council	200,000	0.4%	38.0	0.5	0.6
Horowhenua District Council	200,000	0.4%	65.1	0.9	0.7
Hutt City Council	200,000	0.4%	79.0	1.1	2.1
Kapiti Coast District Council	200,000	0.4%	195.0	2.7	1.2
Manawatu District Council	200,000	0.4%	51.0	0.7	0.6
Masterton District Council	200,000	0.4%	46.0	0.6	0.6
New Plymouth District Council	200,000	0.4%	61.0	0.8	1.7
Otorohanga District Council	200,000	0.4%	9.0	0.1	0.3
Palmerston North City Council	200,000	0.4%	77.0	1.1	1.9
South Taranaki District Council	200,000	0.4%	62.0	0.9	0.8
Taupo District Council	200,000	0.4%	125.0	1.7	1.3
Thames-Coromandel District Council	200,000	0.4%	35.0	0.5	1.3
Waimakariri District Council	200,000	0.4%	85.1	1.2	1.1
Waipa District Council	200,000	0.4%	34.8	0.5	1.2
Whanganui District Council	200,000	0.4%	66.0	0.9	1.2
Whakatane District Council	200,000	0.4%	31.0	0.4	0.9
Total	45,000,000		6525.0	90.5	85.1

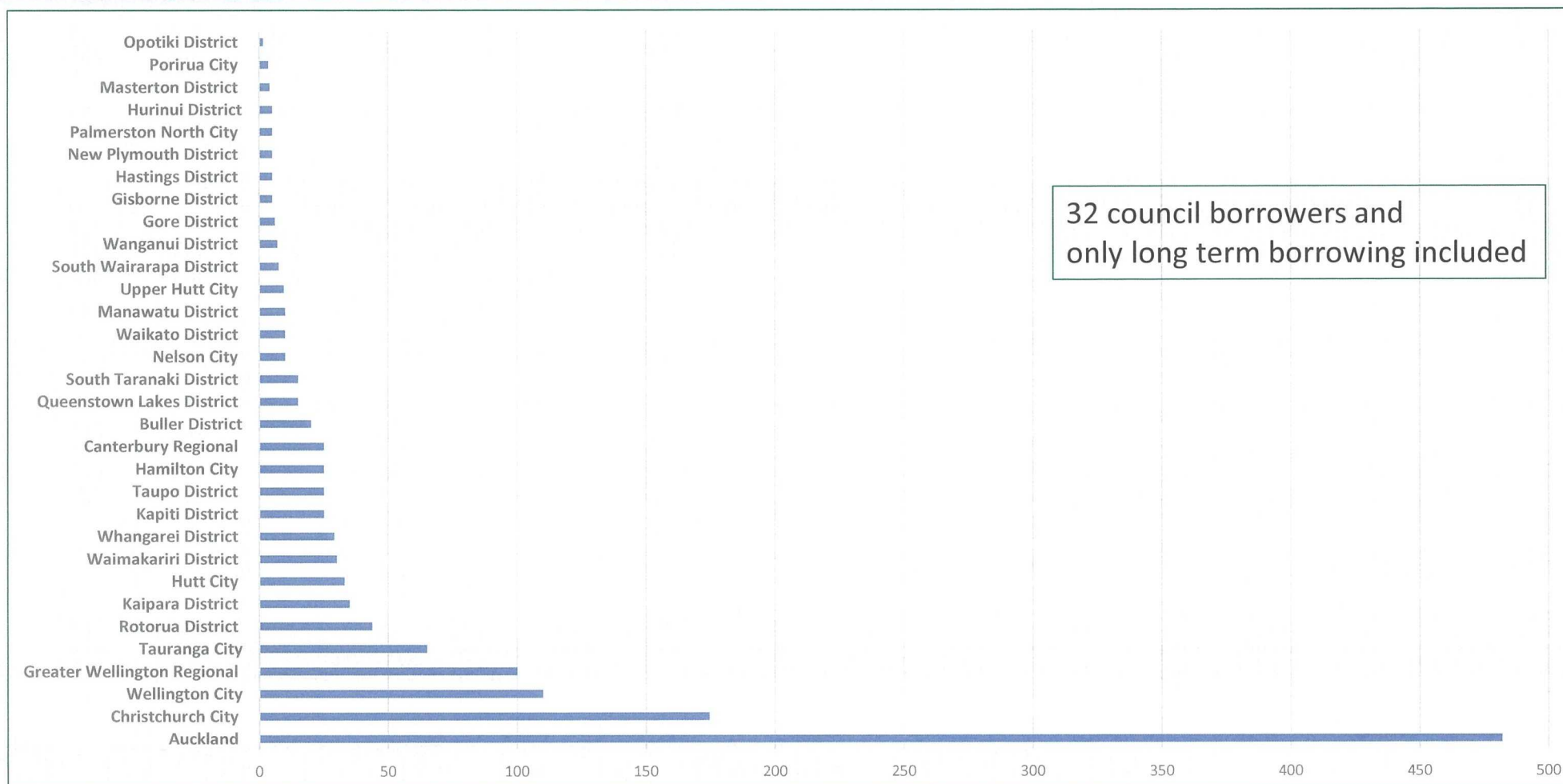
Note: Total shares includes called and uncalled shares

