

30 June 2021  
**ANNUAL REPORT**

**Benefiting  
communities through  
delivering efficient  
financing for local  
government.**

Ka whiwhi painga ngā  
hapori mā te whakarato  
pūtea tōtika ki ngā  
kaunihera.



New Zealand Local  
Government Funding Agency  
Te Pūtea Kāwanatanga ā-rohe



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*LGFA acknowledge the assistance of the Department of Internal Affairs translation service for our Te Reo translations.*

# Message from the Chair and Chief Executive

## He karere mai i te Toihau me te Tumuaki

### For the year ended 30 June 2021

**2020-21 was a year of achievements with record profitability, record lending and issuance volumes, a credit rating upgrade to 'AAA' and CarbonZero certification. We welcomed new members and launched new products while successfully navigating the financing challenges arising from COVID-19.**

On behalf of the directors and management of LGFA, we are pleased to record another period of strong financial and non-financial performance to 30 June 2021 and to highlight the following developments over the past year.

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

LGFA total interest income for the financial year of \$377.2 million was a 1.9% increase over the 2019-20 financial year result of \$370.2 million while net operating profit of \$12.0 million for the financial year was a 13.0% increase over the 2019-20 financial year result of \$10.6 million.

Both net interest income and operating profit were at record levels and exceeded the Statement of Intent (SOI) forecasts due to the larger than expected growth in council loans and the liquid asset portfolio (LAP). Higher interest rates increased income on the LAP and the introduction of standby facilities as a new product for councils generated additional revenue.

Expenses have been managed under the SOI budget over the financial year, primarily due to reduced utilisation of the NZDM standby facility and fewer Approved Issuer Levy (AIL) payments due to lower offshore investor holdings relative to forecast were positive. These savings were offset by higher legal and NZX costs associated with increases in both council lending and LGFA bond issuance.

#### **Credit rating upgraded to AAA**

A highlight over the past year was S&P Global Ratings upgrading our long-term credit ratings to 'AAA' (local currency) and 'AA+' (foreign currency) on 22 February 2021. This followed the upgrading of the New Zealand Government long term local currency credit rating to 'AAA'. Fitch Ratings have maintained our local currency credit rating at 'AA+' and our foreign currency credit rating at 'AA' with a positive outlook. Importantly, both rating agencies have LGFA at the same credit rating as the New Zealand Government.

## Borrowing activity

LGFA issued a record \$3.27 billion of bonds over the financial year and bonds on issue now total \$13.68 billion (including \$1 billion of treasury stock) across ten maturities from 2022 to 2037. The amount issued during the year was significantly more than the average historical issuance amount of \$1.6 billion per financial year. The average term of our bond issuance during the year at 8.7 years was also longer than the prior year.

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. It is pleasing to note increased activity in the secondary market in our bonds.

The performance of LGFA bonds over the past year was positive with LGFA bond spreads to NZGB little changed across the yield curve except for a 15 basis points (bps) tightening in the 2033 maturity. LGFA bond spreads to swap did however tighten, reflecting the underlying positive credit market sentiment with spreads narrowing between 19 bps (2022 maturity) to 39 bps (2033 maturity). Outright yields rose between 30 bps (2022 maturity) and 67 bps (2027 maturity) over the year.

## 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. The original 31 shareholders including the Crown, remain as shareholders. Over the past year, we added five new members with Napier City, Central Otago, Kawerau, South Waikato and Waitaki District Councils joining. Total membership is now 72 out of the 78 councils in New Zealand.

Long-dated lending to councils over the 2020-21 year was a record \$2.86 billion as councils refinanced their May 2021 loans and increased their borrowing to finance infrastructure projects. Our estimated market share of total council borrowing of 79% was slightly lower than the previous year but remained high on an historical basis. The average tenor of long-dated borrowing by councils of 6.9 years over the 12-month period was significantly longer than the prior year's 5.4 years.

Short-dated lending for terms less than 12 months continues to be supported by councils and as at 30 June 2021, LGFA had \$287 million of short-term loans outstanding to 25 councils.

**Congratulations Western Bay of Plenty District Council – winner of the coveted LGFA Supreme Award, 2021 LGFA Taituarā Local Government Excellence Awards**



LGFA Chair Craig Stobo with Miriam Taris, Chief Executive at Western Bay of Plenty District Council and Gary Allis, Deputy Chief Executive.

## The impact from COVID-19 and Three Waters Reform Programme on the sector and LGFA

The local government sector has faced a year of change and uncertainty having to deal with several climate related events, COVID-19 and two Central Government led initiatives relating to the Three Waters Reform Programme and Future for Local Government Review.

The sector has displayed great resilience to the impact from COVID-19. Most councils did not experience a significant reduction in revenue which meant their operational performance was not impacted as much as initially feared. Additional support for the local authority sector has been signalled by the Government through the \$761 million first tranche of the water reform funding and the \$2.6 billion package for 'shovel-ready' infrastructure projects. This enabled councils to plan for an increase in their capital expenditure programmes which in turn acted to boost economic activity within their local economies.

While LGFA has experienced a large increase in borrowing demand from councils over the past year, the debt capital markets have been favourable for borrowers. The lowering of the Official Cash Rate (OCR) by the Reserve Bank of New Zealand (RBNZ) to 0.25% incentivised investors to seek higher yielding fixed income investments such as LGFA bonds. The RBNZ also adopted several quantitative easing tools to provide additional monetary policy stimulus to the economy such as the inclusion of LGFA Bonds into the Large Scale Asset Programme (LSAP). This assisted LGFA in issuing a larger amount of bonds with a longer duration than normal.

LGFA is assisting on an as required basis, both Central Government and our council members as they work through the Three Waters Reform Programme. The Government's proposed Three Water Reform Programme will be the largest change to the local authority sector in 30 years. The Government have proposed that local authorities will be assisted through the transition process and that a support package will be provided to councils to ensure that no council will be left financially worse off following the transfer of their water assets.

LGFA is also assisting the local government sector-led initiative in developing a Ratepayer Financing Scheme that may provide some financial relief to ratepayers.

## New products and initiatives

We continue to look to innovate with our products for councils. During the year we launched standby facility agreements for councils and by 30 June 2021 we have \$515 million of agreements in place with seven councils. This has in part led to an increase in the size of the LAP by \$568 million over the past year to a record \$1.82 billion as we support our written standbys with liquid assets.

We sought approval from shareholders to lend to council-controlled organisations (CCOs) last year and this has been more complex than expected due to the unique and more complex nature of CCOs compared to councils. However, we have made good progress and are confident that we will undertake our first loan to a CCO early in the new financial year.

## Increasing focus on sustainability

Sustainability plays an important part within the local government sector and at LGFA.

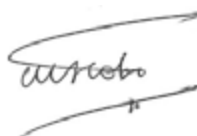
Last year's annual report was our first report prepared to meet the requirements of the Global Reporting Initiative (GRI) Standards (core option) and we have carried this over into this annual report.

We have over the past year continued to increase our focus on sustainability with the appointment of a Head of Sustainability to the LGFA management team. This key position will assist the development of our sustainable lending programme for councils in the coming year and introduce several other sustainability initiatives across the wider organisation.

We are also delighted to have received CarbonZero certification from Toitu Envirocare during the year and as an organisation we are committed to reducing our carbon emissions.

## Acknowledgments

LGFA's work cannot be implemented without the support of our staff, fellow directors, Shareholders Council, New Zealand Debt Management (NZDM) and Central Government and its agencies, all of whose efforts should be acknowledged. We believe our future remains positive and look forward to working with all stakeholders in the year ahead.



**Craig Stobo**  
Chair



**Mark Butcher**  
Chief Executive



LGFA Staff, from left: Nick Howell, Koshick Ranchhod, Andrew Michl, Jane Phelan, Sumitha Kaluarachi, Ariadne Clarke, Mark Butcher, Neil Bain. Absent: Maya Ranzinger



LGFA Board of Directors, from left: Mike Timmer, Linda Robertson, Craig Stobo, Phillip Cory-Wright, John Avery, Anthony Quirk

# Performance highlights

## Ko ngā tino hua

Bonds issued over the financial year

**\$3,270**  
million

Lending to councils over the financial year

**\$2,858**  
million

Net operating profit

**\$12.0**  
million

Total interest income

**\$377.2**  
million

 **13.0%**  
Increase over 2019-20 year

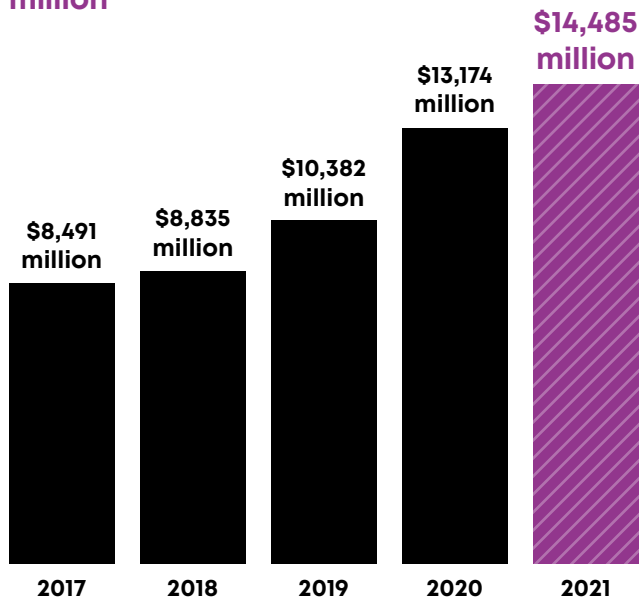
 **1.9%**  
Increase over 2019-20 year



## Total assets at 30 June 2021

# \$14,485

million



## Liquidity at 30 June 2021

### \$392 million

Cash

### \$768 million

Marketable securities

### \$655 million

Deposits

### \$1,000 million

Treasury stock for repurchase

### \$500 million

Government committed liquidity facility

## Shareholder funds at 30 June 2021

at 30 June 2021

# \$94.7

million

Fully paid shares

# \$25.0

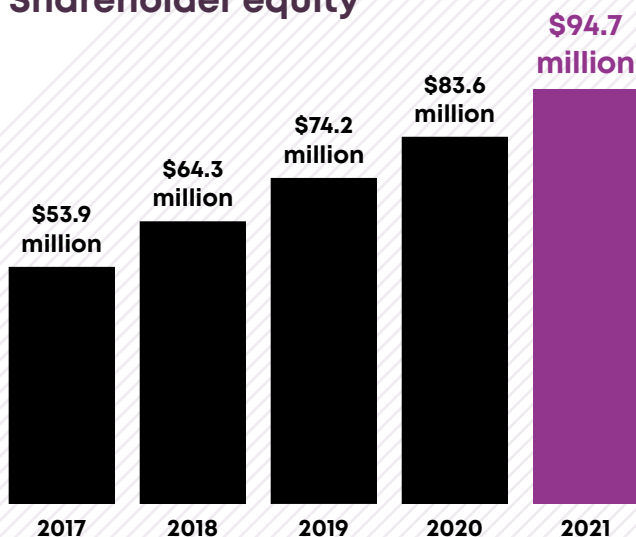
million

Retained earnings

# \$69.7

million

## Shareholder equity



### Borrower notes

# \$224

million

Borrower notes are subordinated debt instruments which LGFA may convert into redeemable shares under prescribed circumstances.

# Performance against objectives

## Ko ngāwhakatutukinga ki ngā whāinga

The statement of service performance details LGFA's performance 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 Polices 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 year ended 30 June 2021 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:**

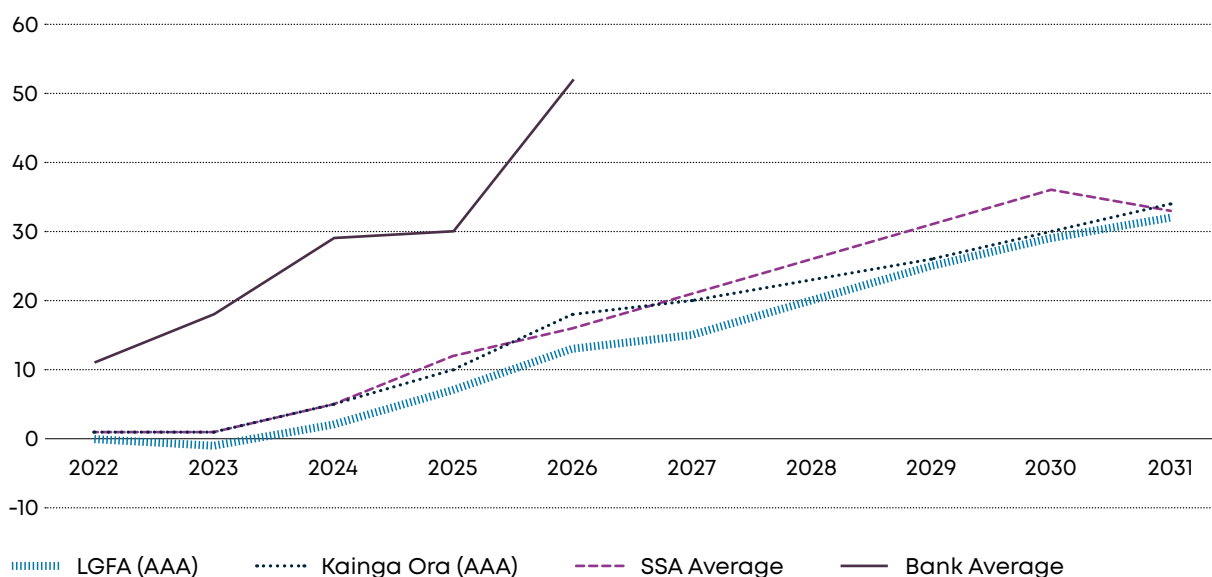
*Providing interest cost savings relative to alternative sources of financing;*

LGFA continues to borrow at very competitive spreads compared to the AAA rated Supranational, Sovereign and Agency (SSA) issuers (who borrow in the New Zealand debt capital markets), the domestic banks and our closest peer issuer Kainga Ora.

LGFA lending base margin was 20 bps for all borrowing terms for the 2020-21 year, which covers our operating costs and also provides for capital to grow in line with increases in our balance sheet. There is an additional credit margin added to the base margin depending upon whether a council has a credit rating or is a guarantor or non-guarantor of LGFA.

The following chart shows a comparison of LGFA borrowing spreads to swap compared with bank, Kainga Ora and SSA issuers in the New Zealand domestic market.

### Bank, SSA, Kainga Ora and LGFA NZD Curves – Spread to Swap (bps)



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

Both short and long-term borrowing have been well supported by member councils:

- As at 30 June 2021 there were \$287 million of short-term loans outstanding to 25 councils, with loan terms ranging between one month and 12 months.
- Over the year ended 30 June 2021, 57 councils borrowed \$2,858 million in 421 new long-term loans, across 62 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. The weighted average borrowing term by councils over the year ended 30 June 2021 (excluding short-dated borrowing) was 6.9 years.

In December 2020, LGFA launched Standby Facility Agreements as a new product that will help reduce overall financing costs for councils. As at 30 June 2021, seven councils had entered into standby agreements with LGFA totalling \$515 million.

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

Over the 12 months, LGFA operations successfully settled, without error, 1,407 new trades and 11,368 cash flows in excess of \$24 billion.

In the latest stakeholder survey result in August 2020, respondents recorded a 94% satisfaction result to the question "How satisfied are you with the LGFA 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 twelve months, LGFA issued a record \$3,270 million in bonds, through nine tenders and two syndications. There were twelve bill tenders over the year, with \$610 million of bills on issue at 30 June 2021. LGFA uses proceeds from LGFA bills and LGFA bond issuances to fund lending to councils and invests the balance in our liquid asset portfolio.

LGFA maintains an Australian Medium-Term Notes Programme which, to date, has not been used but which provides LGFA with additional 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.

Participating Borrowers are required to complete annual compliance certificates by the end of November each year. We have received compliance certificates from all Participating Borrowers and all remained compliant as at 30 June 2020.

***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 in the later months of 2020. Notwithstanding the later start to visits, LGFA met with all council members over the 12 months.

***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 year, LGFA management met with representatives from Reserve Bank of New Zealand, Department of Internal Affairs, Office of the Auditor General, Taituarā, 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.

LGFA continue 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 proposed 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 for our credit ratings from S&P Global Ratings and Fitch Ratings and meets with both agencies at least annually. Formal review meetings were last held in November 2020 with S&P Global Ratings and in October 2020 with Fitch.

- **S&P Global Ratings.** On 22 February 2021, S&P Global Ratings raised their long-term ratings on LGFA to 'AA+' foreign-currency and 'AAA' local-currency and affirmed the short-term ratings at 'A-1+'. Both ratings are on stable outlook and the same as the New Zealand Government.
- **Fitch Ratings (Fitch).** On 4 November 2020, Fitch reaffirmed our long-term local currency credit rating as 'AA+' and classified LGFA as a 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 79% for the rolling twelve-month period to 30 June 2021 and our market share is strong compared to our global peers.

Over the 12 months, five new councils became members of LGFA, lifting total participating members to 72. Napier City Council, South Waikato, 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) for the year was \$19.537 million, which was \$0.708 million over budget, while expenses of \$7.714 million were \$0.255 million below budget. Net operating profit of \$12.007 million was \$1.146 million 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. Over the year, there was an unrealised gain on these swaps of \$1.12 million.

Operating expenses for the year were \$7.714 million which is \$0.255 million below budget.

- **Issuance and on-lending costs** at \$2.621 million were \$0.090 million below budget. Higher issuance and lending volumes than forecast resulted in higher costs for NZX, legal and registry, offset by lower costs for the NZDM facility fee.
- **Other operating costs** at \$4.038 million were \$0.013 million below budget. Lower travel / accommodation and information technology costs were key drivers for the overall positive variance, offset by higher legal costs than forecast and personnel costs, primarily due the recruitment of new positions which were not included in budget.
- **Approved Issuer Levy (AIL)** payments of \$1.055 million were \$0.152 million 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 are made to the LGFA board on a regular basis by the Risk and Compliance Manager. There were no health and safety incidents during the year.

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

There were no compliance breaches during the year.

*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 coinvest 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 Agreement product will provide greater certainty of access to emergency funding for councils at a lower cost than going 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.

## Performance Targets

| Performance measure   | Result for the 12 month period to 30 June 2021 | Outcome |
|---|--|---------|
| LGFA net interest income for the period to June 2021 will be greater than \$18.8 million  | \$19.537 million                               | ✓       |
| Annual issuance and operating expenses (excluding AIL) will be less than \$6.8 million  | \$6.659 million                                | ✓       |
| Total nominal lending (short and long term) to participating councils to be at least \$9.79 billion                                   | \$12.039 billion                               | ✓       |
| 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 PLAs   | 100%   | ✓       |
| Achieve 85% market share of all council borrowing in New Zealand  | 79%  | ✗       |
| Review each PLA financial position, its headroom under LGFA policies and arrange to meet each PLA at least annually                   | All councils visited                           | ✓       |
| No breaches of Treasury Policy, any regulatory or legislative requirements including H&S  | No breaches                                    | ✓       |
| Successfully refinance 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+/AAA'                                      | ✓       |

# About us

## Mō mātou

### Establishment

The New Zealand Local Government Funding Agency Ltd (LGFA) specialises in financing the New Zealand local government sector, the primary purpose being to provide more efficient financing costs and diversified financing sources for New Zealand local authorities. LGFA was established to raise debt on behalf of local authorities on terms that are more favourable to them than if they raised the debt directly.

**Incorporated** on 1 December 2011  
under the Companies Act 1993

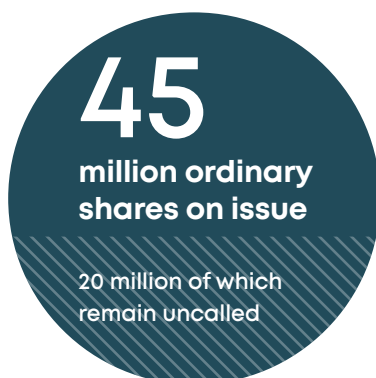
.....

**Enabled** by Local Government  
Borrowing Act 2011

.....

**Council-controlled organisation**  
under the Local Government Act 2002

### Ownership



**20%**  
New Zealand  
Government

**80%**  
30 Councils

Share ownership is restricted  
to New Zealand Government  
or councils.



## Governance overview

New Zealand Government

**20%**  
shareholding

30 Councils

**80%**  
shareholding

**31 Shareholders**

New Zealand Government shareholding will reduce to 11.1% if a future call is made on the uncalled capital of the 30 council shareholders.

### Shareholders' Council

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The **LGFA Shareholders' Council** comprises five to ten appointees from the Council Shareholders and the New Zealand Government. The role of the Shareholders' Council is to:

**Review and report** performance of LGFA and the Board;

**Recommend** to Shareholders as to the **appointment, removal, replacement and remuneration of directors;**

**Recommend** to Shareholders as to any **changes to policies**, or the Statement of Intent (SOI), requiring their approval;

**Update Shareholders** on LGFA matters and to coordinate Shareholders on governance decisions.

### LGFA Board

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The **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 the:

- 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 comprises **five independent** directors and **one non-independent** director.



Bonds listed on NZX Debt Market

Issue of securities to the public under the Financial Markets Conduct Act and regulated by Financial Markets Authority

Supervised by independent trustee

**Guarantee structure** **Credit rating** at 30 June 2021

All shareholder councils are guarantors as well as councils with total borrowings over \$20 million.

LGFA's securities obligations are guaranteed by council guarantors.

A council's obligations under the guarantee is secured against rates revenue

| S&P Global Ratings                                | Fitch Ratings                                     |
|---|---|
| Domestic Currency<br><b>AAA</b><br>Stable outlook | Domestic Currency<br><b>AA+</b><br>Stable outlook |
| Foreign Currency <b>AA+</b><br>Stable outlook     | Foreign Currency <b>AA</b><br>Positive outlook    |

**Our brand**

The 2021 LGFA Annual Report, our milestone 10th annual report since incorporation in 2011, celebrates 10 years of operations and outlines our forward commitment to providing councils with sustainable lending opportunities, having established ourselves as New Zealand's largest financier of council infrastructure. So, as we enter our second decade of operations, LGFA has updated our brand to reflect this commitment.

**The fern leaf**

The fern leaf, an iconic symbol for New Zealand, has been integral to the LGFA logo since we incorporated in 2011. Amongst other things, the fern leaf symbolises New Zealand's clean green image as recognised globally and, by such, retaining the fern leaf in our logo not only links to our company's history, but reinforces our strategic commitment to offer future sustainable borrowing and investment opportunities.

**The infrastructure cog**

LGFA is New Zealand's major financier for local government investment in infrastructure renewal. The symbol of a cog is widely used to represent infrastructure and incorporating this into our logo reflects the significant role LGFA plays in financing New Zealand's infrastructure.

**Sustainable borrowing for infrastructure development**

Our new logo brings together the fern and cog, symbolising LGFA's commitment to financing sustainable infrastructure development and for providing investors access to sustainable investment.

2011

2014

2021



## Our values



### We act with integrity

We are honest, transparent and are committed to doing what is best for our customers and our company



### We are customer focused

Our customers are our council borrowers, investors, and all other organisations that we deal with. We listen to them and act in their best interests to deliver results that make a positive difference



### We strive for excellence

We strive to excel by delivering financial products and services that are highly valued at least cost while seeking continuous improvement in everything we do.

## Our purpose

Benefiting local communities through delivering efficient financing for local government.



### We provide leadership

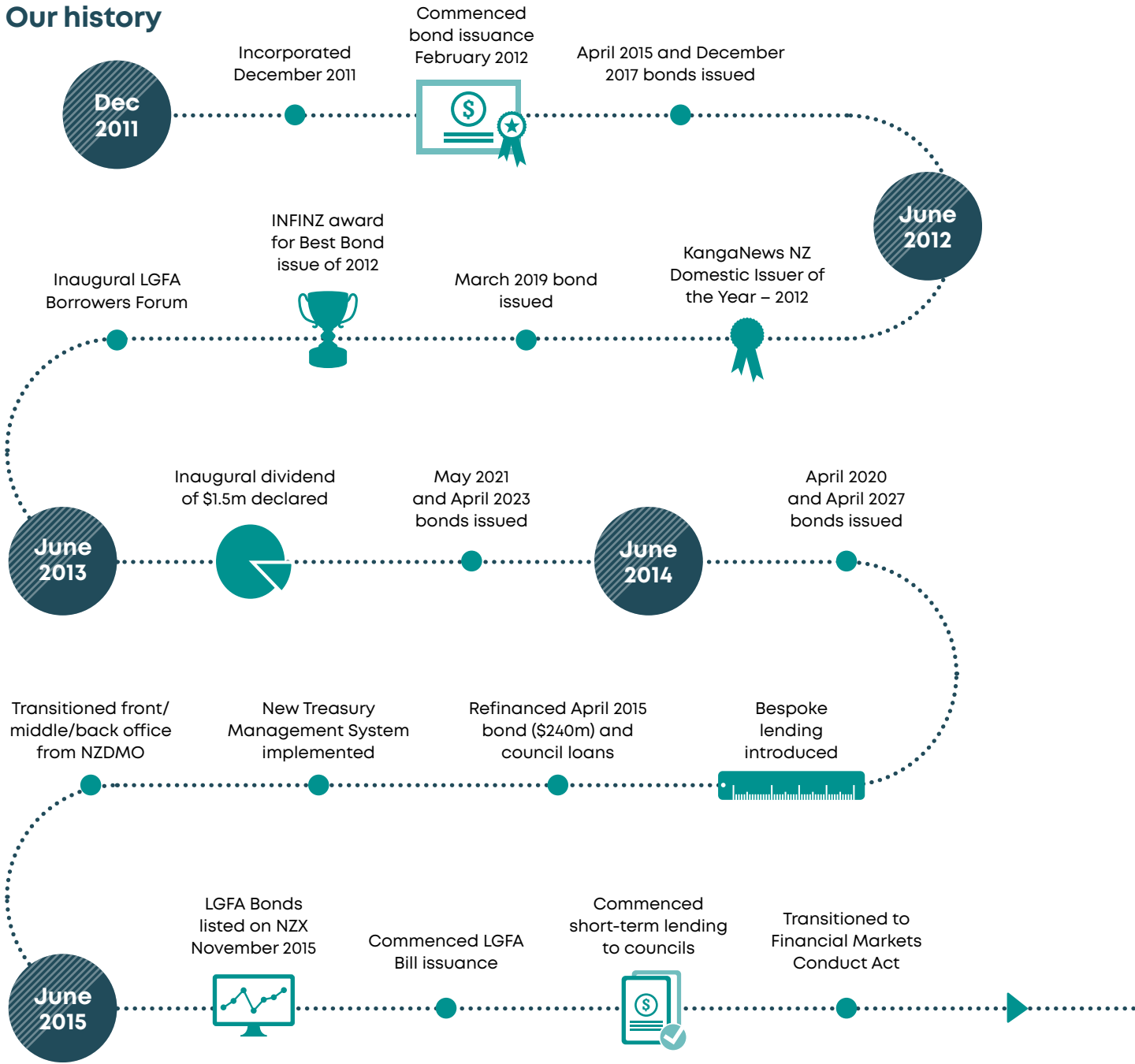
We are here for our stakeholders in being strategically minded, providing resilience and executing our strategy. We embrace a high-performance culture and can be relied upon to deliver results.

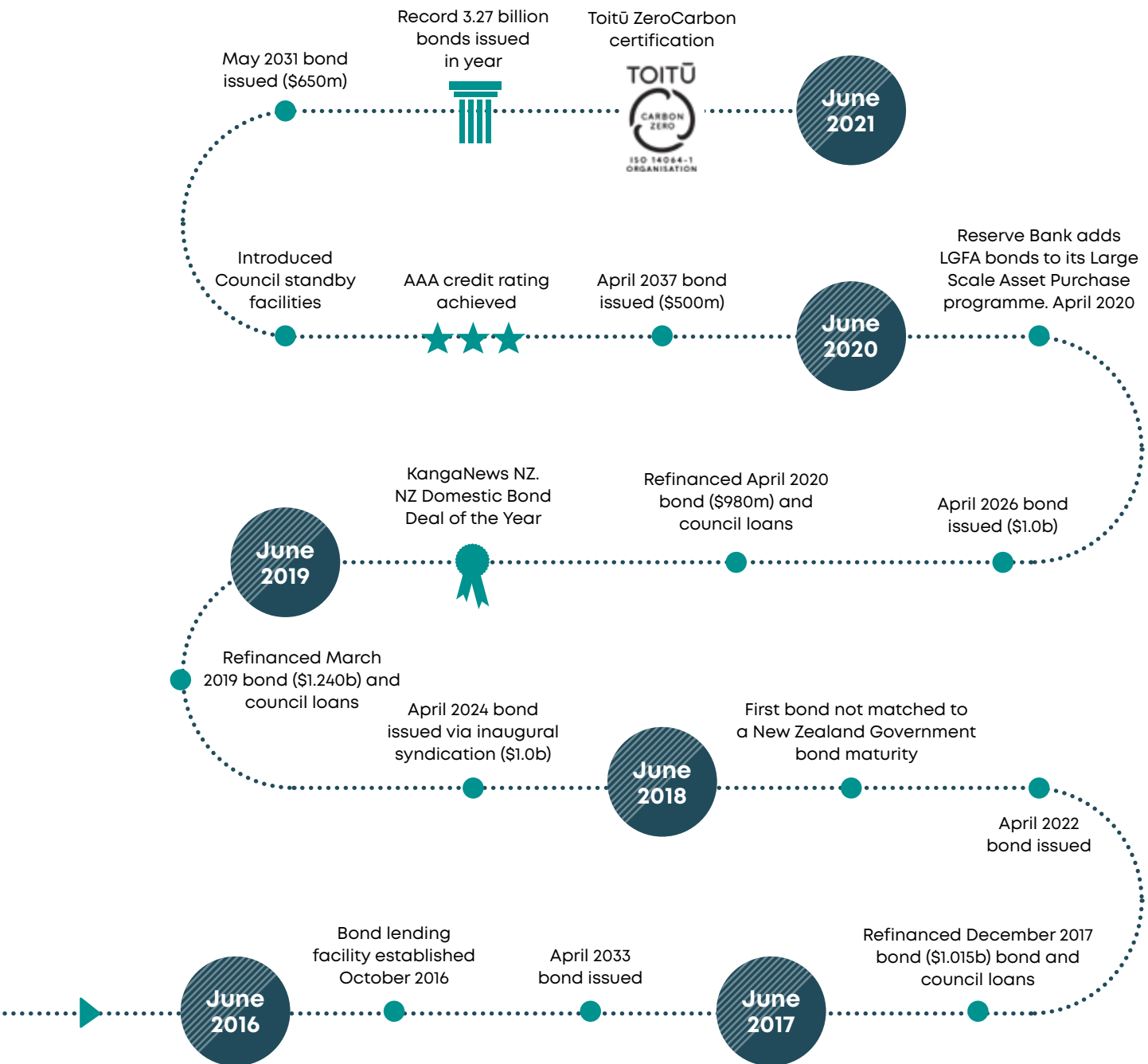


### We are innovative

To meet our ever-changing customer requirements, we will encourage innovation and provide a diverse range of financial products and services.

# Our history





TRC Riparian established planting on Trevor Hurley's farm Oeo  
Taranaki Regional Council

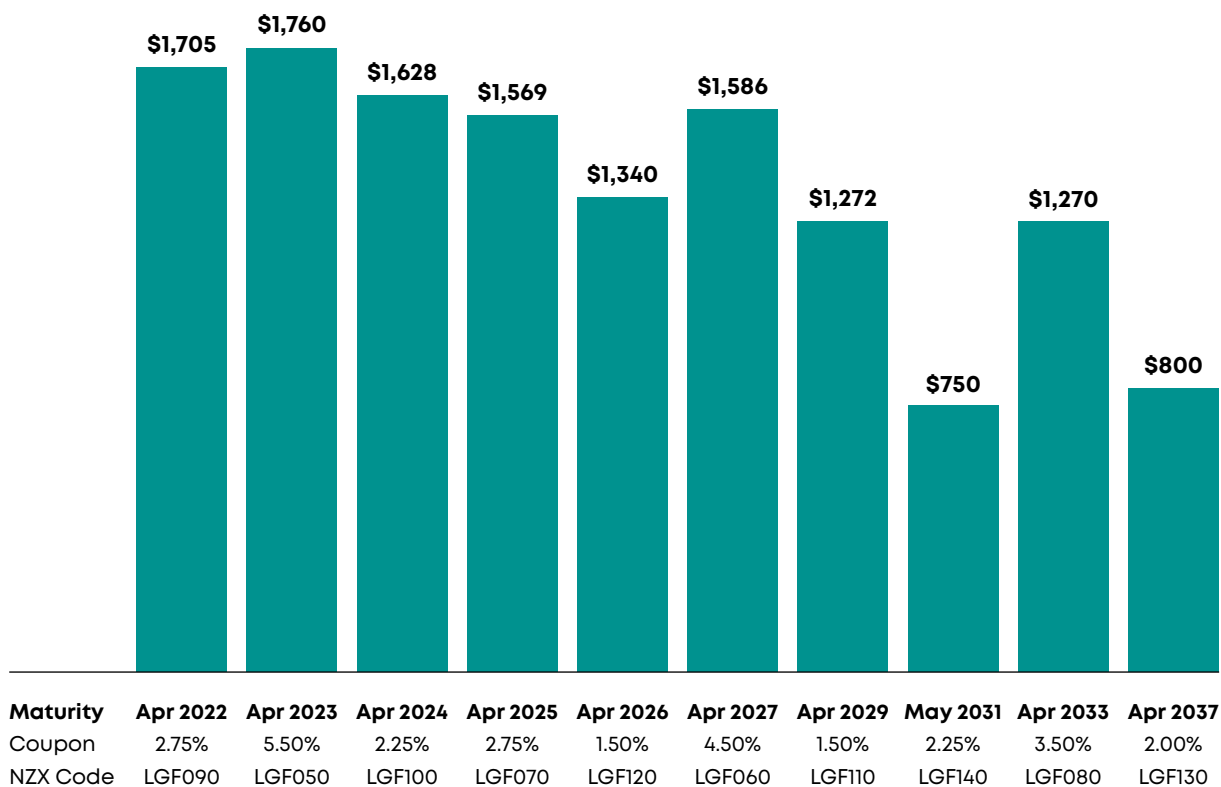
# LGFA bonds on issue

## Ko ngā pūtea taurewa pūmau kua tukuna e te LGFA

### LGFA NZX-listed bonds on issue (NZ\$ million, face value)

As 30 June 2021 : NZ\$13,680 million

Includes NZ\$1,000 million treasury stock (refer note 16, page 73)



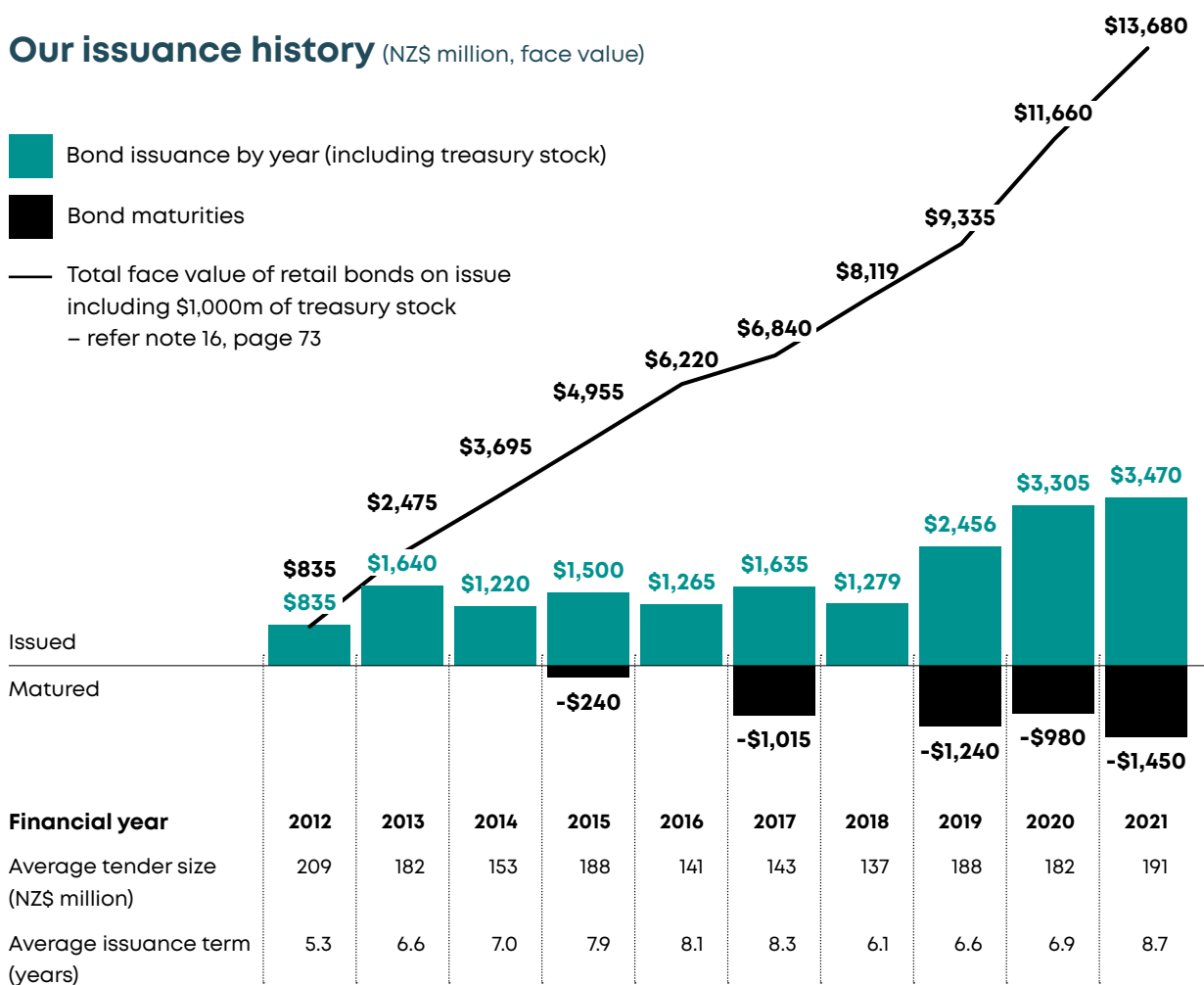
In addition to the retail bonds listed on the NZX, LGFA have \$130 million of wholesale floating rate notes on issue.

## How we issue bonds

LGFA typically issues a new bond maturity via an initial syndication and then through ongoing regular scheduled tenders.

- Preferred bond tender sizes are between NZ\$150 million to NZ\$200 million with at least three maturities offered at each tender.
- LGFA bonds match NZ Government Bonds where possible for maturity and coupon.
- Approved Issuer Levy is paid on behalf of offshore holders.
- Target issuance of NZ\$1 billion plus per series over time with a soft cap of \$1.75 billion per series to support market liquidity.
- All bonds have been issued in New Zealand dollar (NZD) to date, but have capability to issue non-NZD bonds if required.
- All LGFA retail bonds are listed on the NZX.

## Our issuance history (NZ\$ million, face value)



### New bond maturities issued in the year to June 2021

May 2031 : May 2037  
2.25% : 2.00%

### LGFA is New Zealand's largest...

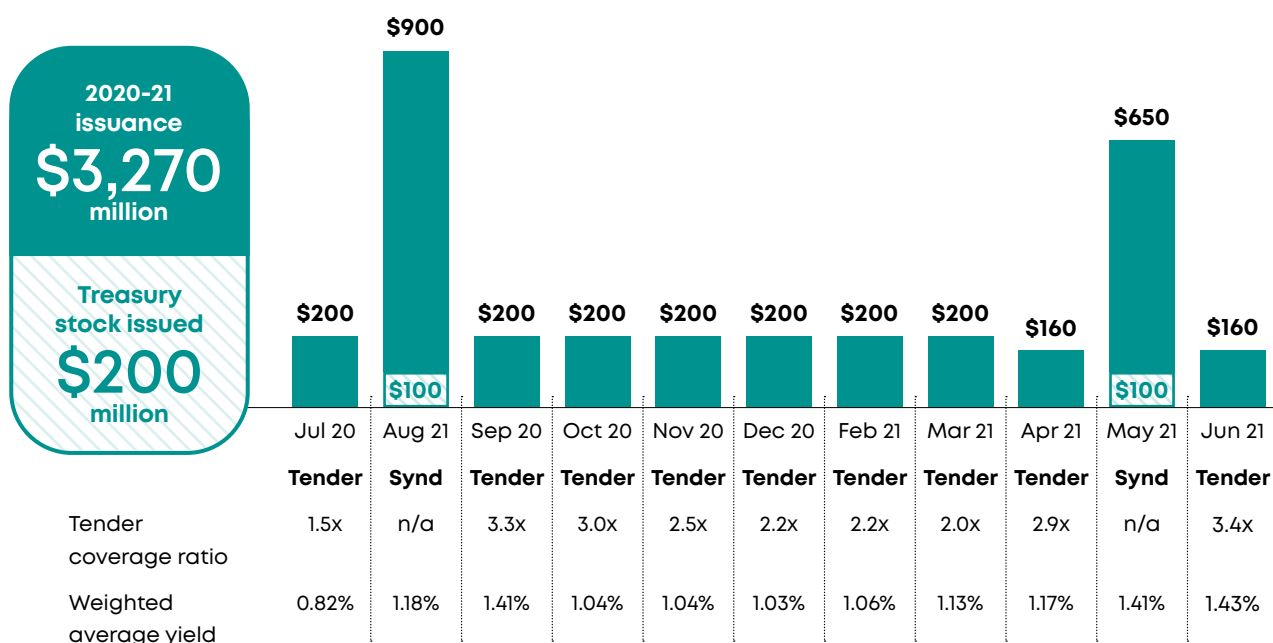
domestic issuer of NZD : issuer of debt  
domestic bonds (excluding : listed on the  
New Zealand Government) : NZDX