LGFA MEMBERS CONTINUED (As at 1 March 2017)



Borrowers and Guarantors	Amount borrowed (NZ\$ million)	Borrowing (%)	Share of Guarantee (%)
Ashburton District Council	25.1	0.3	0.7
Canterbury Regional Council	25.0	0.3	2.0
Far North District Council	20.0	0.3	1.7
Hurunui District Council	19.0	0.3	0.3
Kaipara District Council	48.0	0.7	0.7
Matamata-Piako District Council	24.5	0.3	0.7
Nelson City Council	45.0	0.6	1.4
Porirua City Council	33.5	0.5	1.2
Queenstown-Lakes District Council	82.1	1.1	1.3
Rotorua District Council	103.7	1.6	1.7
Timaru District Council	56.1	0.8	1.0
Upper Hutt City Council	29.5	0.4	0.7
Waikato District Council	70.0	1.0	1.5
Total	595.5	8.2	14.9
Borrowers Only			
Grey District Council	20.0	0.3	
Gore District Council	12.0	0.2	
Horizons Regional Council	10.0	0.1	
Buller District Council	20.0	0.3	
Opotiki District Council	5.0	0.1	
South Wairarapa District Council	15.5	0.2	
Tararua District Council	11.0	0.2	
Total	93.5	1.2	
Total Borrowing from LGFA	7,214.0	100.0	

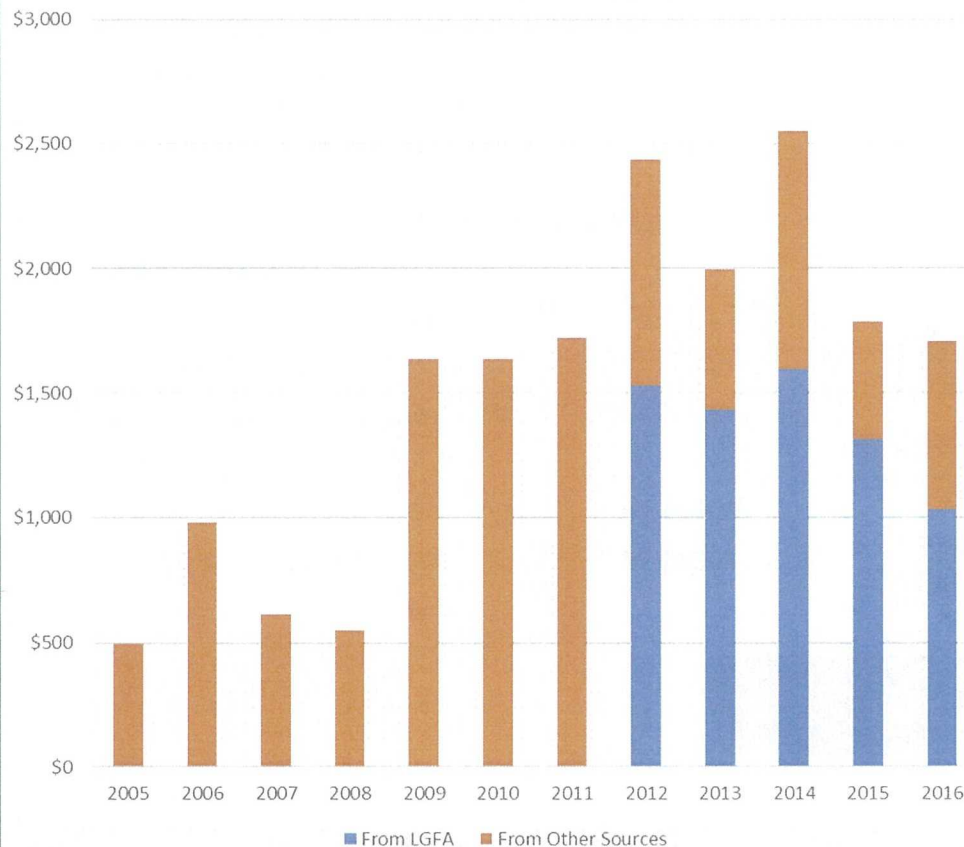
COUNCIL BORROWERS 2015-16 (\$ millions)