## 2020-21 issuance by maturity (NZ\$ million, face value)

LGFA bond issuance by bond maturity over the 12-month period to 30 June 2021

| Tenders                              | Apr 22       | Apr 23       | Apr 24       | Apr 25       | Apr 26       | Apr 27       | Apr 29       | May 31     | Apr 33       | Apr 37     | Total         |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|--------------|------------|---------------|
| 8 Jul 20                             | 50           | -            | 50           | -            | 50           | -            | 50           | -          | -            | -          | 200           |
| 9 Sep 20                             | -            | -            | 50           | -            | -            | 50           | 50           | -          | 50           | -          | 200           |
| 7 Oct 20                             | -            | 50           | -            | -            | 50           | -            | 50           | -          | 50           | -          | 200           |
| 12 Nov 20                            | -            | -            | -            | 60           | -            | 50           | 60           | -          | -            | 40         | 210           |
| 16 Dec 20                            | -            | 60           | -            | -            | 50           | -            | 50           | -          | -            | 30         | 190           |
| 3 Feb 21                             | -            | -            | 60           | -            | -            | 60           | 40           | -          | -            | 40         | 200           |
| 10 Mar 21                            | -            | -            | 40           | -            | 50           | -            | 60           | -          | -            | 50         | 200           |
| 15 Apr 21                            | -            | -            | 40           | -            | 40           | -            | 40           | -          | -            | 40         | 160           |
| 9 Jun 21                             | -            | -            | 40           | -            | -            | -            | 80           | -          | 40           | -          | 160           |
| <b>2020/21 tender issuance</b>       | <b>50</b>    | <b>110</b>   | <b>280</b>   | <b>60</b>    | <b>240</b>   | <b>160</b>   | <b>480</b>   | <b>-</b>   | <b>140</b>   | <b>200</b> | <b>1,720</b>  |
| <b>2020/21 syndication</b>           | <b>400</b>   | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>650</b> | <b>-</b>     | <b>500</b> | <b>1,550</b>  |
| <b>Total 2020/21 issuance</b>        | <b>450</b>   | <b>110</b>   | <b>280</b>   | <b>60</b>    | <b>240</b>   | <b>160</b>   | <b>480</b>   | <b>650</b> | <b>140</b>   | <b>700</b> | <b>3,270</b>  |
| Prior issuance                       | 1,155        | 1,550        | 1,248        | 1,409        | 1,000        | 1,326        | 692          | -          | 1,030        | -          | 9,410         |
| Total bonds excluding Treasury Stock | 1,605        | 1,660        | 1,528        | 1,469        | 1,240        | 1,486        | 1,172        | 650        | 1,170        | 700        | 12,680        |
| Treasury stock                       | 100          | 100          | 100          | 100          | 100          | 100          | 100          | 100        | 100          | 100        | 1,000         |
| <b>Total bonds on issue</b>          | <b>1,705</b> | <b>1,760</b> | <b>1,628</b> | <b>1,569</b> | <b>1,340</b> | <b>1,586</b> | <b>1,272</b> | <b>750</b> | <b>1,270</b> | <b>800</b> | <b>13,680</b> |

## 2020-21 issuance by month (NZ\$ million, face value)





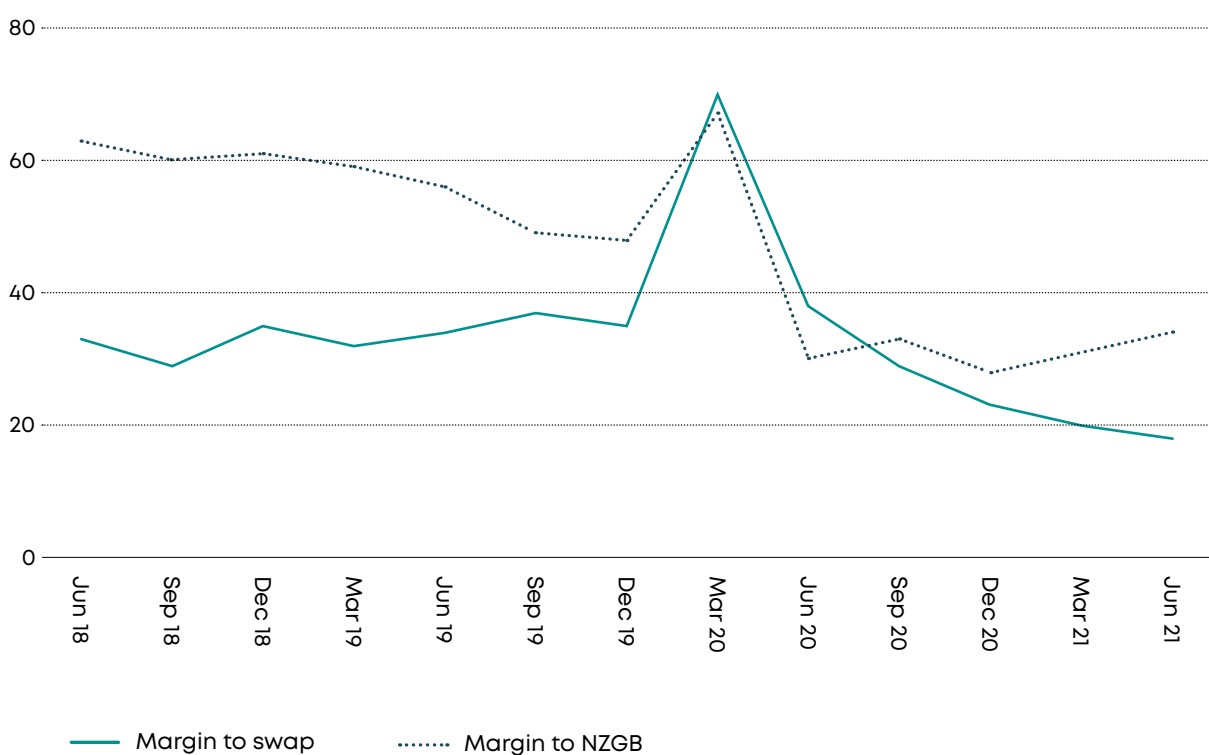
## LGFA bond margins (basis points)

LGFA bond margins against swap and New Zealand Government Bonds (NZGB)

| Margin to swap | Apr 22 | Apr 23 | Apr 24 | Apr 25 | Apr 26 | Apr 27 | Apr 29 | May 31 | Apr 33 | Apr 37 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 30 June 2020   | 18     | 25     | 32     | 40     | 45     | 48     | 57     | n/a    | 69     | n/a    |
| 30 June 2021   | 0      | (1)    | 2      | 7      | 13     | 15     | 25     | 33     | 39     | 51     |
| Annual change  | (18)   | (26)   | (30)   | (33)   | (32)   | (33)   | (32)   | n/a    | (30)   | n/a    |

| Margin to NZGB | Apr 22 | Apr 23 | Apr 24 | Apr 25 | Apr 26 | Apr 27 | Apr 29 | May 31 | Apr 33 | Apr 37 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 30 June 2020   | 13     | 18     | 22     | 31     | 34     | 36     | 44     | n/a    | 58     | n/a    |
| 30 June 2021   | 9      | 22     | 26     | 31     | 36     | 40     | 43     | 44     | 43     | 44     |
| Annual change  | (4)    | 4      | 4      | 0      | 2      | 4      | (1)    | n/a    | (15)   | n/a    |

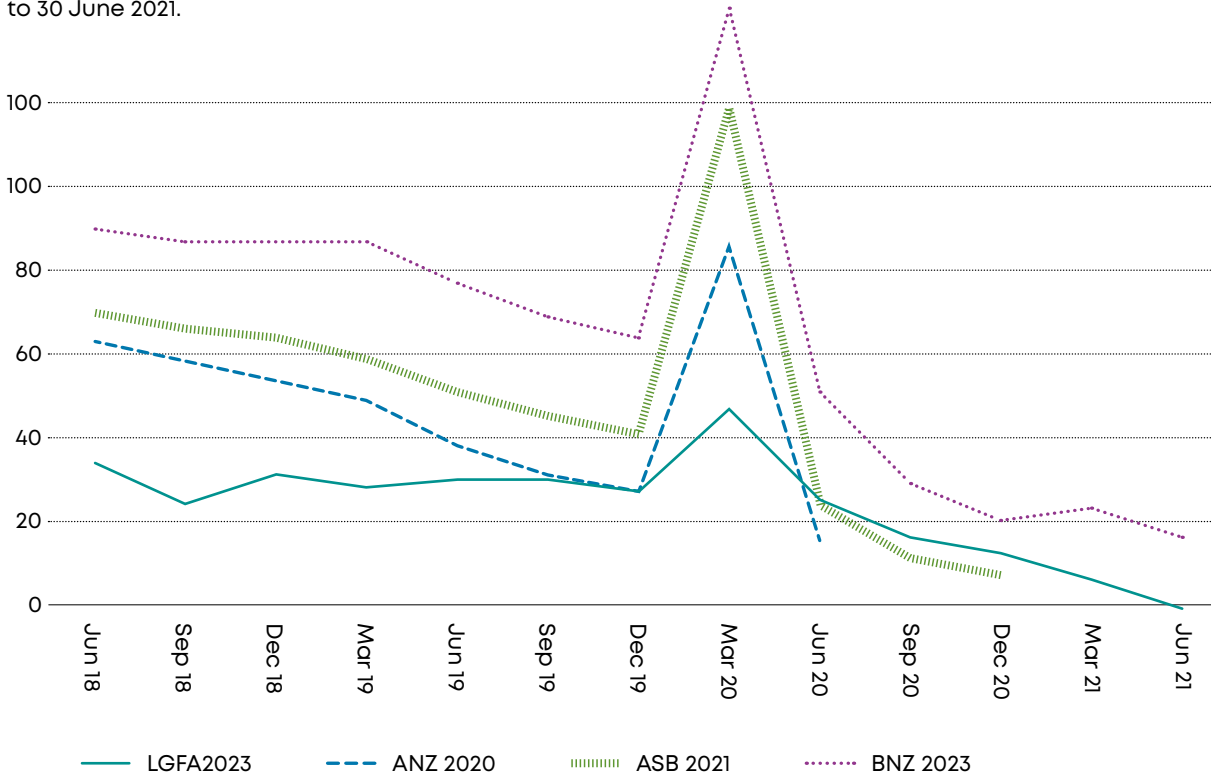
## LGFA bond margins to swap over NZGB over the 36 months to 30 June 2021 (basis points)



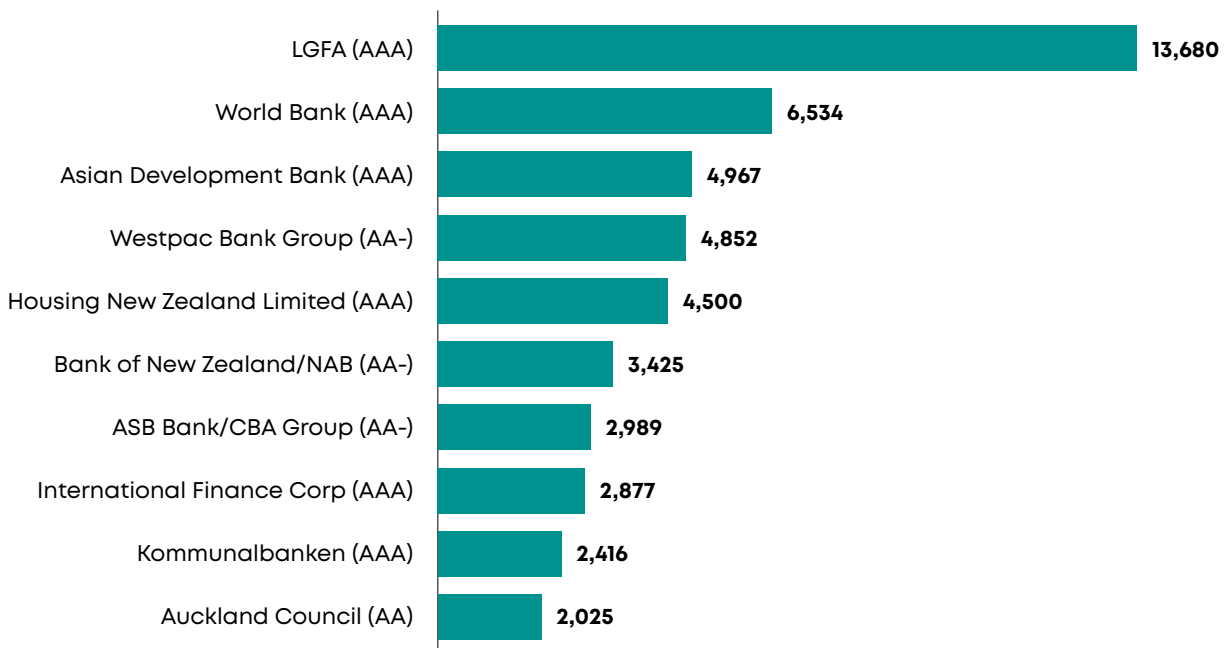
Average of all LGFA bonds outstanding: Secondary market levels as at end of each month taken from end of month closing rate sheets published by NZ banks.

## Secondary market credit spread to swap for LGFA and bank bonds (basis points)

Secondary market credit spread for LGFA against New Zealand bank bonds over the 36 months to 30 June 2021.

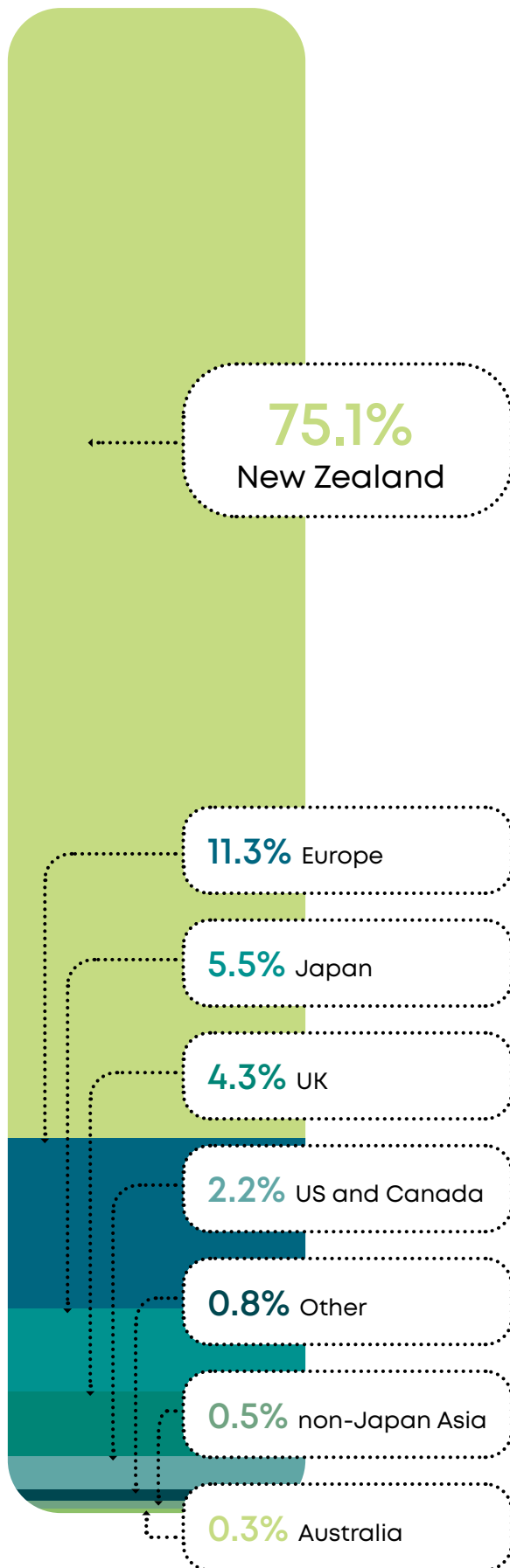


## Top 10 issuers of NZD bonds on issue NZD \$billion as at 30 June 2021

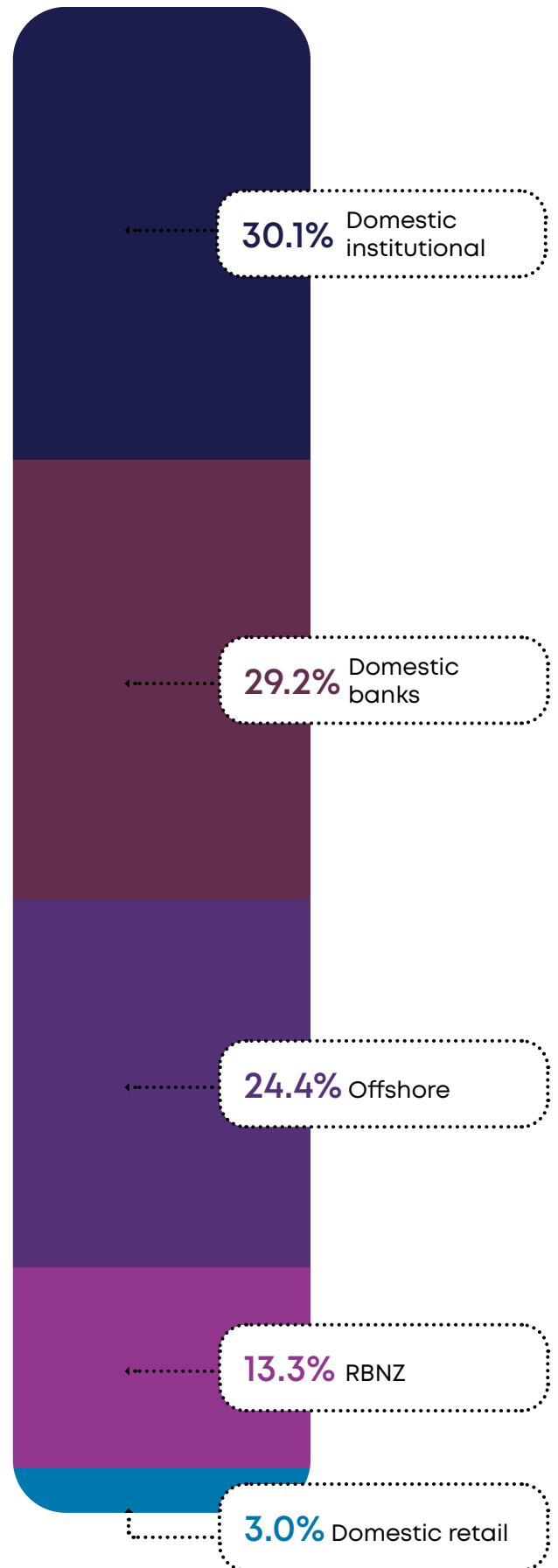


LGFA estimation based on aggregation of Bloomberg data

### LGFA bond holders by country of residence as at 31 March 2021



### LGFA bond holders by investor group as at 30 June 2021



# Member councils

## Ko ngā kaunihera e noho mema ana

### **LGFA operates with the primary objective of optimising the debt funding terms and conditions for its member councils.**

Among other things this includes:

- Providing savings in annual interest costs
- Offering short and long-term borrowings with flexible lending terms
- Enhancing the certainty of debt markets
- Being the funder of choice for New Zealand local government.

To become a member council of LGFA, a council is required to complete a formal application. Following an application for membership, LGFA management completes a review of the council's financial position and its ability to comply with LGFA's financial covenants, which is considered by the LGFA Board who approve all council memberships. All member councils are required to complete a compliance certificate each year which certifies that the council has complied with LGFA's financial covenants. In addition, LGFA monitor all member councils' annual reports, annual plans and long term plans on an ongoing basis to ensure that the financial forecasts are consistent with the LGFA financial covenants.

As at 30 June 2021

**30**

member councils  
are shareholders

**72**

member councils  
were eligible to  
borrow from LGFA

**63**

member councils  
were guarantors  
of LGFA

## Total member council borrowings at 30 June 2021

(NZ\$ million)

| Member type    | Number of councils | Amount borrowed | % of total borrowings |
|----------------|--------------------|-----------------|-----------------------|
| Guarantors     | 61                 | 12,014          | 99.6%                 |
| Non guarantors | 6                  | 53              | 0.4%                  |
| <b>Total</b>   | <b>67</b>          | <b>12,067</b>   | <b>100%</b>           |

| Member                              | Amount borrowed | % of total borrowings |
|-------------------------------------|-----------------|-----------------------|
| Auckland Council                    | 3,304           | 27.4%                 |
| Christchurch City Council           | 1,966           | 16.3%                 |
| Wellington City Council             | 793             | 6.6%                  |
| Tauranga City Council               | 517             | 4.3%                  |
| Hamilton City Council               | 481             | 4.0%                  |
| Greater Wellington Regional Council | 451             | 3.7%                  |
| Kapiti Coast District Council       | 230             | 1.9%                  |
| Rotorua District Council            | 228             | 1.9%                  |
| Hastings District Council           | 205             | 1.7%                  |
| Hutt City Council                   | 201             | 1.7%                  |
| Other councils                      | 3,691           | 30.6%                 |
|                                     | <b>12,067</b>   | <b>100%</b>           |

# 79%

LGFA's estimated market share of local government debt

Loans to Auckland Council are limited to a maximum of

# 40%

of total loans

## THE NUMBERS

Over the 12 months to 30 June 2021

# 57

member councils

# \$2,858

million total borrowed

# 241

individual term loans

# 6.9

average borrowing years

At 30 June 2021

# \$287











million of short term loans

# 25

member councils with outstanding loans

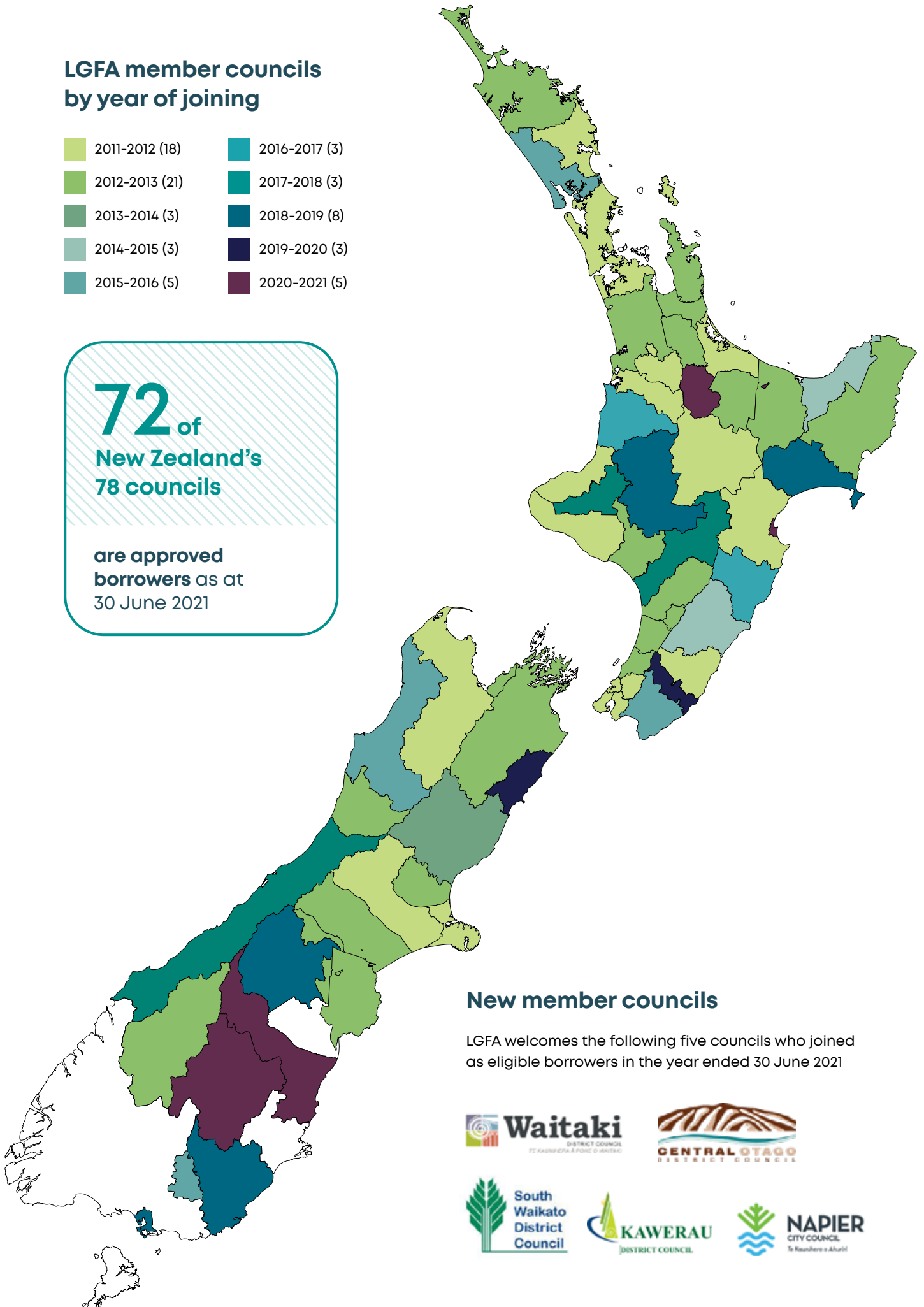
Member councils are required to comply with LGFA financial covenants at all times

## LGFA member councils by year of joining

|  |   |
|--|---|
|  2011-2012 (18) |  2016-2017 (3) |
|  2012-2013 (21) |  2017-2018 (3) |
|  2013-2014 (3)  |  2018-2019 (8) |
|  2014-2015 (3)  |  2019-2020 (3) |
|  2015-2016 (5)  |  2020-2021 (5) |

**72** of  
New Zealand's  
**78** councils

are approved  
borrowers as at  
30 June 2021



## New member councils

LGFA welcomes the following five councils who joined as eligible borrowers in the year ended 30 June 2021



## Member councils by year of joining

### North Island

|         |  |                        |
|---------|--|------------------------|
| 2011-12 | Auckland Council                       | Shareholder            |
| 2011-12 | Bay of Plenty Regional Council         | Shareholder            |
| 2011-12 | Greater Wellington Regional Council    | Shareholder            |
| 2011-12 | Hamilton City Council                  | Shareholder            |
| 2011-12 | Hastings District Council              | Shareholder            |
| 2011-12 | Masteron District Council              | Shareholder            |
| 2011-12 | New Plymouth District Council          | Shareholder            |
| 2011-12 | Otorohanga District Council            | Shareholder            |
| 2011-12 | South Taranaki District Council        | Shareholder            |
| 2011-12 | Taupo District Council                 | Shareholder            |
| 2011-12 | Tauranga City Council                  | Shareholder            |
| 2011-12 | Waipa District Council                 | Shareholder            |
| 2011-12 | Wellington City Council                | Shareholder            |
| 2011-12 | Western Bay of Plenty District Council | Shareholder            |
| 2011-12 | Whangarei District Council             | Shareholder            |
| 2012-13 | Far North District Council             | Borrower and Guarantor |
| 2012-13 | Gisborne District Council              | Shareholder            |
| 2012-13 | Hauraki District Council               | Shareholder            |
| 2012-13 | Horowhenua District Council            | Shareholder            |
| 2012-13 | Hutt City Council                      | Shareholder            |
| 2012-13 | Kapiti Coast District Council          | Shareholder            |
| 2012-13 | Manawatu District Council              | Shareholder            |
| 2012-13 | Matamata-Piako District Council        | Borrower and Guarantor |
| 2012-13 | Palmerston North City Council          | Shareholder            |
| 2012-13 | Rotorua District Council               | Borrower and Guarantor |
| 2012-13 | Thames-Coromandel District Council     | Shareholder            |
| 2012-13 | Waikato District Council               | Borrower and Guarantor |
| 2012-13 | Whakatane District Council             | Shareholder            |
| 2012-13 | Whanganui District Council             | Shareholder            |
| 2013-14 | Horizons District Council              | Borrower and Guarantor |
| 2013-14 | Upper Hutt City Council                | Borrower and Guarantor |
| 2014-15 | Opotiki District Council               | Borrower               |
| 2014-15 | Porirua City Council                   | Borrower and Guarantor |
| 2014-15 | Tararua District Council               | Borrower               |
| 2015-16 | Kaipara District Council               | Borrower and Guarantor |
| 2015-16 | South Wairarapa District Council       | Borrower and Guarantor |
| 2016-17 | Central Hawkes Bay District Council    | Borrower               |
| 2016-17 | Northland Regional Council             | Borrower               |
| 2016-17 | Waitomo District Council               | Borrower and Guarantor |
| 2017-18 | Rangitikei District Council            | Borrower               |
| 2017-18 | Stratford District Council             | Borrower               |
| 2018-19 | Hawkes Bay Regional Council            | Borrower and Guarantor |
| 2018-19 | Ruapehu District Council               | Borrower and Guarantor |
| 2018-19 | Waikato Regional Council               | Borrower and Guarantor |
| 2018-19 | Wairoa District Council                | Borrower               |
| 2019-20 | Taranaki Regional Council              | Borrower and Guarantor |
| 2019-20 | Carterton District Council             | Borrower               |
| 2020-21 | Kawerau District Council               | Borrower               |
| 2020-21 | Napier City Council                    | Borrower and Guarantor |
| 2020-21 | South Waikato District Council         | Borrower and Guarantor |

### South Island

|         |                                   |                        |
|---------|-----------------------------------|------------------------|
| 2011-12 | Christchurch City Council         | Shareholder            |
| 2011-12 | Selwyn District Council           | Shareholder            |
| 2011-12 | Tasman District Council           | Shareholder            |
| 2012-13 | Ashburton District Council        | Borrower and Guarantor |
| 2012-13 | Grey District Council             | Borrower               |
| 2012-13 | Marlborough District Council      | Shareholder            |
| 2012-13 | Nelson City Council               | Borrower and Guarantor |
| 2012-13 | Queenstown Lakes District Council | Borrower and Guarantor |
| 2012-13 | Timaru District Council           | Borrower and Guarantor |
| 2012-13 | Waimakariri District Council      | Shareholder            |
| 2013-14 | Hurunui District Council          | Borrower and Guarantor |
| 2015-16 | Buller District Council           | Borrower               |
| 2015-16 | Canterbury Regional Council       | Borrower and Guarantor |
| 2015-16 | Gore District Council             | Borrower               |
| 2017-18 | Westland District Council         | Borrower               |
| 2018-19 | Clutha District Council           | Borrower               |
| 2018-19 | Invercargill City Council         | Borrower and Guarantor |
| 2018-19 | Mackenzie District Council        | Borrower               |
| 2018-19 | West Coast Regional Council       | Borrower               |
| 2019-20 | Kaikoura District Council         | Borrower               |
| 2020-21 | Central Otago District Council    | Borrower and Guarantor |
| 2020-21 | Waitaki District Council          | Borrower and Guarantor |

# 86%

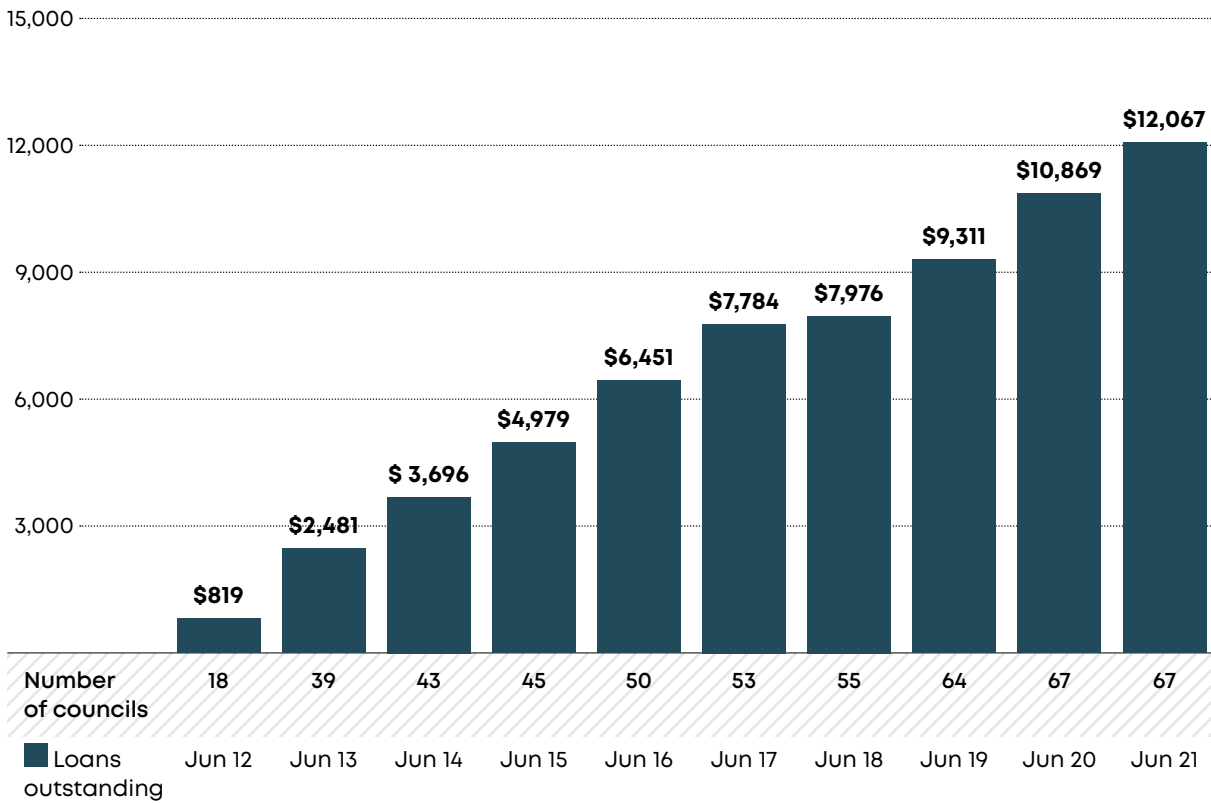
loans to councils with

# AA-

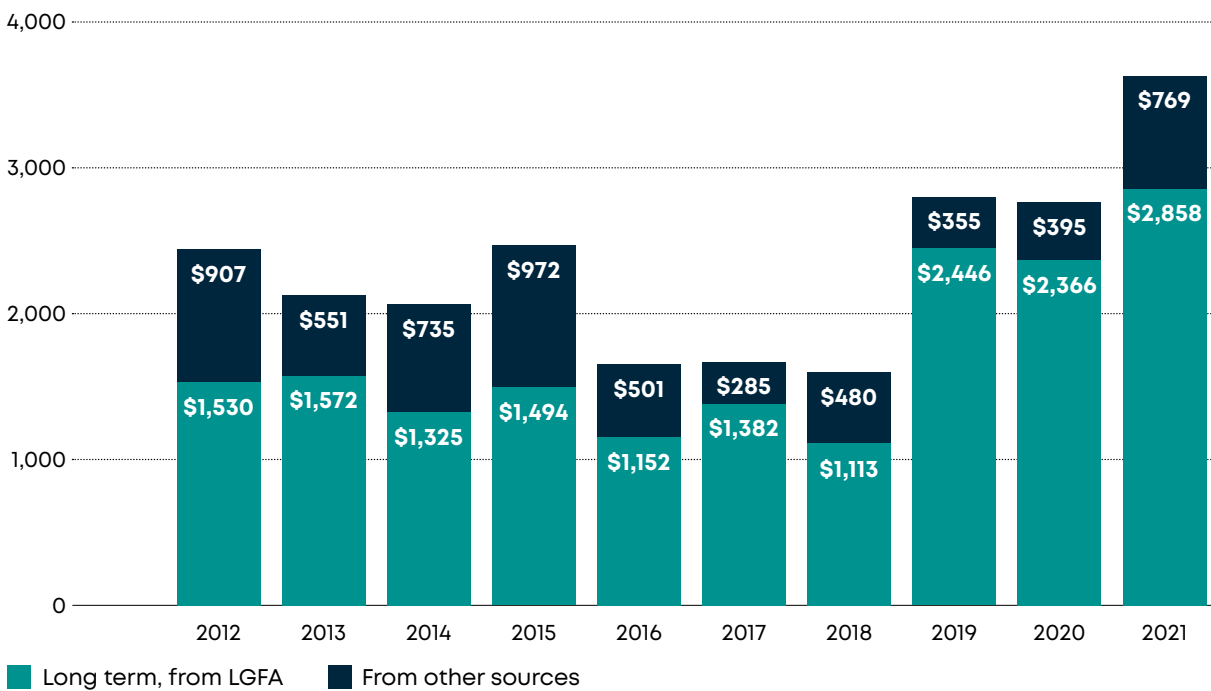
external rating or better

LGFA assign internal credit ratings for all councils, including all councils without external credit ratings.

## Nominal loans to councils outstanding (NZ\$ million)



## Councils' borrowing (NZ\$ million) financial year







New Zealand's first hydrogen fuel cell bus unveiled by Auckland Transport in March 2021.  
Auckland Council

# Sustainability at LGFA

## Te toitūtanga kei te LGFA

**LGFA was established with the primary objective of optimising the debt funding terms and conditions for our member councils. To achieve this objective, it is important that we conduct our affairs in accordance with sound business practice, while having regard to the interests of the community and by exhibiting a sense of social and environmental responsibility, as well as being a good employer.**

The Global Reporting Initiative (GRI) sustainability reporting standards are the most widely adopted global standards for sustainability reporting and this year's annual report has been prepared to meet the requirements of the Global Reporting Initiative (GRI) Standards (core option).

LGFA's materiality sustainability topics remain unchanged from 2020. These materiality topics were determined with the assistance of Proxima, an independent sustainability consultancy, who worked with staff and directors in 2019 to undertake an analysis of material sustainability issues relevant to our business and key stakeholders. Material topics are those issues that reflect our significant economic, environmental, and social impacts or that substantively influence the assessments and decisions of our stakeholders.

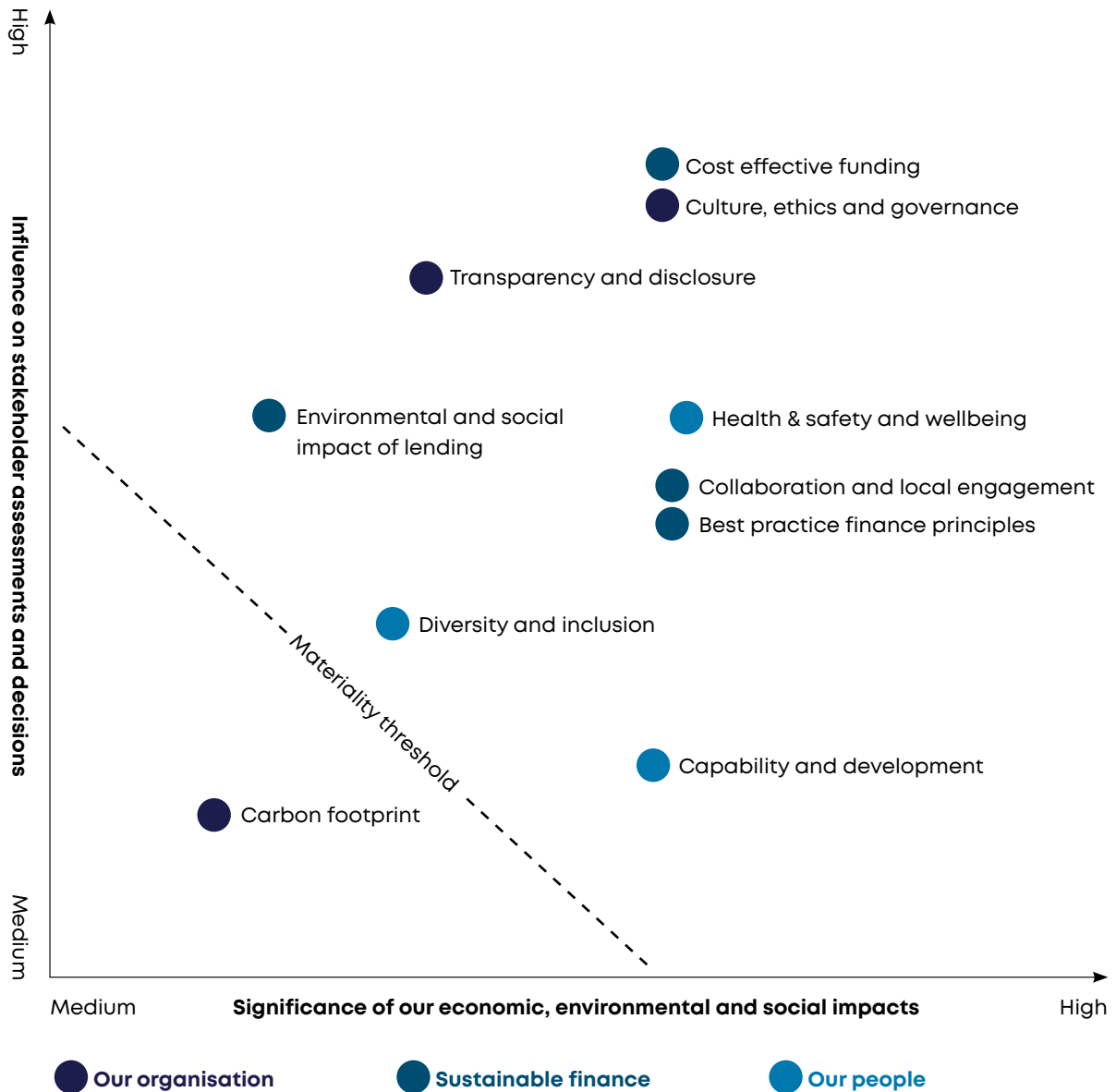
LGFA's ten material topics are grouped under three overarching principles.

| Our organisation               | Sustainable finance                        | Our people                    |
|--------------------------------|--|-------------------------------|
| Culture, ethics and governance | Cost effective funding                     | Health & safety and wellbeing |
| Transparency and disclosure    | Environmental and social impact of lending | Diversity and inclusion       |
| Carbon footprint               | Collaboration and local engagement         | Capability and development    |
|                                | Best practice finance principles           |                               |

## LGFA's materiality matrix

LGFA's materiality matrix depicts the outcome of our materiality analysis and is prioritised by stakeholder importance and the estimated impact on our business or on society. The prioritisation of these material topics will assist us to review our management approach and assess where we can improve over time.

Our approach and performance on each material topic can be found in this Annual Report and are referenced in the GRI Index on page 88.



## LGFA's material topics

### Cost effective funding

- Delivery of lower cost funding
- Access to longer term funding
- Ongoing contribution to NZ Capital Markets
- NZX listing

LGFA was established with the primary purpose of providing more efficient funding costs and diversified funding sources for New Zealand local authorities; a core objective being to raise debt on behalf of local authorities on terms that are more favourable to them than if they raised the debt directly.

LGFA reports on its cost of borrowing relative to other issuers on a quarterly basis to shareholders and in its annual and half year reports. LGFA surveys member councils on its performance annually in relation to business delivery and satisfaction with pricing. A key indicator of satisfaction with service and pricing to councils is LGFA's estimated overall market share for council lending which was estimated to be 79% for the rolling twelve-month period to June 2021.