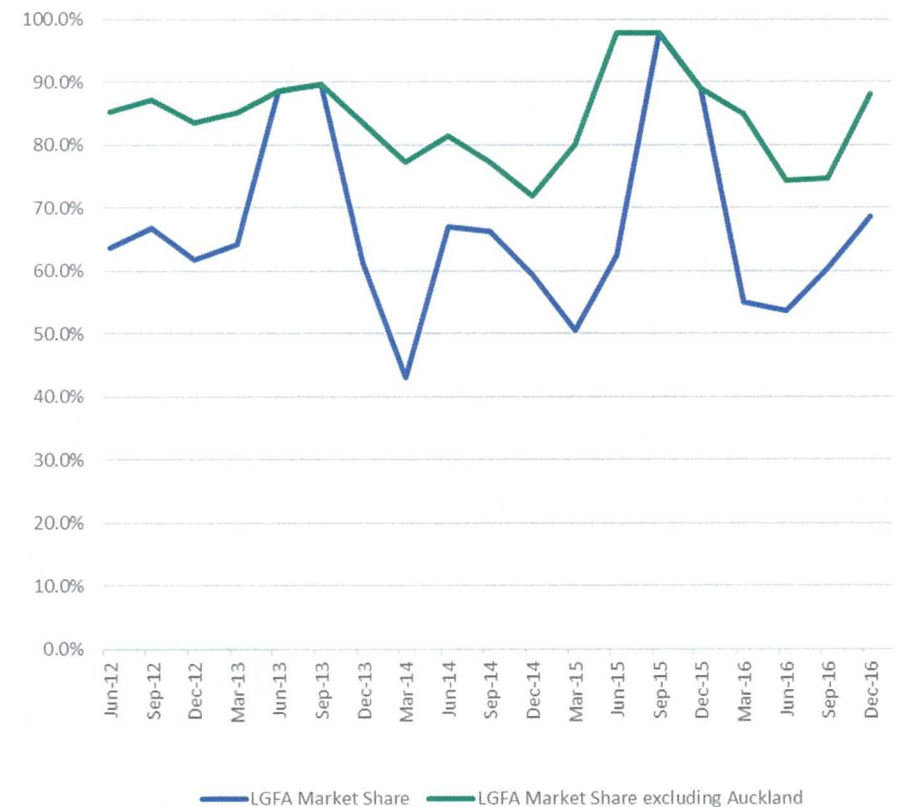
Source: LGFA

LGFA MEMBERSHIP AND MARKET SHARE

Council Borrowing 2005-2016 (\$ million)