### Culture, ethics and governance

High ethical standards required and codified through:

- NZX Corporate Governance Code
- Code of Ethics
- Code of Conduct
- Board Charter
- Audit and Risk Committee Charter

The LGFA Board is committed to ensuring that the conduct of both directors and staff at all times meets the high standards required to reflect the company's values and to protect its reputation. The required standards are defined in LGFA's Code of Ethics and is reflected throughout the following key governance documents: The LGFA Constitution; Shareholders' Agreement; Board Charter; Audit and Risk Committee Charter; Internal Audit Charter; and the Diversity Policy.

The LGFA Board is committed to ensuring LGFA demonstrates ongoing commitment to strong and sound corporate governance. The Corporate Governance section in this report provides detailed information on LGFA's governance structure and principles, including setting out LGFA's compliance with the eight core principles underpinning the NZX Corporate Governance Code.

### Transparency and disclosure

Transparency and disclosure are essential for shareholder, rating agencies and investor confidence and codified through:

- Shareholders' agreement
- NZX listing rules
- Financial accounting standards
- Regulatory compliance

Transparency in how we operate is core to achieving our shareholders' objectives as well as for our wider stakeholders including investors, banks and other financial intermediaries and the credit rating agencies. As such, transparency in how we operate is reflected in operating requirements outlined in our foundation documents, including the LGFA Constitution, Shareholders' Agreement and Board Charter, as well as Company policies on Continuous Disclosure, Financial Products Trading, and Protected Disclosures and Whistle Blowing.

LGFA demonstrates transparency through its annual Statement of Intent (SOI) and quarterly reporting to shareholders on its performance against the objectives set out in the SOI. In addition to financial performance, our annual report details LGFA's non-financial performance against the principles outlined in NZX Corporate Governance Code, as well as compliance in meeting the requirements of the Global Reporting Initiatives (core standards).

### Environmental and social impact of lending

Development of green, social and sustainable financing option for councils

- Lower cost financing promotes greater ability for councils to fund green/social/sustainable impact projects

LGFA recognises and supports the shift to an economy that supports sustainable, social, environmental and economic wellbeing and is actively progressing facilities to provide member councils with green, social and sustainability financing for projects that promote environmental and social wellbeing in New Zealand, as well as progress the United Nations Sustainable Development Goals.

The Green, Social and Sustainability lending section in this report provides more information on LGFA's sustainable lending developments.

## Health & safety and wellbeing

- Compliance with Health and Safety at Work Act 2015
- Health and safety committee and regular reporting to Board
- Flexible workplace

LGFA is committed to providing a safe and healthy working environment for all employees and a flexible workplace environment that promotes increasing employee engagement, productivity and enhancing recruitment and retention.

LGFA has established a Health and Safety Committee which regularly meets to review LGFA health and safety issues and reports to each Board meeting. LGFA maintains policies on health and safety, flexible working, diversity and employment which encapsulate the company's commitment to health, safety and wellbeing.

LGFA provides staff with access to professional support for general counselling services, individual case management and on-going monitoring of an employee's progress to ensure the assistance and treatment in meeting their needs

## Collaboration and local engagement

- Industry sponsor – Kanganews and Taituarā
- Infrastructure funding development liaison with Crown and industry
- Regular engagement with council employees and elected officials

A core objective for LGFA is for the company to take a proactive role in enhancing the financial strength and depth of local government debt market by working with key central government and local government stakeholders on sector and individual council issues.

Contributing to capital markets development to enhance local government sector debt is a key role for LGFA and we regularly meet with key industry stakeholders, including the Reserve Bank of New Zealand, Department of Internal Affairs, Office of the Auditor General, Taituarā, Infrastructure New Zealand and New Zealand Green Investment Finance. The importance of capital investment in infrastructure has been a focus over the past year, with LGFA actively engaging with councils, central Government and investors in relation to the work being progressed on the three waters reform project.

This year, LGFA were proud to be principal sponsor for the 2021 Taituarā LGFA Local Government Excellence Awards.

## Financial markets best practice and influence

- Knowledge sharing
- Audit and risk independence
- Best practice risk management framework
- Credit metrics
- External rating / lower margin borrowing
- Operational excellence
- Product and process improvement
  - CCO lending
  - Bills
  - Flexible maturities
  - Standby facilities

Delivering operational best practice and efficiency across our issuance programme and lending services is a key objective for LGFA.

Over recent years, LGFA has invested significant resource in ongoing development of our risk management framework to reflect financial markets best practice, the objective being to ensure that our risks are managed effectively and comply with LGFA's governance and legislative requirements. Managing treasury risks is a critical component of LGFA's market operations and this year we engaged external consultants to assist in providing an independent assessment of our treasury risk management policies. The 'Managing risk' section of this report provides more information on our risk management processes.

Over the course of the reporting year, LGFA operations staff processed over 18,000 transactions with total gross cash flows in excess of \$24 billion without error. Where possible, LGFA employ straight-through processing to minimise operational risk across our treasury operations. Improving our information technology control environment to mitigate emerging risks from cyber threats was another key focus over the past year, with independent consultants assisting us with external penetration testing and advice on enhancing our cyber control environment

## Diversity and inclusion

- Diversity policy and reporting
- Equal opportunity
- Māori language plan

Diversity at LGFA involves recognising and valuing the contribution that people can make because of their skills, experience, background and differing perspectives. LGFA values all employees by encouraging participation and providing opportunities for its people to succeed.

These diversity objectives are formalised in the LGFA Diversity Policy. Each year, management complete a diversity review which is reported through to the Board and, when undertaking recruitment, selection panels for interview are split by gender. The Corporate Governance section of this provides more information on diversity, including reporting diversity across staff and directors.

### Capability and development

- Regular attendance for staff and directors at industry training and conference events

LGFA actively encourages professional development for directors and staff. LGFA provides funding for opportunities for professional development and membership of professional bodies and directors and staff are regular attendees at industry conferences.

### Carbon footprint

- Toitū Carbonzero certification achieved in 2021.
- Increased use of meetings by video reduce need for physical travel
- Paperless office – use electronic where possible for transaction recording/record keeping.
- Physical offices – minimal impact given small size

This year, LGFA directors have committed to reducing our carbon emissions over time. Our first target is cutting per employee emissions by 30% by 2030, compared with a 2018/19 base year.

To further our commitment to sustainability, LGFA have created a new position, Head of Sustainability. A key component of this new position is to promote carbon reduction awareness across all staff, including internal discussions across the organisation on LGFA's annual carbon reduction targets. LGFA has made progress with moving to a paperless environment, achieving a 60% reduction in paper use in the three years to June 2021.

### Paper use

We have achieved a

**60% Reduction**

over the three years to June 2021

## Toitū Carbonzero Certification

Toitū Envirocare offer carbon management and carbon neutral certifications for organisations, including tools to measure, reduce and offset greenhouse gas emissions.

Toitū certifications meet and exceed the requirements of ISO standards and ensure consistent and comprehensive reporting, benchmarking and management under international best practice. Toitū carbonzero certification is accredited by the Joint Accreditation System of Australia and New Zealand (JAS-ANZ).

We are very pleased to report that LGFA has achieved Toitū carbonzero certification. The Toitū certification recognises the processes LGFA has put in place to measure our greenhouse gas (GHG) emissions, as well as management plans to reduce our company's emissions. Where LGFA are unable to eliminate emissions, these are offset through the purchase of high-impact carbon credits from a Gold Standard-certified international project.



## Kauri 2000

In 2021, LGFA donated \$3,000 to Kauri 2000 to support their efforts in regenerating native trees in the Coromandel region.

Kauri 2000 was established in 1999 as a project to celebrate the start of the new millennium by planting 2000 kauri on the Coromandel Peninsula. To date the Trust has planted over 50,000 trees and continues to plant kauri throughout the Coromandel.





An Archimedes screw pump, installed in the Lower Waikato catchment. The first of its kind in NZ and allows for safe passage of native fish and eels through our flood infrastructure.  
Waikato Regional Council

# Green, social and sustainability lending

## Ko te tuku pūtea taurewa mā te taiao, mā te hapori, mā te toitūtanga

### **A commitment to assist councils finance projects that promote environmental and social wellbeing in New Zealand.**

LGFA recognises the risks inherent in climate change for councils and supports New Zealand's shift to a low-carbon economy.

As a council-controlled organisation under the Local Government Act 2002, LGFA is required to demonstrate social and environmental responsibility. Through its lending to its councils, LGFA acknowledges the importance of providing green, social or sustainability finance to its councils by financing projects that promote environmental and social wellbeing in New Zealand and progress the United Nations Sustainable Development Goals (UN SDGs) and which fund eligible 'green' and/or 'social projects under the principals, guidelines and standards noted below.

In our 2020 Annual Report, LGFA outlined that the development of its green, social and sustainability (GSS) lending programme to councils was underway. We are currently finalising the processes councils will follow in order to apply for Green, Social and Sustainable Loans (GSS Loans) from LGFA. We anticipate that LGFA will launch its GSS lending programme in the 2021/22 year following consultations with councils.

LGFA is also progressing work on the Sustainability Bond Framework (Framework) under which LGFA intends to issue and manage sustainable debt products. The Framework, built in compliance with market guidelines, adopts the following four key pillars:

- Use of Proceeds;
- Process for Project Evaluation and Selection;
- Management of Proceeds; and
- Transparency and Reporting.

LGFA will not initially look to issue GSS bonds from the Framework, preferring to build a portfolio of GSS loans to councils, then retrospectively consider issuing bonds under a GSS banner into the debt capital markets.



## The Sustainable Development Goals

The United Nations' Sustainable Development Goals (SDG), which were adopted in 2015 by 193 countries including New Zealand, comprise 17 goals and 169 targets.

As part of our commitment to sustainability, LGFA will look to finance or refinance, indirectly via councils, projects and assets that deliver positive environmental and social outcomes and align with, and contribute towards meeting, the UN SDGs.

LGFA intends to offer GSS Loans across ten green project categories and six social project

categories based on the International Capital Markets Association (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) as well as other evolving international principles, taxonomies, standards and market practice. ICMA has mapped its GBP and SBP to the UN SDGs to provide a broad frame of reference by which parties can evaluate the financing objectives of a green bond or social bond against the UN SDGs.

## LGFA GSS Loan Categories

| <b>Green Project Categories</b><br>(addressing environmental challenges)  | <b>Social Project Categories</b><br>(addressing social issues for target populations)   |
|---|---|
| <p>The International Capital Markets Association (ICMA) June 2021 Green Bond Principles explicitly recognised several broad categories of eligibility for Green Projects, which contribute to environmental objectives such as: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control.</p> | <p>The ICMA June 2021 Social Bond Principles explicitly recognise several broad categories of eligibility for Social Projects. Social Projects directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population(s). A social issue threatens, hinders, or damages the well-being of society or a specific target population. For the avoidance of doubt, it is acknowledged that the definition of target population can vary depending on local contexts and that, in some cases, such target population(s) may also be served by addressing the general public.</p> |

The chart on the following page, while indicative, captures the most commonly used types of green projects supported, or expected to be supported by the Green Bond market. Green Projects include assets, investments and other related and supporting expenditures such as research and development that may relate to more than one category and/or environmental objective. Three environmental objectives (pollution prevention and control, biodiversity conservation and climate change adaptation) also serve as project categories in the list. As such, they refer to the projects that are more specifically designed to meet these environmental objectives.

Likewise, the chart outlines the list of social project categories and, while also indicative, captures the most commonly used types of projects supported, or expected to be supported, by the Social Bond market. Social Projects include assets, investment and other related and supporting expenditures, such as research and development that may relate to more than one category.

For each project category in the chart, the associated UN SDGs are labelled.

## Green Project Categories and Mapping to UN SDGs

### Energy Efficiency

SDGs   

### Green buildings

SDGs   

### Clean Transportation

SDGs  

### Sustainable Water and Wastewater Management

SDGs  

### Renewable Energy

SDGs  

### Pollution Prevention and Control

SDGs  

### Sustainable Management of Living Natural Resources and Land Use

SDGs   

### Climate Change Adaptation

SDGs   

### Terrestrial and Aquatic Biodiversity Conservation

SDGs  

### Circular Economy and Eco-efficient Products

SDGs   

## Social Project Categories and Mapping to UN SDGs

### Basic Infrastructure – Clean Water, Sewer, Transport

SDGs       

### Access to Essential Services – Education, Healthcare

SDGs        

### Affordable Housing

SDGs  

### Employment Generation

SDGs  

### Food Security

SDGs  

### Socioeconomic Advancement and Empowerment

SDGs         

## United Nations' Sustainable Development Goals





The Ōtakaro Avon River was named one of the most improved waterways in New Zealand recently.  
Environment Canterbury

# Corporate governance

## Ārahitanga ā-rangatōpū

### NZX Corporate Governance Best Practice Code

The LGFA Board is committed to ensuring LGFA demonstrates ongoing commitment to strong and sound corporate governance.

LGFA is a listed issuer on the NZX Debt Market and this section sets out LGFA's compliance with the eight core principles underpinning the NZX Corporate Governance Best Practice Code 2020.

LGFA considers that its governance practices have not materially differed from the NZX Code for the year ended 30 June 2021. Areas where LGFA has implemented alternative measures to the Code are as follows:

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An issuer should establish a nomination committee to recommend director appointments to the board.

LGFA's process for director appointments to the board is governed by its Constitution, the process for which is outlined on page 48

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An issuer should have a remuneration committee which operates under a written charter.

Director remuneration is determined by an Ordinary Resolution of shareholders and executive remuneration is determined by the board, the process for which is outlined on page 51

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The following governance documents referred to in this section are available on the LGFA website: [lgfa.co.nz/about-lgfa/governance](https://lgfa.co.nz/about-lgfa/governance):

- LGFA Constitution
- Shareholders Agreement
- Code of Ethics
- Board Charter
- Audit and Risk Committee Charter
- Internal Audit Charter
- Diversity Policy
- Remuneration Policy
- LGFA Foundation Polices

## Principle 1 Code of ethical behaviour

**Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation**

### Code of Ethics

LGFA has adopted a formal Code of Ethics, incorporating its Conflicts of Interest and Code of Conduct policies, which sets out the standards and values that directors and employees are expected to follow.

Impartiality and transparency in governance and administration are essential to maintaining the integrity of LGFA. Accordingly, the Conflicts of Interest Policy provides guidance to directors and employees in relation to actual and potential conflicts of interest, including specific guidance on managing potential conflicts that may arise for non-independent directors. Directors and employees are expected to avoid all actions, relationships and other circumstances that may impact on their ability to exercise their professional duties.

The Code of Conduct Policy requires employees and directors to maintain high standards of integrity and conduct by clearly setting out

standards for expected behaviour. In addition, the policy sets out LGFA's commitment to employees to act in a fair and reasonable manner, while providing a fair and safe working environment.

### Protected Disclosures and Whistle Blowing

The LGFA Protected Disclosures and Whistle Blowing Policy outlines procedure, support and protection to persons who disclose information which they reasonably believe to be about serious wrong-doing in or by LGFA.

### Financial Products Trading Policy

The LGFA Financial Products Trading Policy, which applies to directors, employees and contractors, details the policy and rules for dealing in listed debt securities issued by LGFA and any other LGFA quoted financial products.

## Principle 2 Board composition and performance

**To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.**

### LGFA Board Charter

The LGFA Board Charter sets out the roles and responsibilities of the LGFA Board. The Charter states that role of the Board is to ensure that LGFA achieves its goals. Having regard to its role, the Board will direct, and supervise the management of the business and affairs of LGFA, including:

- ensuring that LGFA's goals are clearly established, and that strategies are in place for achieving them;
- establishing policies for strengthening LGFA's performance;
- ensuring strategies are in place for meeting expectations set out in the current Statement of Intent and monitoring performance against those expectations, in particular LGFA's primary objective of optimising the debt funding terms and conditions for participating local authorities;
- monitoring the performance of management;
- appointing the CEO, setting the terms of the CEO's employment contract and, where necessary, terminating the CEO's employment;

- deciding on whatever steps are necessary to protect LGFA's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such steps are taken;
- ensuring that LGFA's financial statements are true and fair and otherwise conform with law;
- ensuring that LGFA adheres to high standards of ethics and corporate behaviour; and
- ensuring that LGFA has appropriate risk management/regulatory compliance policies in place. In the normal course of events, day-to-day management of LGFA will be in the hands of management. The Board will satisfy itself that LGFA is achieving its goals, and engaging and communicating with Shareholders Council; and
- engaging and communicating with shareholders.

### Board composition

The LGFA Board comprises five independent directors and one non-independent director. An independent director is a director who, within five years prior to appointment, was not an employee of any shareholder, employee of a council-controlled organisation owned by a shareholder, or a councillor of any local authority which is a shareholder.

### The directors of LGFA as at 30 June 2021



#### Craig Stobo Independent Chair

BA (Hons) Economics First Class, Otago; C.F.Inst.D  
Associate Member CFA Society New Zealand

Craig has worked as a diplomat, economist, investment banker and Chief Executive Officer of BT Funds Management (NZ) Limited. He has completed the Advanced Management Programme at Wharton Business School in Philadelphia, authored reports to the New Zealand Government on the Taxation of Investment Income (which led to the PIE regime), and the creation of New Zealand as a funds domicile. He currently chairs the listed companies Precinct Properties New Zealand Limited and AIG Insurance (NZ Board). He has directorship and private equity interests in financial services and other businesses.



#### John Avery Independent Director

LLB, C.F.Inst.D

John was Managing Partner, then Chairman of Hesketh Henry. He was a director of The Warehouse Group Limited, several start-up businesses, a number of CCOs, an industry cooperative 'ITM', Regional Facilities Auckland Limited and Spider Tracks Limited. He is currently a Trustee of the Royal New Zealand Ballet.



**Philip Cory-Wright**  
**Independent Director**

LLB (Hons), BCA Business Management,  
INFINZ (Cert), C.F.Inst.D

Philip is a solicitor of the High Court of New Zealand and Victoria. He has worked as a corporate finance adviser in New Zealand to the corporate sector on debt and equity matters for more than 30 years. He is currently a director of Powerco, Matariki Forests, South Port New Zealand and Papa Rererangi I Puketapu (New Plymouth Airport). Philip is also a strategic adviser to clients in the energy and infrastructure sectors. He was a member of the Local Government Infrastructure Expert Advisory Group tasked with advising the Minister of Local Government on improvements in local government infrastructure efficiency.



**Mike Timmer**  
**Non-Independent Director**

CA, BBS, BAgSci, INFINZ (Cert), M.Inst.D

Non-Independent Director

CA, BBS, BAgSci, INFINZ (Cert), M.Inst.D

Mike has worked for Citibank in its financial market section and held accountancy and treasury roles in the health sector and at 30 June 2021 was Treasurer at the Greater Wellington Regional Council. He is an independent member Whanganui District Council Audit and Risk Committee and past Deputy Chair of the LGFA Shareholders Council.



**Linda Robertson**  
**Independent Director**

B.Com, Dip Banking, INFINZ (Distinguished Fellow),  
C.F.Inst.D, GAICD

Linda is professional company director with over 20 years governance experience, combined with 30 years senior financial management experience having worked in both the banking and energy sectors in New Zealand.

Linda holds a Bachelor of Commerce Degree and a Diploma in Banking. Linda is a Certified Treasury Professional, a Distinguished Fellow of the Institute of Finance Professionals New Zealand (INFINZ), a Graduate Member of the Australian Institute of Company Directors, a Certified Fellow of the Institute of Directors in New Zealand and a Fellow of Governance NZ.

Linda is currently chair of Crown Irrigation Investments, Central Lakes Trust and Central Otago District Council's Audit and Risk Committee. She is a director of Kiwi Wealth, Dunedin City Holdings and Alpine Energy. Linda is also a member of the Capital Markets Advisory Committee and the Risk and Audit Committee of The Treasury.



**Anthony Quirk**  
**Independent Director**

BCA Hons (First Class), INFINZ (Fellow), M.Inst.D

Anthony is an experienced financial services sector professional with over thirty years executive experience in the sector. He has a varied portfolio of governance interests with an emphasis on areas that improve or contribute to communities. He is a Fellow of the Institute of Finance Professionals New Zealand (INFINZ) and is a former Chairman of that organisation. He was previously Chair of the Asset Management Advisory Board of the New Zealand Exchange, Deputy Chair and Board member of the New Zealand Society of Investment Analysts and a previous member of the Financial Reporting Standards Board of the New Zealand Society of Accountants.

## Director

### Craig Stobo (Chair)

#### Director

AIG Insurance NZ Limited  
Appello Services Limited  
Precinct Properties New Zealand Limited

#### Director/Shareholder

Biomarine Group Limited  
Elevation Capital Management Limited  
Legend Terrace Limited  
Saturn Portfolio Management Limited  
SouthWest Trustees Limited

#### Managing Director/Shareholder

Stobo Group Limited

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### John Avery

#### Trustee

Royal New Zealand Ballet

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### Philip Cory-Wright

#### Director

Matariki Forest Group Limited  
Papa Rererangi i Puketapu (New Plymouth Airport)  
(Chair)  
Powerco Limited  
South Port New Zealand Limited

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### Anthony Quirk

#### Non-Executive Director/Shareholder

Milford Asset Management Limited (and associated subsidiaries)

#### Chair

Humanitix, New Zealand  
Milford Foundation

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### Linda Robertson

#### Chair

Central Lakes Trust and associated subsidiary  
Central Otago District Council, Audit & Risk  
Committee  
Crown Irrigation Investments Limited

#### Director

Alpine Energy Limited  
Central Lakes Direct Limited  
Dunedin City Holdings Limited  
Dunedin City Treasury Limited  
Dunedin Railways Limited  
Dunedin Stadium Property Limited

#### Member

Office of the Auditor-General and Audit New  
Zealand, Audit and Risk Committee  
The Treasury, Capital Markets Advisory Committee  
The Treasury, Risk and Audit Committee

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### Mike Timmer

#### Member

Whanganui District Council Risk & Audit  
Committee

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## Staff

### Mark Butcher

#### Chair

New Plymouth PIF Guardians Limited  
Waikato-Tainui Group Investment Committee

#### Member

Guardians of New Zealand Superannuation,  
Nominating Committee

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### Neil Bain

#### Chair

Central Hawkes Bay District Council, Audit & Risk  
Committee

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Directors did not hold any interests in debt securities (including listed bonds) in the company as at 30 June 2021.

## Nomination of Directors

Director nominations can only be made by a shareholder by written notice to LGFA and the Shareholders' Council, with not more than three months, nor less than two months before a meeting of shareholders. All valid nominations are required to be sent by LGFA to all persons entitled to attend the meeting.

## Retirement and re-election of Directors

Directors are appointed to the Board by an Ordinary Resolution of shareholders. At each Annual General Meeting, two directors must retire, but can offer themselves for re-election. The directors who retire each year are one each of the independent and non-independent, who have been longest in office since their last appointment or, if there are more than one of equal term, those determined by lot, unless the Board resolves otherwise.



## Director tenure and meetings of the Board

| Director            | Date commenced in office | Board meetings held/attended | Audit and Risk Committee held/attended |
|---------------------|--------------------------|------------------------------|--|
| Craig Stobo (Chair) | 1 December 2011          | 7/7                          | N/A                                    |
| John Avery          | 1 December 2011          | 7/7                          | N/A                                    |
| Philip Cory-Wright  | 1 December 2011          | 7/7                          | 4/4                                    |
| Anthony Quirk       | 21 November 2017         | 7/7                          | 4/4                                    |
| Linda Robertson     | 24 November 2015         | 7/7                          | 4/4                                    |
| Mike Timmer         | 24 November 2015         | 7/7                          | 4/4                                    |

### Board performance review

The Board has an annual formal self-assessment to assess director, board and committee performance. In addition, Board performance is reviewed by external consultants on a periodic basis.

### Director and staff capability

LGFA is committed to ongoing education and regularly invites directors and staff to attend relevant industry conferences and training events, as well as organising for industry experts to attend and present to directors at Board meetings.

### Diversity

LGFA is committed to promoting a culture that supports both workplace diversity and inclusion within the organisation.

LGFA has formally adopted a Diversity Policy which applies to both LGFA employees and directors. Diversity and inclusiveness at LGFA involves recognising the value of individual differences and managing them in the workplace. Diversity in this context covers gender, age, ethnicity, cultural background, sexual orientation, religious belief, disability, education and family responsibilities.

Appointments to the LGFA Board are made in accordance with LGFA's Constitution and the Shareholders Agreement.

### Gender diversity of directors



2021

Female 1, Male 5



2020

Female 1, Male 5

### Gender diversity of employees



2021

Female 3, Male 6



2020

Female 2, Male 5

### Indemnities and insurance

Under LGFA's constitution, LGFA indemnifies directors for potential liabilities and costs they may incur for acts of omission in their capacity as directors. LGFA has arranged directors' and officers' liability insurance covering directors and management acting on behalf of the company. Cover is for damages, judgements, fines, penalties, legal costs awarded and defence costs arising from wrongful acts committed while acting for LGFA. The types of acts that are not covered are dishonest, fraudulent, malicious acts, or omissions, wilful breach of statute or regulation, or duty to LGFA, improper use of information to the detriment of LGFA, or breach of professional duty.

### Principle 3 Board committees

**The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.**

#### Audit and Risk Committee

The LGFA Audit and Risk Committee is a committee of the Board.

The Audit and Risk Committee is governed by its own Charter which states that the purpose of the Committee is to provide advice, assurance and observations to the Board relating to the effectiveness and adequacy of internal control and risk management systems, processes and activities across LGFA. The Committee assists the Board to fulfil its duties by considering, reviewing and monitoring:

- Risk management framework and processes;
- Internal control environment and mechanisms;
- Operations and effectiveness of the internal audit function;
- Preparation and audit of financial statements;
- Integrity of performance information, including financial reporting;

- Governance framework and process;
- Policies, processes and activities to ensure compliance with legislation, policies and procedures; and
- Statutory/regulatory disclosure and reporting and performance against Statement of Intent targets.

Audit and Risk Committee members are appointed by the Board. Membership comprises at least three directors, the majority of whom must be independent. The members of the Audit and Risk Committee as at the date of this Annual Report are:

- Linda Robertson (Chair)
- Philip Cory-Wright
- Anthony Quirk
- Mike Timmer

### Principle 4 Reporting and disclosure

**The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.**

The Board is committed to ensuring the highest standards are maintained in financial reporting and disclosure of all relevant information.

The Audit and Risk Committee has responsibility to provide assurance to the Board that due process has been followed in the preparation and audit of the financial statements and to ensure there are appropriate processes and activities to ensure compliance with relevant regulatory and statutory requirements.

LGFA has adopted a formal Continuous Disclosure Policy, the requirements of which ensure that LGFA

meets the continuous disclosure requirements of the NZX Listing Rules including the disclosure for material environmental, social and governance (ESG) factors.

The GRI sustainability reporting standards are the most widely adopted global standards for sustainability reporting and this year's annual report has been prepared to meet the requirements of the Global Reporting Initiative (GRI) Standards (core option).

## Principle 5 Remuneration

### The remuneration of directors and executives should be transparent, fair and reasonable.

The remuneration of the Board reflects LGFA's size and complexity and the responsibilities, skills, performance and experience of the directors. A specialist independent adviser is used periodically to ensure the remuneration is appropriate.

Board remuneration is determined by an Ordinary Resolution of shareholders. The current board remuneration was approved by shareholder resolution at the Annual General Meeting on 21 November 2019.

#### Director annual fee breakdown

| Position                       | Fees per annum | 2021      | 2020      |
|--------------------------------|----------------|-----------|-----------|
| Board Chair                    |                | \$102,000 | \$102,000 |
| Audit and Risk Committee Chair |                | \$63,000  | \$63,000  |
| Director / ARC Member          |                | \$59,000  | \$59,000  |
| Director                       |                | \$57,000  | \$57,000  |

| Director           | 2021      |
|--------------------|-----------|
| Craig Stobo        | \$102,000 |
| John Avery         | \$57,000  |
| Philip Cory-Wright | \$59,000  |
| Anthony Quirk      | \$59,000  |
| Linda Robertson    | \$63,000  |
| Mike Timmer        | \$59,000  |
| Total              | 399,000   |

The remuneration of the CEO is determined by the Board and is reviewed annually taking into consideration the scope and complexity of the position with reference to the remuneration of CEOs of similar organisations. A specialist independent adviser is used periodically to ensure the remuneration is appropriate.

The CEO remuneration package comprises a fixed cash component of \$556,200 per annum as at 30 June 2021 (\$530,000, 2020) and an at-risk short-term incentive of the fixed cash component. The short-term incentive payment is made annually at the Board's discretion subject to the CEO and LGFA meeting a range of specific performance objectives for the respective financial year.

#### Chief Executive remuneration

| Per annum                       | 2021      | 2020      |
|---------------------------------|-----------|-----------|
| Salary                          | \$556,200 | \$530,000 |
| Taxable benefits                | -         | -         |
| Subtotal                        | \$556,200 | \$530,000 |
| Pay for Performance STI         | \$83,430  | \$79,500  |
| Kiwisaver Employer Contribution | \$25,400  | \$24,000  |
| Total remuneration              | \$665,030 | \$609,500 |

#### Staff remuneration

| Total remuneration                      | 2021 |
|---|------|
| \$150,000 to \$159,999                  | 1    |
| \$190,000 to \$199,999                  | 1    |
| \$210,000 to \$219,999                  | 1    |
| \$320,000 to \$329,999                  | 1    |
| \$330,000 to \$339,999                  | 1    |
| \$660,000 to \$669,999                  | 1    |
| Total staff receiving \$100,000 or more | 6    |

## Principle 6 Risk management

**Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.**

LGFA continually reviews its core business risks. This review process includes the identification and assessment of core business risks which are ranked using predetermined criteria for both the likelihood and potential impact of each risk. LGFA maintains a company-wide risk register which records all identified risks, potential impacts and the controls and mitigation strategies used to manage the risks.

The Audit and Risk Committee assists the Board by considering, reviewing and monitoring LGFA's risk management framework and processes, and the internal control environment and mechanisms.

A detailed description of LGFA's risk management processes, including managing treasury exposures, is detailed in the Managing Risk section of this report.

### Internal audit

LGFA has an internal audit function to provide assurance that its risk management, governance and internal controls are operating effectively.

The Audit and Risk Committee has responsibility for oversight of the internal audit function, including:

- Reviewing the Internal Audit Charter, the operations of the internal audit and organisational structure of the internal audit function;
- Approving the annual audit plan;
- Reviewing the effectiveness of the internal audit function; and
- Meeting separately with the internal auditor to discuss any matters that the Audit and Risk Committee or Internal Audit considers should be discussed privately.

### Health and safety

LGFA is committed to a safe and healthy work environment and has adopted a Health and Safety Policy that clearly sets out the duty of directors and staff under the Health and Safety at Work Act 2015. A staff health and safety committee has been established with responsibility to continuously review health and safety issues and ongoing compliance with the Act, with reporting to the Board on health and safety issues at each Board meeting.

## Principle 7 Auditors

**The Board should ensure the quality and independence of the external audit process.**

### External audit

The external audit of LGFA is conducted in accordance with Section 14 of the Public Audit Act 2001, including the appointment of the external auditors of LGFA by the Auditor-General.

The Audit and Risk Committee has responsibility for all processes relating to the audit of financial

statements, including the setting of audit fees and ensuring the independence and objectivity of the auditors.

The external audit of LGFA is conducted in accordance with a formal external audit plan which is reviewed and approved by the Audit and Risk Committee on an annual basis. The external auditor attends LGFA's Annual General Meeting.

## Principle 8 Shareholder rights and relations

**The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.**

LGFA has 31 shareholders, comprising the New Zealand Government (20%) and the following 30 councils:

Auckland Council  
Bay of Plenty Regional Council  
Christchurch City Council  
Gisborne District Council  
Greater Wellington Regional Council  
Hamilton City Council  
Hastings District Council  
Hauraki District Council  
Horowhenua District Council  
Hutt City Council  
Kapiti Coast District Council  
Manawatu District Council  
Marlborough District Council  
Masterton District Council  
New Plymouth District Council  
Otorohanga District Council  
Palmerston North City Council  
Selwyn District Council  
South Taranaki District Council  
Tasman District Council  
Taupo District Council  
Tauranga City Council  
Thames-Coromandel District Council  
Waimakariri District Council  
Waipa District Council  
Wellington City Council  
Western Bay of Plenty District Council  
Whakatane District Council  
Whanganui District Council  
Whangarei District Council.

### Foundation documents

The LGFA Constitution and the Shareholders Agreement are foundation documents.

The Constitution defines the rights and the exercise of powers of shareholders, the acquisition and redemption of company shares, proceedings

of shareholder meetings, voting at meetings and the right to demand polls, shareholder proposals and review of management.

The Shareholders Agreement is an agreement between LGFA and its shareholders which clearly defines LGFA's business, its objectives, the role of the Board, the establishment of the Shareholders Council and the approval rights of the shareholders.

### LGFA Shareholders Council

The LGFA Shareholders Council comprises five to ten appointees from the Council Shareholders and the New Zealand Government. The role of the Shareholders Council comprises the following:

- 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 Statement of Intent (SOI), requiring their approval;
- Update shareholders on LGFA matters and to coordinate shareholders on governance decisions.

Members of the Shareholders Council as at 30 June 2021

- Alan Adcock, Whangarei District Council, Chair
- John Bishop, Auckland Council, Deputy Chair
- Mohan de Mel, Tauranga City Council
- David Bryant, Hamilton City Council
- Kumaren Perumal, Western Bay of Plenty District Council
- Debbie Hyland, Bay of Plenty Regional Council
- Martin Read, Wellington City Council
- Mike Drummond, Tasman District Council
- Miles McConway, Christchurch City Council
- Richard Hardie/Oliver Martin, New Zealand Government

# Managing risk

## Ko te whakahaere tūraru

An effective risk management framework is a critical component of LGFA's business structure for managing the company's exposure to business and treasury risks arising from its business operations of raising and on-lending funds to local councils.

**The objective of LGFA's risk management function** is to ensure that effective controls and frameworks are implemented to manage risks effectively and in compliance with LGFA's governance and legislative requirements. The risk management function ensures that LGFA can achieve its objectives, as set out in the Statement of Intent, within the risk appetite of the company's shareholders and Board.

**The objective of LGFA's risk management framework** is to ensure that the organisation operates within shareholder and Board-approved risk limits. LGFA's approach to risk management is based on the following core elements:

- The LGFA Board oversees the risk appetite of the organisation and ensures that it is consistent with the constitution and shareholders agreement.
- The risk appetite is reflected in policies approved by the Board and Audit and Risk Committee.

- LGFA management implements policies and controls to ensure that all relevant risks are identified, monitored, measured and managed effectively.
- The Internal Audit (IA) and risk and compliance function provide assurance to both the Board and the Audit and Risk Committee on the performance of internal controls and risk management systems.

LGFA adopts the three lines of defence model to ensure that essential risk management functions adopt a systematic approach that reflects industry best practice:

- The first line of defence establishes risk ownership within the company and is represented by its operational risk and control processes. LGFA managers are responsible for identifying controls, maintaining effective controls and mitigating risks.
- The second line of defence ensures that the operational risk and control processes are actively and appropriately managed by processes such as the regular review of risk reports and compliance monitoring against the risk management framework.
- The third line of defence is the independent assurance provided by both the internal and external audit functions which review and highlight control weaknesses and inefficiencies to management and the Board.

## LGFA risk register

The LGFA risk register is a key component of the company's risk management framework.

The key objective of the LGFA risk register is to ensure that the company assesses the inherent risks faced by the business on an ongoing basis.

The risk register

- Identifies the inherent risks that LGFA is exposed to when conducting its core business activities;
- Assesses the likelihood and potential impact of the inherent risks on the business;
- Describes the internal control framework and management processes for managing and mitigating the identified inherent risks;
- Provides commentary on internal audit coverage of the identified inherent risks; and
- Provides an overall inherent and residual risk assessment and compares these to approved risk appetite settings.

The risk register is reviewed monthly by management and at each meeting of the Audit and Risk Committee.

## Treasury risk management

LGFA funds itself through domestic and international wholesale and retail debt capital markets, with the funds raised on-lent to member councils. LGFA activities are governed by the Local Government Borrowing Act 2011, the Local Government Act 2002, and the Companies Act 1993. In addition, the company is required to comply with Foundation Policies outlined in the Shareholders Agreement. Any change to the Foundation Policies require shareholders consent.

LGFA's risk management uses an approved risk identification and assessment framework to actively monitor and manage all treasury and financial risks by applying best practice risk management principles, processes and practices.

LGFA has treasury exposures arising from its normal business activities that principally relate to the raising and on-lending of funds. LGFA manages treasury exposures under a Board-approved Treasury Policy, the objectives for which are to:

- Effectively manage treasury risks, within approved compliance limits, to protect LGFA's capital position and Net Interest Margin over time.
- Fund member councils in the most cost-effective manner and in accordance with LGFA's operating principles, values and objectives.
- Protect LGFA's assets and prevent unauthorised transactions.

- Promote professional expertise of financial and management control to all external parties.
- Minimise operational risk by maintaining adequate internal controls, systems and staffing competencies.
- Provide timely reporting to the Board with meaningful and accurate reporting of interest rate exposures, liquidity, asset and liability maturity, funding, counterparty credit, performance and policy compliance.

Specific treasury exposures relate to liquidity, interest rate/market risk, foreign exchange, counterparty credit, operational and lending risks.

### Liquidity risk

**Liquidity risk is the potential inability to meet financial obligations when they become due, under normal or abnormal/stressed operating conditions.**

Liquidity risk is managed using a forecast cashflow approach measured over 30-day, 90-day and one-year periods. LGFA is required to maintain sufficient liquidity (comprising a government standby facility, and holdings of cash and liquid investments) to support 12 months operating and funding commitments.

### Interest rate risk / market risk

**Interest rate risk is the risk that financial assets may re-price/mature at a different time and/or by a different amount than financial liabilities.**

Interest rate / market risk is managed using Value at Risk (VaR) and Partial Differential Hedge (PDH) limits to mitigate the potential change in value of the balance sheet due to changes in interest rates.

- **Value at Risk** calculates the potential amount a portfolio could be expected to lose, 5% of the time, over a given time period. It is calculated using historical changes in underlying risk variables and applying those changes to the current portfolio.

VaR is measured over a daily time horizon with a 95% confidence interval. A daily 95% VaR exposure of \$1 million means that there is a 5% chance that the portfolio could potentially lose more than \$1 million over the next business day.

- **Partial Differential Hedge** measures the sensitivity of a portfolio to a one basis point change in underlying interest rates. For example, a PDH of NZD\$100,000 means that the portfolio value will increase by NZD\$100,000 for a one basis point fall in interest rates.

In addition, LGFA also undertakes scenario analysis to model the potential effect of changing market environments on the balance sheet.

### Counterparty credit risk

**Counterparty credit risk is the risk of financial loss arising from a counterparty defaulting on an investment, security and/or financial instrument where LGFA is a holder or party.**

Counterparty credit risk is managed through counterparty limits for investments. These limits are determined as a function of the term of investment, liquidity and credit quality of the counterparty (as measured by a recognised credit rating).

Counterparty risk on derivative contracts is mitigated by transacting all derivative trades through the Treasury (New Zealand Debt Management) as the counterparty.

Investment is restricted to approved financial instruments listed in the Treasury Policy.

### Foreign currency risk

**Foreign currency risk is the risk of an adverse change in the fair value of a financial instrument due to a change in foreign exchange rates.**

Exposure to foreign currency risk could exist if LGFA accesses foreign capital markets for funding purposes. To date, all funding has been sourced through the New Zealand domestic currency.

Foreign exchange risk would be managed through a requirement to fully hedge back to floating rate New Zealand dollar the full amount and term of all foreign currency funding and cash flows.

### Operational risk

**Operational risk, with respect to treasury management, is the risk of financial and/or reputation loss arising from human error, fraud, negligent behaviour, system failures and inadequate procedures and controls.**

Operational risk is managed using internal controls and procedures across operational functions. Segregation of duties between staff members who have the authority to enter transactions with external counterparties and the staff who control, check and confirm such transactions is a cornerstone internal control principle.

Financial instruments are not entered into if the systems, operations and internal controls do not satisfactorily support the measurement, management and reporting of the risks associated with the instrument.

### Lending risk

**Lending risk is the risk of financial loss that could occur from lending funds to councils or council-controlled organisations.**

LGFA provides debt funding to New Zealand local government councils and council-controlled organisations, subject to board approval.

The LGFA Board have ultimate discretion on approving member councils or Council controlled organisations which LGFA can then lend to.

All member councils and council controlled organisations that borrow from LGFA:

- Provide debenture security in relation to their borrowing from LGFA and related obligations, and (if relevant), equity commitment liabilities to LGFA and (if relevant) guarantee liabilities to a security trustee approved for LGFA's creditors.



Where LGFA is the only lender to a council-controlled organisation, a general security arrangement (GSA) might be used in place of a debenture security.

- Are required to become a party to a deed of guarantee and an equity commitment deed if the principal amount of their borrowings is at any time equal to, or greater than, NZD 20 million.
- Issue securities (bonds/floating rate notes/commercial paper) to LGFA (ie. not enter into facility arrangements).
- Comply with their own internal borrowing policies.
- Comply with the financial covenants outlined in the table below, provided that:
  - Unrated borrowers or borrowers with a long-term credit rating lower than 'A' equivalent can have bespoke financial covenants that exceed the:
    - Lending policy covenants outlined in the following table only with the approval of the Board;
    - Foundation policy covenants outlined in the following table only with the approval of an Ordinary Resolution of shareholders.
- Borrowers with a long-term credit rating of 'A' equivalent or higher can have bespoke financial covenants that exceed the foundation policy covenants only with the approval of an Ordinary Resolution of shareholders.
- Any Board or Ordinary Resolution approval of bespoke financial covenants will only be provided after a robust credit analysis and any approval must also include bespoke reporting and monitoring arrangements.
- Non-compliance with the financial covenants will either preclude a member council from borrowing from the LGFA or, in the case of existing council borrowers, trigger an event of review. An event of default will occur when (among other things) a council fails to meet an interest or principal payment (subject to grace periods). An event of default will enable the LGFA to accelerate a council's repayment of loans.
- Financial covenants are measured on a parent council only basis, not consolidated group, unless requested by a parent council and approved by the LGFA Board.

| Financial covenant                | Lending policy covenants<br>Unrated councils | Foundation policy covenants<br>Rated councils |
|-----------------------------------|--|---|
| Net debt/ total revenue           | <175%  | <280%   |
| Net interest / total revenue      | <20%   | <20%  |
| Net interest/ annual rates income | <25%   | <30%  |
| Liquidity                         | >110%  | >110%   |

On 30 June 2020, a Special General Meeting of Shareholders approved a change to the Net Debt/ Total Revenue covenant contained within the Foundation Policy Covenants. For the financial year ending June 2020 a covenant limit of 250% applied. This increases to 300% for the June 2021 and June 2022 years and then reduces by 5% for each of the subsequent years until 280% applies from the June 2026 year.