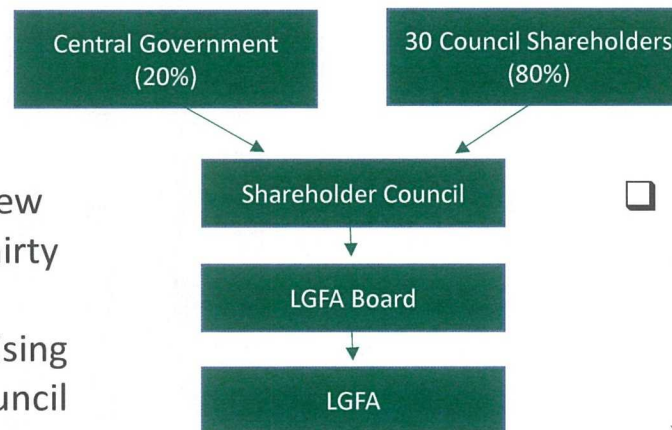


LGFA Market Share - rolling six month average



Source: PwC and LGFA

GOVERNANCE STRUCTURE



- ❑ **31 Shareholders**, comprising the New Zealand Government (20%)¹ and thirty councils (80%).
- ❑ **LGFA Shareholders Council**, comprising five to ten appointees from the Council Shareholders and the Crown. Role of the Shareholders' Council is to:
 - Review and report performance of LGFA and the Board;
 - Recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors;
 - Recommendations to Shareholders as to any changes to policies, or the SOI, requiring their approval;
 - Update Shareholders on LGFA matters and to coordinate Shareholders on governance decisions.

- ❑ **LGFA Board**, is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with:
 - Local Government Act 2002;
 - Local Government Borrowing Act 2011;
 - Companies Act 1993;
 - LGFA's Constitution;
 - LGFA Shareholder Agreement;
 - LGFA Annual Statement of Intent.

The Board will comprise between four and seven directors with a majority of independent directors appointed by shareholders.

¹ NZ Government shareholding reduces to 11.1% if a call is made on uncalled capital of the 30 council shareholders

CAPITAL STRUCTURE

	Establishment Shares			Borrower Notes		
Subscription Date:	At establishment of the LGFA			At time of borrowing		
Subscribers:	Central Government 20% ; Councils 80%			Councils in relation to borrowings (excluding loans less than 265 days)		
Nature:	Ordinary share (paid and uncalled)			Sub debt convertible (ranks behind other lenders/creditors to LGFA)		
Control:	Voting rights (one vote per paid in share)			Non-voting		
Paid up Amount:	NZ\$25 million in total			1.6% of Council borrowing		
Uncalled Amount:	1 paid up : 1 uncalled for Council shareholders - \$20 million in total			-		
Return:	Discretionary dividend payment LGFA cost of funds + 200bps			Paid on maturity LGFA cost of funds		
Term / Exit:	Permanent capital Exit must be to other Councils or Central Government			Temporary capital – repaid at maturity of associated Council loan In certain circumstances can be converted by LGFA into permanent capital		
NZ\$ million	as at 30 June 2012	as at 30 June 2013	as at 30 June 2014	as at 30 June 2015	as at 31 Dec 2015	as at 30 June 2016
Paid up share capital:	25.0	25.0	25.0	25.0	25.0	25.0
Retained Earnings:	-4.2	-1.6	3.8	9.75	14.45	19.25
Unpaid shares:	20.0	20.0	20.0	20.0	20.0	20.0
Borrower Notes:	13.2	40.7	61.9	85.12	97.86	108.41
Total:	54.0	87.3	110.7	139.9	157.3	172.64
Equity / Total Assets	3.6%	2.4%	2.3%	2.6%	2.5%	2.4%

Source: LGFA Annual and Half Year Reports

- ☐ LGFA's obligations in relation to the Securities are guaranteed by the councils that are Guarantors under the Guarantee.
 - Other than the New Zealand Government, each shareholder in LGFA must be a Guarantor.
 - In addition any non-shareholder council that borrows in aggregate NZ\$20 million or more from LGFA must be a Guarantor.
- ☐ The guarantee will be in favour of the Security Trustee in relation to the obligations of LGFA.
- ☐ Any call under the guarantee will be allocated across all the guarantors on a pro rata basis in relation to their rates (property tax) revenue.
- ☐ In addition to the guarantee, if there is a 'risk of imminent default' the LGFA Board can decide to make a call on guarantors equal in value to their potential liability under the guarantee (and therefore avoid any default).
- ☐ Parties to the guarantee will be able to exit the arrangement but only after:
 - All the exiting council's borrowings are repaid.
 - All the LGFA's borrowings, current at the time the council notifies of its withdrawal from the guarantee, are repaid.

COUNCIL FINANCIAL DISTRESS - MITIGANTS

- Local Government Framework reduces risk of financial distress – no historical default by a council
- Council have own Treasury Management and borrowing policies – most have independent advice
- Council financial oversight by Office of Auditor General (OAG), Audit NZ and Department of Internal Affairs
- Councils under Local Government (Financial Reporting and Prudence) Regulations 2014 Act required to report annually on performance against six benchmarks

Rates
Affordability

Debt
Affordability

Essential
Services

Debt
Servicing

Debt Control

Operations
Control

Six step intervention process possible by Central Government



- Council required to comply with LGFA lending covenants

Annual attestation by council

LGFA credit analysis and monitoring performed through the year

LGFA credit watch-list in place

LGFA not obligated to lend to council members

- Covenant breach is an Event of Review – after 30 days LGFA can seek repayment of loans

COUNCIL FINANCIAL DISTRESS – LGFA IMPACT



- 21 LGFA member councils have credit ratings (A+ to AA range)
- LGFA undertakes detailed credit analysis of each council if they apply to join LGFA (and ongoing) - not every council has been accepted as a member
- A council default becomes a timing issue for LGFA
 - LGFA lends secured against rates revenue under Debenture Trust Deed
 - Unlikely to be other claimants on rates revenue given LGFA is the dominant lender to councils
 - Trustee appoints receiver and a special rate (property tax) levied on all properties in the council region to meet obligations (interest + principal) when due
 - Property taxes unavoidable and first ranking security over property
 - If council in financial difficulty you would expect some degree of Central Government intervention
- Sources of LGFA liquidity and additional capital
 - \$1 billion standby facility from NZ Government
 - Liquid Assets Portfolio
 - Issuance of additional LGFA Bills and Bonds
 - Conversion of Borrower Notes into equity
 - Uncalled capital of \$20 million
- LGFA Board can call upon the guarantee from councils
- **Central Government does not guarantee obligations of either LGFA or council members**

PRUDENT APPROACH TO RISK MANAGEMENT

LGFA's policy to minimise financial risks and carefully identify, manage and control all risk.

☐ Market Risk

- PDH limit of NZ\$40,000
- VAR limit of NZ\$250,000

☐ Credit Risk

All Councils that borrow from LGFA are obliged to:

- Provide security in relation to their borrowing from LGFA and related obligations.
- Issue securities (bonds/FRN/CP) to LGFA.
- Comply with their own internal borrowing policies.
- Comply with the LGFA financial covenants within either the Lending Policy or Foundation Policy

Auckland Council is limited to a maximum of 40% of LGFA's total Local Authority assets.

No more than the greater of NZ\$100 million or 33% of a Local Authority's borrowings from LGFA will mature in any 12 month period.

☐ Liquidity and Funding Risk

Cash and Investments

- LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations when they fall due.
- Only invest in NZD senior debt securities, money market deposits and registered certificates of deposits within strict counterparty limits.

DMO standby facility

- The New Zealand Debt Management Office provides a committed liquidity facility up to NZ\$1 billion in size that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall.
- Currently the facility size is set by LGFA at NZ\$400 million.

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250%
Net Interest / Total Revenue	<20%	<20%
Net interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

Liquidity position as at 30 June 2016	NZ\$ million
Cash and cash equivalents	\$36.8
Deposits and Marketable Securities	\$229.6
NZDMO Liquidity Facility	\$400.0
Total	\$666.4

NEW ZEALAND COUNCILS WITH CREDIT RATINGS

Council	S&P	Fitch	Moodys
Auckland Council	AA		Aa2
Dunedin City Council	AA		
Greater Wellington Regional Council	AA		
Hutt City Council	AA		
Invercargill City Council (negative)		AA Negative	
Marlborough District Council	AA		
Nelson City Council	AA		
New Plymouth District Council	AA		
Palmerston North City Council	AA		
Porirua City Council	AA		
Taupo District Council	AA		
Waimakariri District Council	AA		
Wellington City Council	AA		
Whangarei District Council	AA		
Hamilton City Council		AA-	
Rotorua Lakes District Council		AA-	
Tasman District Council	AA- Positive		
Timaru District Council		AA-	
Wanganui District Council	AA-		
Western Bay of Plenty District Council	AA- Positive		
South Taranaki District Council	A+ Positive		
Horowhenua District Council	A+		
Kapiti Coast District Council	A+		
Tauranga City Council	A+		
Christchurch City Council	A+		