- *Net debt* is defined as total consolidated debt less liquid financial assets and investments.
- *Total revenue* is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions, eg. developer contributions and vested assets.
- *Net interest* is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- *Annual rates income* is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local governments for services provided and for which the other local governments rate.
- *Liquidity* is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

# Financial statements

## Nga tauki pūtea

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## Statement of comprehensive income

For the year ended ended 30 June 2021 in \$000s

|                                   | Note     | 2021          | 2020          |
|-----------------------------------|----------|---------------|---------------|
| Interest income                   |          | 377,222       | 370,220       |
| Interest expense                  |          | 357,685       | 351,941       |
| <b>Net interest income</b>        | <b>4</b> | <b>19,537</b> | <b>18,279</b> |
| Other operating income            | 5        | 184           | -             |
| <b>Total operating income</b>     |          | <b>19,721</b> | <b>18,279</b> |
| Operating expenses                | 6        | 7,714         | 7,657         |
| <b>Net operating profit</b>       |          | <b>12,007</b> | <b>10,623</b> |
| <b>Total comprehensive income</b> |          | <b>12,007</b> | <b>10,623</b> |

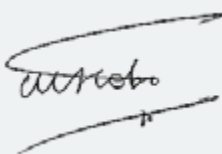
## Statement of changes in equity

For the year ended 30 June 2021 in \$000s

|   | Note      | Share capital | Retained earnings | Total equity  |
|---|-----------|---------------|-------------------|---------------|
| Equity as at 30 June 2019               |           | 25,000        | 49,149            | 74,149        |
| Net operating profit                    |           |               | 10,623            | 10,623        |
| Total comprehensive income for the year |           |               | 10,623            | 10,623        |
| Dividend paid on 6 September 2019       |           |               | (1,155)           | (1,155)       |
| <b>Equity as at 30 June 2020</b>        |           | <b>25,000</b> | <b>58,616</b>     | <b>83,616</b> |
| Net operating profit                    |           |               | 12,007            | 12,007        |
| Total comprehensive income for the year |           |               | 12,007            | 12,007        |
| Dividend paid on 4 September 2020       |           |               | (879)             | (879)         |
| <b>Equity as at 30 June 2021</b>        | <b>28</b> | <b>25,000</b> | <b>69,744</b>     | <b>94,744</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 for issue on 30 August 2021.



Craig Stobo, Director  
Board Chair



Linda Robertson, Director  
Chair, Audit and Risk Committee

## Statement of financial position

As at 30 June 2021 in \$000s

|                                     | Note | 2021              | 2020              |
|-------------------------------------|------|-------------------|-------------------|
| <b>Assets</b>                       |      |                   |                   |
| Financial assets                    |      |                   |                   |
| Receivables                         | 11   | 43,587            | -                 |
| Cash and bank balances              |      | 391,835           | 165,826           |
| Marketable securities               |      | 768,453           | 589,124           |
| Deposits                            |      | 654,961           | 499,824           |
| Derivatives in gain                 | 10   | 559,635           | 1,018,775         |
| Loans                               | 12   | 12,065,668        | 10,899,756        |
| <b>Non-financial assets</b>         |      |                   |                   |
| Prepayments                         |      | 683               | 642               |
| Other assets                        | 13   | 345               | 419               |
| <b>Total assets</b>                 |      | <b>14,485,167</b> | <b>13,174,365</b> |
| <b>Equity</b>                       |      |                   |                   |
| Share capital                       | 27   | 25,000            | 25,000            |
| Retained earnings                   |      | 69,744            | 58,616            |
| <b>Total equity</b>                 |      | <b>94,744</b>     | <b>83,616</b>     |
| <b>Liabilities</b>                  |      |                   |                   |
| Financial liabilities               |      |                   |                   |
| Payables and provisions             | 14   | 40,900            | 705               |
| Bills                               | 15   | 609,624           | 647,021           |
| Bond repurchases                    | 16   | 110,220           | 202,755           |
| Derivatives in loss                 | 10   | 187,098           | 19,075            |
| Bonds                               | 17   | 13,217,759        | 12,038,468        |
| Borrower notes                      | 18   | 224,281           | 182,272           |
| <b>Non-financial liabilities</b>    |      |                   |                   |
| Other liabilities                   | 19   | 539               | 453               |
| <b>Total liabilities</b>            |      | <b>14,390,422</b> | <b>13,090,748</b> |
| <b>Total equity and liabilities</b> |      | <b>14,485,167</b> | <b>13,174,365</b> |

## Statement of cash flows

For the year ended 30 June 2021 in \$000s

|   | Note      | 2021               | 2020               |
|---|-----------|--------------------|--------------------|
| <b>Cash Flow from Operating Activities</b>                      |           |                    |                    |
| Cash applied to loans   | 12        | (1,127,002)        | (1,556,491)        |
| Interest paid on bonds issued                                   |           | (437,257)          | (381,666)          |
| Interest paid on bills issued                                   |           | (2,100)            | (6,609)            |
| Interest paid on borrower notes                                 |           | (3,918)            | (745)              |
| Interest paid on bond repurchases                               |           | (674)              | (333)              |
| Interest received from loans                                    |           | 153,340            | 223,829            |
| Interest received from cash & cash equivalents                  |           | 909                | 372                |
| Interest received from marketable securities                    |           | 12,059             | 6,729              |
| Interest received from deposits                                 |           | 6,555              | 5,713              |
| Net interest on derivatives                                     |           | 288,127            | 171,367            |
| Cash proceeds from provision of standby facilities              |           | 184                |                    |
| Payments to suppliers and employees                             |           | (7,470)            | (7,452)            |
| <b>Net cash flow from operating activities</b>                  | <b>31</b> | <b>(1,117,249)</b> | <b>(1,545,287)</b> |
| <b>Cashflow from Investing Activities</b>                       |           |                    |                    |
| Purchase of marketable securities                               |           | (194,125)          | (335,676)          |
| Purchase of deposits  |           | (155,612)          | (362,980)          |
| <b>Net Cashflow from Investing Activities</b>                   |           | <b>(349,737)</b>   | <b>(698,656)</b>   |
| <b>Cashflow from Financing Activities</b>                       |           |                    |                    |
| Cash proceeds from bonds issued                                 | 17        | 1,951,673          | 2,146,925          |
| Cash proceeds from bills issued                                 |           | (37,397)           | 143,773            |
| Cash proceeds from bond repurchases                             |           | (134,838)          | 177,874            |
| Cash proceeds from borrower notes                               |           | 42,760             | (24,066)           |
| Dividends paid  |           | (878)              | (1,155)            |
| Cash applied to derivatives                                     |           | (128,326)          | (89,782)           |
| <b>Net Cashflow from Financing Activities</b>                   |           | <b>1,692,994</b>   | <b>2,353,570</b>   |
| Net (Decrease) / Increase in Cash                               |           | 226,009            | 109,627            |
| 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>391,835</b>     | <b>165,826</b>     |

# Notes to the financial statements

## 1. 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 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 borrowers.

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

The financial statements are as at and for the year ended 30 June 2021.

These financial statements were authorised for issue by the Directors on 30 August 2021.

## 2. Statement of compliance

LGFA is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA). These financial statements have been prepared in accordance with that Act and the Financial Reporting Act 2013. LGFA's bonds are quoted on the NZX Debt Market.

LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with NZ IFRS and other applicable Financial Reporting Standard, as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

## 3. Basis of preparation

### 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

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

### 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.

## Other assets

### Property, plant and equipment

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.

## 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.

## 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.

## 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.

## Segment reporting

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

## Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts. For example, the fair value of financial instruments depends critically on judgements regarding future cash flows, including inflation assumptions and the risk-free discount rate.

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 and these estimates and underlying assumptions are reviewed on an ongoing basis. Where these judgements significantly affect the amounts recognised in the financial statements they are described in the following notes.

The financial statements as at 30 June 2021 include estimates and judgements of the potential impact of COVID-19 and the Three

Waters Reform Programme on LGFA's financial position and performance. Whilst there has been no material impact on the estimates and judgements at the date these financial statements are authorised, it is noted that there is significant uncertainty with regards to the medium and long-term effects of COVID-19, as well as the outcome of Three Waters Reform Programme on the local government sector.

## Revenue and expenditure

### 4. Net interest income

| For the year ended ended 30 June in \$000s | 2021           | 2020           |
|--|----------------|----------------|
| Interest income                            |                |                |
| Cash and cash equivalents                  | 922            | 394            |
| Marketable securities                      | 4,181          | 4,462          |
| Deposits                                   | 6,080          | 6,341          |
| Derivatives                                | 212,759        | 152,621        |
| Loans                                      | 153,280        | 206,402        |
| Fair value hedge ineffectiveness           | -              | -              |
| <b>Total interest income</b>               | <b>377,222</b> | <b>370,220</b> |
| Interest expense                           |                |                |
| Bills                                      | 2,100          | 6,632          |
| Bond repurchase transactions               | 398            | 590            |
| Lease liability                            | 13             | 22             |
| Bonds                                      | 353,005        | 341,783        |
| Borrower notes                             | 2,168          | 2,914          |
| <b>Total interest expense</b>              | <b>357,685</b> | <b>351,941</b> |
| <b>Net interest income</b>                 | <b>19,537</b>  | <b>18,279</b>  |

### 5. Other operating income

As at 30 June 2021, LGFA had committed to provide credit standby facilities totalling \$515 million to selected councils. As at balance date, there were no drawdowns outstanding under the facilities.

| For the year ended 30 June in \$000s | 2021       | 2020     |
|--------------------------------------|------------|----------|
| Standby facilities fee income        | 184        | -        |
| <b>Total other operating income</b>  | <b>184</b> | <b>-</b> |



## 6. Operating expenses

| For the year ended 30 June in \$000s    | 2021         | 2020         |
|---|--------------|--------------|
| <b>Issuance and on-lending expenses</b> |              |              |
| Approved issuer levy <sup>1</sup>       | 1,055        | 1,396        |
| Rating agency fees                      | 633          | 609          |
| NZDM facility fee                       | 567          | 650          |
| Legal fees - issuance                   | 477          | 499          |
| NZX                                     | 637          | 559          |
| Trustee fees                            | 100          | 100          |
| Regulatory, registry, other fees        | 207          | 157          |
|   | <b>3,676</b> | <b>3,971</b> |
| <b>Other operating expenses</b>         |              |              |
| Information technology                  | 725          | 689          |
| Consultants                             | 152          | 127          |
| Directors fees                          | 399          | 399          |
| Insurance                               | 85           | 78           |
| Legal fees                              | 185          | 139          |
| Other expenses                          | 355          | 354          |
| Auditors' remuneration                  |              |              |
| Statutory audit                         | 108          | 103          |
| Advisory services                       | -            | -            |
| Personnel                               | 2,030        | 1,798        |
|   | <b>4,038</b> | <b>3,685</b> |
| <b>Total operating expenses</b>         | <b>7,714</b> | <b>7,656</b> |

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

## Financial instruments

### 7. Financial instruments accounting policy

Financial instruments are recognised in the statement of financial position at amortised cost.

Fair values of financial instruments not recognised in the statement of financial position at fair value are determined for note disclosure as follows:

Cash and bank, trade and other receivables, trade and other payables

The carrying value of cash and bank, trade and other receivables, trade and other payables approximate their fair value as they are short-term instruments.

### Marketable securities and bonds

The fair value of bonds and marketable securities are determined using the quoted price for the instrument.

### Deposits

The fair value for deposits is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on current market interest rates.

### Loans

The fair value of loans is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date plus an appropriate credit spread to reflect the counterparty's credit risk.

### Leases

The lease liability is recognised at the present value of the remaining lease payments, discounted using LGFA's incremental borrowing rate, with the corresponding right-of-use asset recognised as an equal amount.

### Borrower notes

The fair value of borrower notes is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date.

### Fair value of financial assets and financial liabilities

The following table shows the fair value of financial assets and financial liabilities, together with the carrying amounts shown in the statement of financial position.

| As at 30 June 2021 in \$000s | Financial liabilities at amortised cost | Financial assets at amortised cost | Financial assets measured at fair value in accordance with NZ IFRS 9 | Fair value        |
|------------------------------|---|------------------------------------|--|-------------------|
| <b>Financial assets</b>      |   |                                    |  |                   |
| Cash and bank balances       | -                                       | 391,835                            | -  | 391,835           |
| Trade and other receivables  | -                                       | 43,587                             | -  | 43,587            |
| Marketable securities        | -                                       | 768,453                            | -  | 777,789           |
| Deposits                     | -                                       | 654,961                            | -  | 655,891           |
| Derivatives                  | -                                       | -                                  | 559,635  | 559,635           |
| Loans                        | -                                       | 12,065,668                         | -  | 12,427,742        |
|                              | -                                       | <b>13,924,504</b>                  | <b>559,635</b>   | <b>14,856,478</b> |
| <b>Financial liabilities</b> |   |                                    |  |                   |
| Payables and provisions      | 40,900                                  | -                                  | -  | 40,900            |
| Bills                        | 609,624                                 | -                                  | -  | 609,632           |
| Bond repurchases             | 110,220                                 | -                                  | -  | 110,220           |
| Derivatives                  | -                                       | -                                  | 187,098  | 187,098           |
| Bonds                        | 13,217,759                              | -                                  | -  | 13,469,218        |
| Borrower notes               | 224,281                                 | -                                  | -  | 227,336           |
|                              | <b>14,202,785</b>                       | -                                  | <b>187,098</b>   | <b>14,644,404</b> |

| As at 30 June 2020 in \$000s | Financial liabilities at amortised cost | Financial assets at amortised cost | Financial assets measured at fair value in accordance with NZ IFRS 9 | Fair value        |
|------------------------------|---|------------------------------------|--|-------------------|
| <b>Financial assets</b>      |   |                                    |  |                   |
| Cash and bank balances       | -                                       | 165,826                            | -  | 165,826           |
| Trade and other receivables  | -                                       | -                                  | -  | -                 |
| Marketable securities        | -                                       | 589,124                            | -  | 591,617           |
| Deposits                     | -                                       | 499,824                            | -  | 501,625           |
| Derivatives                  | -                                       | -                                  | 1,018,775  | 1,018,775         |
| Loans to local government    | -                                       | 10,899,756                         | -  | 12,713,917        |
|                              | -                                       | <b>12,154,529</b>                  | <b>1,018,775</b>   | <b>14,991,758</b> |
| <b>Financial liabilities</b> |   |                                    |  |                   |
| Payables and provisions      | 705                                     | -                                  | -  | 705               |
| Bills                        | 647,021                                 | -                                  | -  | 647,235           |
| Bond repurchases             | 202,755                                 | -                                  | -  | 202,879           |
| Derivatives                  | -                                       | -                                  | 19,075   | 19,075            |
| Bonds                        | 12,038,468                              | -                                  | -  | 12,196,826        |
| Borrower notes               | 182,272                                 | -                                  | -  | 186,725           |
|                              | <b>13,071,221</b>                       | -                                  | <b>19,075</b>  | <b>13,253,445</b> |

## 8. Derivative financial instruments

Derivative financial instruments are the only instruments recognised in the statement of financial position at fair value.

Derivative financial instruments are valued under level 2 of the following hierarchy.

*Level 1* – Quoted market prices: Fair value based on quoted prices in active markets for identical assets or liabilities.

*Level 2* – Valuation techniques using observable market inputs: Fair value based on a valuation technique using other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

*Level 3* – Valuation techniques using significant non-observable market inputs: Fair value based on a valuation technique using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of derivative financial instruments is determined using a discounted cash flow analysis. Interest rates represent the most significant assumption used in valuing derivative financial instruments. The interest rates used to discount estimated cash flows are based on the New Zealand dollar swap curves at the reporting date.

## 9. 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, loans and marketable securities.

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.

| As at 30 June in \$000s  | 2021<br>Gain/(loss) | 2020<br>Gain/(loss) |
|--|---------------------|---------------------|
| Hedging instruments – interest rate swaps                                  | (680,122)           | 319,032             |
| Hedged items attributable to the hedged risk                               | 680,122             | (319,032)           |
| <b>Ineffectiveness recognised in profit or loss from fair value hedges</b> | <b>-</b>            | <b>-</b>            |

The gains or losses on the hedging instrument (interest rate swaps) and the hedged item (bonds, loans or marketable securities) 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.

## 10. Offsetting

NZ IAS 32: Financial Instruments Presentation allows financial assets and liabilities to be offset only when there is a current legally enforceable right to set off the amounts and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

LGFA does not offset any amounts.

The following table shows the amounts subject to an enforceable master netting arrangement or similar agreement that are not offset in the statement of financial position.

| As at 30 June 2021 in \$000s              | Derivative<br>assets | Derivative<br>liabilities |
|---|----------------------|---------------------------|
| Gross amounts                             | 559,635              | 187,098                   |
| Amounts offset                            | -                    | -                         |
| Carrying amounts                          | 559,635              | 187,098                   |
| Amounts that don't qualify for offsetting | -                    | -                         |
| Financial assets & liabilities            | (187,098)            | (187,098)                 |
| Collateral                                | -                    | -                         |
| <b>Net amount</b>                         | <b>372,536</b>       | <b>-</b>                  |

| As at 30 June 2020 in \$000s              | Derivative assets | Derivative liabilities |
|---|-------------------|------------------------|
| Gross amounts                             | 1,018,775         | 19,075                 |
| Amounts offset                            | -                 | -                      |
| Carrying amounts                          | 1,018,775         | 19,075                 |
| Amounts that don't qualify for offsetting | -                 | -                      |
| Financial assets & liabilities            | (19,075)          | (19,075)               |
| Collateral                                | -                 | -                      |
| <b>Net amount</b>                         | <b>999,700</b>    | <b>-</b>               |

## 11. Receivables

| As at 30 June in \$000s    | 2021          | 2020     |
|----------------------------|---------------|----------|
| Unsettled bond repurchases | 42,578        | -        |
| Unsettled borrower notes   | 1,000         | -        |
| Trade debtors              | 9             | -        |
| <b>Total receivables</b>   | <b>43,587</b> | <b>-</b> |

## 12 Loans

| As at 30 June in \$000s             | 2021             |           | 2020             |           |
|-------------------------------------|------------------|-----------|------------------|-----------|
|                                     | Short-term loans | Loans     | Short-term loans | Loans     |
| Ashburton District Council          | 10,011           | 60,723    | 10,001           | 32,279    |
| Auckland Council                    | -                | 3,303,915 | -                | 2,766,155 |
| Bay of Plenty Regional Council      | 25,428           | 155,995   | -                | 192,077   |
| Buller District Council             | -                | 20,005    | -                | 20,005    |
| Canterbury Regional Council         | 4,003            | 59,133    | 6,002            | 48,129    |
| Central Hawkes Bay District Council | -                | 20,107    | -                | 20,107    |
| Christchurch City Council           | 14,533           | 1,951,017 | 25,094           | 1,904,271 |
| Clutha District Council             | 2,004            | 16,042    | 2,003            | 7,030     |
| Far North District Council          | -                | 51,702    | 10,001           | 46,686    |
| Gisborne District Council           | -                | 68,774    | -                | 58,754    |
| Gore District Council               | 6,011            | 26,563    | 6,004            | 16,538    |
| Greater Wellington Regional Council | -                | 450,945   | -                | 425,877   |
| Grey District Council               | 3,995            | 21,642    | 3,967            | 15,196    |
| Hamilton City Council               | -                | 481,019   | -                | 481,064   |
| Hastings District Council           | -                | 205,357   | -                | 150,335   |
| Hauraki District Council            | -                | 44,101    | -                | 44,102    |
| Hawkes Bay Regional Council         | -                | 18,868    | -                | 2,507     |
| Horizons Regional Council           | 11,991           | 37,194    | 6,987            | 37,199    |
| Horowhenua District Council         | 16,000           | 92,178    | 16,003           | 90,618    |
| Hurunui District Council            | 8,002            | 30,062    | 8,005            | 30,065    |
| Hutt City Council                   | -                | 201,225   | -                | 216,523   |
| Invercargill City Council           | -                | 68,666    | 25,013           | 65,165    |
| Kaikoura District Council           | -                | 5,014     | 4,007            | 3,008     |
| Kaipara District Council            | -                | 44,088    | -                | 44,089    |
| Kapiti Coast District Council       | -                | 230,366   | -                | 210,353   |
| Manawatu District Council           | 11,522           | 72,681    | 11,519           | 65,669    |
| Marlborough District Council        | 30,226           | 73,136    | 27,224           | 73,157    |
| Masterton District Council          | -                | 48,609    | -                | 51,215    |
| Matamata-Piako District Council     | -                | 26,567    | -                | 26,561    |
| Nelson City Council                 | -                | 90,146    | -                | 75,118    |
| New Plymouth District Council       | -                | 169,999   | -                | 139,939   |
| Northland Regional Council          | -                | 14,147    | -                | 9,729     |
| Opotiki District Council            | -                | 8,600     | -                | 8,620     |
| Otorohanga District Council         | -                | -         | -                | 3,035     |