25 councils in New Zealand have credit ratings – 23 are members of LGFA

Over 2014, 2015, 2016

- **Taupo, Nelson, Western Bay of Plenty and Whangarei District Councils were upgraded**
- **South Taranaki, Western Bay of Plenty and Tasman District Councils were placed on positive outlook**
- **Christchurch removed from negative outlook**
- **No Council ratings were downgraded**

Source: S&P, Fitch, LGFA

S&P RATING CHANGES OVER THE PAST THREE YEARS

Council	Action	Date
Western Bay of Plenty District Council	Outlook Revised from Stable to Positive	Oct 14, 2013
Nelson City Council	Outlook Revised from Stable to Positive	Dec 13, 2013
Taupo District Council	Outlook Revised from Stable to Positive	May 30, 2014
Western Bay of Plenty District Council	Upgraded from A+ to AA-	Oct 14, 2014
Whangarei District Council	Outlook Revised from Stable to Positive	May 19, 2015
Taupo District Council	Upgraded from AA- to AA	May 25, 2015
South Taranaki District Council	Outlook Revised from Stable to Positive	May 29, 2015
Christchurch City Council	Outlook Revised from Negative to Stable	Dec 7, 2015
Nelson City Council	Upgraded from AA- to AA	Nov 23, 2015
Whangarei District Council	Upgraded from AA- to AA	May 19, 2016
Western Bay of Plenty District Council	Outlook Revised from Stable to Positive	Sep 26, 2016
Tasman District Council	Outlook Revised from Stable to Positive	Oct 27, 2016
Invercargill Council	Outlook Revised from Stable to Negative	Dec 02, 2016

Over past three years, four councils upgraded, no councils downgraded

Source: LGFA

LOCAL AND REGIONAL GOVERNMENT CREDIT RATINGS - A GLOBAL COMPARISON

S&P Rating	Definition
AAA	Australia Capital Territory, New South Wales, State of Victoria, British Columbia, Oslo, Stockholm, Zurich, Bavaria
AA+	Queensland, Western Australia, Tasmania, Calgary, Edmonton, Paris, Basel,
AA	South Australia, Province of Manitoba, Vancouver, Toronto, Winnipeg, Ottawa, Brussels, Cannes, Lyon, New York City, Los Angeles, Hawaii, San Francisco, Greater London Authority, Seoul
AA-	Tokyo, Yokohama, Province of Ontario, Geneva, Miami, California State, Kansas State, Illinois State
A+	Montreal, Province of New Brunswick, Nova Scotia, Quebec, Prague, Tokyo, Osaka
A	New Orleans, State of New Jersey
A-	State of Sarawak
BBB+	Buenos Aires, Chicago, Barcelona, Madrid
BBB	Sofia
BBB-	Milan, Rome, Turin,
BB+	Moscow
BB	
BB-	Valencia
Below BB-	Buenos Aires, Kyiv

**New Zealand Councils all sit
within the AA to A+ band**

LENDING TO COUNCIL MEMBERS BY EXTERNAL CREDIT RATING

External Credit Rating (S&P, Fitch)	Lending (NZ\$ million)	Lending (%)	Number of Councils
AA	\$3,611.6	50.1%	12
AA-	\$619.7	8.6%	5
A+	\$2,114.1	29.3%	5
Unrated	\$868.6	12.0%	27
Total	\$7,214.0	100%	49

As at 1 March 2017

Note:

Three council members have yet to borrow from LGFA
Includes long and short term lending

Source: LGFA

HISTORICAL COUNCIL GROSS DEBT

Year ended June	Gross Debt (\$ million)	Percentage Change
2008	4,114	n.a.
2009	5,232	27.1%
2010	7,024	34.2%
2011	8,646	23.1%
2012	10,007	15.7%
2013	11,368	13.6%
2014	11,786	3.7%
2015	13,091	11.1%
2016	13,839	5.7%

Note: Debt is at parent level except for Auckland Council which is at group level.
2015/25 LTP's forecast debt at June 2016 of \$14.9 billion (actual is \$1.1 billion lower)

LGFA FINANCIAL COVENANTS – MEMBER COUNCIL OUTCOMES FOR JUNE 2016 YEAR

LGFA Financial Covenants – member councils as at 30 June 2016 with an external credit rating (22)

Foundation Policy Covenant	Net Debt / Total Revenue <250%	Net Interest / Total Revenue <20%	Net Interest / Rates <30%
Range of councils compliance	-158.7% to 214.4%	0.6% to 11.9%	1.2% to 15.5%

LGFA Financial Covenants – member councils as at 30 June 2016 without an external credit rating (28)

Lending Policy Covenant	Net Debt / Total Revenue <175%	Net Interest / Total Revenue <20%	Net Interest / Rates <25%
Range of councils compliance	-206.2% to 111.0%	-10.8% to 7.0%	-28.6% to 11.8%

- Note some negative outcomes due to some councils having negative Net Debt i.e. financial assets and investments > borrowings
- LGFA councils operating within financial covenants
- Ranges highlights the differences between councils
- Sufficient financial headroom for most councils
- Improvement from 2014 for most councils
 - Revenue increased
 - Interest rates lower
 - Capex and debt restrained

Source: LGFA using data from individual council annual reports

PERFORMANCE UNDER LGFA COVENANTS

LGFA Member Councils with an external credit rating (22 in 2016, 20 in 2015 and 17 in both 2014 and 2013)

Financial Covenant	2016	2015	2014	2013
Net Debt to Revenue	87.9%	96.4%	104.7%	111.8%
Net Interest to Revenue	6.1%	6.8%	6.6%	7.3%
Net Interest to Rates	9.1%	10.0%	9.6%	11.1%

LGFA Member Unrated Councils (28 in 2016, 25 in 2015, 26 in 2014 and 21 in 2013)

Financial Covenant	2016	2015	2014	2013
Net Debt to Revenue	32.4%	38.2%	42.6%	52.5%
Net Interest to Revenue	2.2%	2.4%	2.9%	3.2%
Net Interest to Rates	2.9%	3.1%	4.0%	4.1%

2012-22 AND 2015-25 LTP GROSS DEBT FORECASTS FOR LOCAL GOVERNMENT SECTOR

NZ\$ millions

2012-22 LTP	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Gross Debt	10,073	11,755	13,584	14,967	15,659	16,641	17,499	18,266	19,240	19,653	20,135
% Change		16.7%	15.6%	10.2%	4.6%	6.3%	5.2%	4.4%	5.3%	2.2%	2.5%

2015-25 LTP	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross Debt	14,119	14,941	16,527	17,440	17,821	18,445	18,943	19,554	19,913	20,031	20,036
% Change		5.8%	10.6%	5.5%	2.2%	3.5%	2.7%	3.2%	1.8%	0.6%	0.0%

	2015	2016	2017	2018	2019	2020	2021	2022
Gross Debt Difference between the two LTPs	-848	-718	-114	-59	-445	-795	-710	-581

Note: 2016-2022 numbers adjusted to incorporate Christchurch which only produced a 3 year plan

Source: LGFA using data from individual council Long Term Plans (LTPs)

WEBSITE AND CONTACTS



NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

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Providing diversified funding sources for NZ local authorities

The LGFA provides more efficient funding costs and diversified funding sources for New Zealand local authorities. We provide investors with a new source of securities rated at 'AA-' by international credit ratings agencies Standard and Poor's and Fitch Ratings.

[More about what we do](#) [About investing in LGFA](#)



LGFA An Overview
September 2015



Features

Press Release: LGFA to commence the issuance of LGFA Bills on 14th October 2015»	6 Oct 2015
Press Release: The LGFA Annual Report 2014/15 has been published»	30 Sep 2015
Press Release: LGFA 2015/16 Statement of Intent has been released»	1 Jul 2015
Press Release: LGFA announces indicative tender dates for the first half of 2016»	26 May 2015
Press Release: Amendment to Operating Rules and Guidelines for LGFA Tenders»	31 Mar 2015

Securities Issuance

Next tender date
4 Nov 2015

LGFA Bonds
Results of Bond Tender 32 have been published [View Here >>](#)

[View full tender schedule >](#) [View tender results >](#)

Next tender date
14 Oct 2015

LGFA Bills
Details of Tender 1 will be announced on 13 October 2015

[View full bills schedule >](#) [View tender results >](#)

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