## 12 Loans (cont)

| As at 30 June in \$000s                | 2021             |                   | 2020             |                   |
|--|------------------|-------------------|------------------|-------------------|
|  | Short-term loans | Loans             | Short-term loans | Loans             |
| Palmerston North City Council          | -                | 152,314           | -                | 137,267           |
| Porirua City Council                   | -                | 141,794           | -                | 131,787           |
| Queenstown Lakes District Council      | 25,030           | 130,333           | 20,027           | 95,525            |
| Rangitikei District Council            | -                | 3,020             | -                | 3,020             |
| Rotorua District Council               | 12,823           | 215,034           | 22,855           | 195,105           |
| Ruapehu District Council               | 8,005            | 21,474            | 8,005            | 17,061            |
| Selwyn District Council                | -                | 60,129            | -                | 35,092            |
| South Taranaki District Council        | -                | 95,210            | -                | 101,232           |
| South Waikato District Council         | 8,987            | 15,030            | -                | -                 |
| South Wairarapa District Council       | -                | 24,520            | -                | 22,018            |
| Stratford District Council             | -                | 22,271            | -                | 15,571            |
| Taranaki Regional Council              | 4,999            | -                 | 3,992            | -                 |
| Tararua District Council               | -                | 44,100            | 2,006            | 33,080            |
| Tasman District Council                | 27,037           | 152,035           | 31,143           | 177,039           |
| Taupo District Council                 | -                | 125,177           | -                | 115,177           |
| Tauranga City Council                  | -                | 516,688           | -                | 526,768           |
| Thames-Coromandel District Council     | -                | 61,145            | -                | 61,147            |
| Timaru District Council                | 22,529           | 117,181           | 22,577           | 67,203            |
| Upper Hutt City Council                | -                | 65,153            | 2,993            | 46,108            |
| Waikato District Council               | -                | 80,189            | -                | 95,222            |
| Waikato Regional Council               | -                | 32,082            | -                | 32,085            |
| Waimakariri District Council           | -                | 170,506           | -                | 160,550           |
| Waipa District Council                 | 8,000            | 90,123            | 13,503           | 40,053            |
| Wairoa District Council                | -                | 8,041             | -                | 9,045             |
| Waitaki District Council               | 2,498            | 12,523            | -                | -                 |
| Waitomo District Council               | 4,003            | 30,045            | 7,022            | 30,044            |
| Wellington City Council                | -                | 792,505           | -                | 635,684           |
| West Coast Regional Council            | 2,001            | 6,610             | 2,001            | 6,610             |
| Western Bay Of Plenty District Council | -                | 70,154            | -                | 90,212            |
| Westland District Council              | -                | 21,858            | -                | 19,652            |
| Whakatane District Council             | -                | 77,203            | -                | 67,178            |
| Whanganui District Council             | 7,507            | 94,289            | 7,510            | 94,290            |
| Whangarei District Council             | 9,993            | 162,296           | 9,992            | 142,301           |
| Fair value hedge adjustment            | -                | (1,091)           | -                | -                 |
|  | <b>287,140</b>   | <b>11,778,528</b> | <b>315,456</b>   | <b>10,584,299</b> |

### 13. Other assets

| As at 30 June in \$000s        | 2021       | 2020       |
|--------------------------------|------------|------------|
| Intangible assets <sup>1</sup> | 154        | 306        |
| Right-of-use lease asset       | 190        | 113        |
| <b>Total other assets</b>      | <b>345</b> | <b>419</b> |

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

### 14 Payables and provisions

| As at 30 June in \$000s              | 2021          | 2020       |
|--------------------------------------|---------------|------------|
| Unsettled loans                      | 40,000        | -          |
| Trade creditors                      | 658           | 561        |
| Credit provision                     | 193           | 132        |
| Other provisions                     | 49            | 13         |
| <b>Total payables and provisions</b> | <b>40,900</b> | <b>705</b> |

### 15. Bills

| As at 30 June 2021 in \$000's | Face value     | Unamortised premium | Accrued interest | Total          |
|-------------------------------|----------------|---------------------|------------------|----------------|
| 7 July 2021                   | 20,000         | (1)                 | -                | 19,999         |
| 15 July 2021                  | 110,000        | (13)                | -                | 109,987        |
| 5 August 2021                 | 25,000         | (8)                 | -                | 24,992         |
| 11 August 2021                | 80,000         | (29)                | -                | 79,971         |
| 10 September 2021             | 75,000         | (46)                | -                | 74,954         |
| 17 September 2021             | 150,000        | (95)                | -                | 149,905        |
| 6 October 2021                | 20,000         | (20)                | -                | 19,980         |
| 14 October 2021               | 55,000         | (57)                | -                | 54,943         |
| 10 November 2021              | 50,000         | (73)                | -                | 49,927         |
| 8 December 2021               | 25,000         | (34)                | -                | 24,966         |
|                               | <b>610,000</b> | <b>(376)</b>        | <b>-</b>         | <b>609,624</b> |



| 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>(479)</b>        | <b>-</b>         | <b>647,021</b> |

## 16. Treasury stock and bond repurchases

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 30 June 2021, \$1,000 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 30 June 2021, bond repurchase transactions comprised:

| As at 30 June in \$000s | 2021           | 2020           |
|-------------------------|----------------|----------------|
| 15 May 2021             | -              | 25,970         |
| 14 April 2022           | -              | 25,196         |
| 15 April 2023           | 32,887         | 27,670         |
| 15 April 2024           | -              | 25,139         |
| 15 April 2025           | -              | 22,135         |
| 15 April 2026           | -              | -              |
| 15 April 2027           | -              | 31,145         |
| 20 April 2029           | 33,810         | 22,899         |
| 14 April 2033           | 38,957         | 22,600         |
| 15 April 2037           | 4,566          | -              |
|                         | <b>110,220</b> | <b>202,755</b> |

## 17. Bonds

Bonds on issue do not include \$1,000 million face value of issued LGFA bonds subscribed by LGFA and held as treasury stock. Refer Note 16: Treasury stock and bond repurchase transactions.

| As at 30 June 2021<br>in \$000's | Face Value        | Unamortised<br>premium | Accrued<br>interest | Fair value<br>hedge<br>adjustment | Total             |
|----------------------------------|-------------------|------------------------|---------------------|-----------------------------------|-------------------|
| <b>Fixed interest bonds</b>      |                   |                        |                     |                                   |                   |
| 14 April 2022                    | 1,605,000         | 15,527                 | 9,406               |                                   |                   |
| 15 April 2023                    | 1,660,000         | 46,296                 | 19,208              |                                   |                   |
| 15 April 2024                    | 1,528,000         | 17,466                 | 7,233               |                                   |                   |
| 15 April 2025                    | 1,469,000         | (20,190)               | 8,499               |                                   |                   |
| 15 April 2026                    | 1,240,000         | 6,911                  | 3,913               |                                   |                   |
| 15 April 2027                    | 1,486,000         | 82,140                 | 14,068              |                                   |                   |
| 20 April 2029                    | 1,172,000         | (10,512)               | 3,458               |                                   |                   |
| 15 May 2031                      | 650,000           | (4,966)                | 1,868               |                                   |                   |
| 14 April 2033                    | 1,170,000         | 37,817                 | 8,727               |                                   |                   |
| 15 April 2037                    | 700,000           | (8,443)                | 2,945               |                                   |                   |
| <b>Total fixed interest</b>      | <b>12,680,000</b> | <b>162,045</b>         | <b>79,326</b>       | <b>166,138</b>                    | <b>13,087,509</b> |
| <b>Floating rate notes</b>       |                   |                        |                     |                                   |                   |
| 14 October 2022                  | 130,000           | (33)                   | 283                 | -                                 | 130,250           |
| <b>Total</b>                     | <b>12,810,000</b> | <b>162,012</b>         | <b>79,610</b>       | <b>166,138</b>                    | <b>13,217,759</b> |

| As at 30 June 2020<br>in \$000's | Face Value        | Unamortised<br>premium | Accrued<br>interest | Fair value<br>hedge<br>adjustment | Total             |
|----------------------------------|-------------------|------------------------|---------------------|-----------------------------------|-------------------|
| <b>Fixed interest bonds</b>      |                   |                        |                     |                                   |                   |
| 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> |
| <b>Floating rate notes</b>       |                   |                        |                     |                                   |                   |
| 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> |

## 18. 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.

## 19. Other liabilities

| As at 30 June in \$000s  | Year ended<br>2021 | Year ended<br>2020 |
|--------------------------|--------------------|--------------------|
| Lease liability          | 190                | 113                |
| Accruals                 | 349                | 340                |
| <b>Total receivables</b> | <b>539</b>         | <b>453</b>         |

## 20. Operating leases

| As at 30 June in \$000s                       | 2021       | 2020       |
|---|------------|------------|
| Less than one year                            | 111        | 70         |
| Between one and five years                    | 79         | 43         |
| <b>Total non-cancellable operating leases</b> | <b>190</b> | <b>113</b> |

## Risk management

### 21. Financial risk management

The Board of Directors has overall responsibility for carrying out the business of LGFA in accordance with risk management policies, including those relating to investing, lending, borrowing and treasury activities. The use of financial instruments exposes LGFA to financial risks, the most significant being market risk, credit risk, and liquidity risk.

### 22. Market risk

Market risk is the risk that changes in market prices will affect LGFA's income or value of financial instruments. The most significant market risk which LGFA is exposed to is interest rate risk. LGFA has no significant exposure to foreign exchange risk.

### 23. Interest rate risk

Interest rate risk is the risk that future cash flows or the fair value of financial instruments will decrease because of a change in market interest rates. LGFA is exposed to interest rate risk through its interest-bearing financial assets and liabilities.

Interest rate risk is managed using Value at Risk (VaR) and Partial Differential Hedge (PDH) limits

to mitigate the potential change in value of the balance sheet due to changes in interest rates. PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates, whereas VaR measures the expected loss for a given period with a given confidence.

The table below indicates the earliest period in which the interest-bearing financial instruments reprice.

| As at 30 June 2021 in \$000s | Face value     | Less than 6 months | 6 months - 1 year | 1-2 years      | 2-5 years     | Over 5 years  |
|------------------------------|----------------|--------------------|-------------------|----------------|---------------|---------------|
| <b>Financial assets</b>      |                |                    |                   |                |               |               |
| Cash and bank Balances       | 391,835        | 391,835            | -                 | -              | -             | -             |
| Marketable securities        | 765,762        | 317,070            | 50,272            | 182,261        | 216,159       | -             |
| Deposits                     | 654,331        | 509,331            | 145,000           | -              | -             | -             |
| Loans                        | 11,999,282     | 10,252,377         | 138,782           | 252,500        | 606,100       | 749,523       |
| <b>Financial liabilities</b> |                |                    |                   |                |               |               |
| Bills                        | (610,000)      | (610,000)          | -                 | -              | -             | -             |
| Bond repurchases             | (67,640)       | (67,640)           | -                 | -              | -             | -             |
| Derivatives                  | -              | (10,924,750)       | 1,448,000         | 1,463,750      | 3,486,000     | 4,527,000     |
| Bonds                        | (12,810,000)   | (130,000)          | (1,605,000)       | (1,660,000)    | (4,237,000)   | (5,178,000)   |
| Borrower notes               | (212,750)      | (180,164)          | (1,982)           | (4,406)        | (11,382)      | (14,815)      |
| <b>Total</b>                 | <b>110,820</b> | <b>(441,941)</b>   | <b>175,071</b>    | <b>234,105</b> | <b>59,877</b> | <b>83,708</b> |

| As at 30 June 2021 in \$000s | Face value     | Less than 6 months | 6 months - 1 year | 1-2 years     | 2-5 years      | Over 5 years  |
|------------------------------|----------------|--------------------|-------------------|---------------|----------------|---------------|
| <b>Financial assets</b>      |                |                    |                   |               |                |               |
| Cash and bank Balances       | 165,826        | 165,826            | -                 | -             | -              | -             |
| Marketable securities        | 576,298        | 335,758            | 112,903           | 18,214        | 109,423        | -             |
| Deposits                     | 497,980        | 397,980            | 100,000           | -             | -              | -             |
| Loans                        | 10,868,876     | 9,118,964          | 529,990           | 153,300       | 532,200        | 534,423       |
| <b>Financial liabilities</b> |                |                    |                   |               |                |               |
| Bills                        | (647,500)      | (647,500)          | -                 | -             | -              | -             |
| Bond repurchases             | (202,478)      | (202,478)          | -                 | -             | -              | -             |
| Derivatives                  | -              | (9,347,750)        | 1,014,500         | 1,065,000     | 3,735,250      | 3,533,000     |
| Bonds                        | (10,990,000)   | (130,000)          | (1,450,000)       | (1,155,000)   | (4,207,000)    | (4,048,000)   |
| Borrower notes               | (168,845)      | (141,197)          | (8,130)           | (2,453)       | (8,515)        | (8,551)       |
| <b>Total</b>                 | <b>100,157</b> | <b>(450,397)</b>   | <b>299,263</b>    | <b>79,061</b> | <b>161,358</b> | <b>10,872</b> |

### Interest rate sensitivity

Changes in interest rates impact the fair value of fixed rate assets and liabilities, cash flows on floating rate assets and liabilities, and the fair value and cash flows of interest rate swaps. A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amounts shown in the following table. This analysis assumes that all other variables remain constant.

| For the period ending 30 June in \$000s | 2021                |                     | 2020                |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | 100 bps<br>increase | 100 bps<br>decrease | 100 bps<br>increase | 100 bps<br>decrease |
|   | \$000s              | \$000s              | \$000s              | \$000s              |
| <b>Fair value sensitivity analysis</b>  |                     |                     |                     |                     |
| Fixed rate assets                       | -                   | -                   | -                   | -                   |
| Fixed rate liabilities                  | 558,172             | (571,857)           | 484,492             | (493,186)           |
| Derivative financial instruments        | (557,130)           | 570,782             | (483,279)           | 491,932             |
|   | <b>1,042</b>        | <b>(1,075)</b>      | <b>1,213</b>        | <b>(1,254)</b>      |
| <b>Cash flow sensitivity analysis</b>   |                     |                     |                     |                     |
| Variable rate assets                    | 100,661             | (100,661)           | 89,636              | (89,636)            |
| Variable rate liabilities               | (3,093)             | 3,093               | (2,712)             | 2,712               |
| Derivative financial instruments        | (105,568)           | 105,568             | (93,608)            | 93,608              |
|   | <b>(7,999)</b>      | <b>7,999</b>        | <b>(6,684)</b>      | <b>6,684</b>        |

## 24. Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. LGFA is exposed to credit risk through its lending and investing activities.

Credit risk associated with lending activities is managed by requiring local authorities that borrow from LGFA to meet specific credit lending criteria and to provide security against the borrowing. The LGFA's credit risk framework restricts credit exposures to specific counterparties.

Credit risk associated with investing activities, excluding on-lending, is managed by only investing with New Zealand Government or counterparties that meet a minimum credit rating of A (S&P Global Ratings equivalent). The LGFA's credit risk framework limits concentrations of credit risk for any single counterparty.

## Exposure to credit risk

LGFA monitors the concentration of credit risk by the type of counterparty. The following table shows the carrying value and maximum exposure to credit risk at the reporting date, before taking account of collateral or other credit enhancements, for significant counterparty types.

| As at 30 June 2021 in \$000s | NZ government agencies | NZ local authorities | NZ registered banks | Other counter-parties | Fair Value hedge adjustment | Total carrying value |
|------------------------------|------------------------|----------------------|---------------------|-----------------------|-----------------------------|----------------------|
| Financial assets             |                        |                      |                     |                       |                             |                      |
| Cash and bank balances       | 388,960                | -                    | 2,875               | -                     | -                           | 391,836              |
| Trade and other receivables  | -                      | 1,000                | 42,578              | 9                     | -                           | 43,587               |
| Marketable securities        | -                      | 14,006               | 159,250             | 602,115               | (6,917)                     | 768,453              |
| Deposits                     | -                      | -                    | 524,839             | 130,122               | -                           | 654,961              |
| Derivatives                  | 372,536                | -                    | -                   | -                     | -                           | 372,536              |
| Loans                        | -                      | 12,066,760           | -                   | -                     | (1,091)                     | 12,065,668           |
|                              | <b>761,497</b>         | <b>12,081,765</b>    | <b>729,542</b>      | <b>732,246</b>        | <b>(8,008)</b>              | <b>14,297,042</b>    |

| As at 30 June 2020 in \$000s | NZ government agencies | NZ local authorities | NZ registered banks | Other counter-parties | Fair Value hedge adjustment | Total carrying value |
|------------------------------|------------------------|----------------------|---------------------|-----------------------|-----------------------------|----------------------|
| Financial assets             |                        |                      |                     |                       |                             |                      |
| Cash and bank balances       | 165,070                | -                    | 756                 | -                     | -                           | 165,825              |
| Trade and other receivables  | -                      | -                    | -                   | -                     | -                           | -                    |
| Marketable securities        | 123,615                | 52,181               | 89,868              | 323,460               | -                           | 589,124              |
| Deposits                     | -                      | -                    | 459,783             | 40,041                | -                           | 499,824              |
| Derivatives                  | 999,700                | -                    | -                   | -                     | -                           | 999,700              |
| Loans                        | -                      | 10,899,756           | -                   | -                     | -                           | 10,899,756           |
|                              | <b>1,288,385</b>       | <b>10,951,937</b>    | <b>550,406</b>      | <b>363,501</b>        | <b>-</b>                    | <b>13,154,229</b>    |

### Collateral and credit enhancements

LGFA holds collateral against borrowings from local authorities in the form of debenture securities and guarantees.

### Credit quality of financial assets

All financial assets are neither past due nor impaired. The carrying value of the financial assets is expected to be recoverable.

## 25. Liquidity risk

Liquidity risk is the risk that LGFA will encounter difficulty in meeting the obligations of its financial liabilities. LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet

obligations when they fall due. LGFA is required by policy to maintain sufficient liquidity (comprising a committed liquidity facility and holdings of cash and liquid investments) to meet all operating and funding commitments over a rolling 12-month period.

The Treasury (New Zealand Debt Management) provides a committed liquidity facility that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2021, the undrawn committed liquidity facility was \$500 million (2020: \$700 million). The facility is due to expire in December 2031.

## 26. Contractual cash flows of financial instruments.

The following table shows the contractual cash flows associated with financial assets and liabilities.

| As at 30 June 2021<br>in \$000s | On demand      | Up to 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Total contractual cash flows | Total carrying value |
|---------------------------------|----------------|----------------|--------------------|-------------------|-------------------|------------------------------|----------------------|
| <b>Financial assets</b>         |                |                |                    |                   |                   |                              |                      |
| Cash and bank balances          | 391,835        | -              | -                  | -                 | -                 | 391,835                      | 391,835              |
| Trade and other receivables     | 43,587         | -              | -                  | -                 | -                 | 43,587                       | 43,587               |
| Marketable securities           | -              | 157,779        | 119,844            | 515,213           | -                 | 792,836                      | 768,453              |
| Deposits                        | -              | 249,627        | 407,175            | -                 | -                 | 656,802                      | 654,961              |
| Loans                           | -              | 194,635        | 1,675,752          | 6,285,605         | 4,573,829         | 12,729,822                   | 12,065,668           |
| <b>Financial liabilities</b>    |                |                |                    |                   |                   |                              |                      |
| Payables and provisions         | 40,900         | -              | -                  | -                 | -                 | 40,900                       | 40,900               |
| Bills                           | -              | (460,000)      | (150,000)          | -                 | -                 | (610,000)                    | (609,624)            |
| Bond repurchases                | -              | (110,222)      | -                  | -                 | -                 | (110,222)                    | (110,220)            |
| Bonds                           | -              | (331)          | (1,988,835)        | (6,999,417)       | (5,811,385)       | (14,799,968)                 | (13,217,759)         |
| Borrower notes                  | -              | (782)          | (23,588)           | (112,839)         | (97,506)          | (234,715)                    | (224,281)            |
| Derivatives                     | -              | (23,311)       | 266,446            | 574,114           | 351,867           | 1,169,116                    | 372,536              |
|                                 | <b>476,322</b> | <b>7,395</b>   | <b>306,794</b>     | <b>262,676</b>    | <b>(983,195)</b>  | <b>69,992</b>                | <b>176,056</b>       |

| As at 30 June 2020<br>in \$000s | On demand      | Up to 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Total contractual cash flows | Total carrying value |
|---------------------------------|----------------|----------------|--------------------|-------------------|-------------------|------------------------------|----------------------|
| <b>Financial assets</b>         |                |                |                    |                   |                   |                              |                      |
| Cash and bank balances          | 165,826        | -              | -                  | -                 | -                 | 165,826                      | 165,826              |
| Trade and other receivables     | -              | -              | -                  | -                 | -                 | -                            | -                    |
| Marketable securities           | -              | 194,160        | 222,916            | 175,954           | -                 | 593,029                      | 589,124              |
| Deposits                        | -              | 289,288        | 212,759            | -                 | -                 | 502,048                      | 499,824              |
| Loans                           | -              | 224,293        | 1,902,829          | 6,047,790         | 3,355,153         | 11,530,065                   | 10,899,756           |
| <b>Financial liabilities</b>    |                |                |                    |                   |                   |                              |                      |
| Payables and provisions         | (705)          | -              | -                  | -                 | -                 | (705)                        | (705)                |
| Bills                           | -              | (530,500)      | (117,000)          | -                 | -                 | (647,500)                    | (647,021)            |
| Bond repurchases                | -              | (102,752)      | (100,276)          | -                 | -                 | (203,028)                    | (202,755)            |
| Bonds                           | -              | (483)          | (1,843,131)        | (6,420,275)       | (4,512,260)       | (12,776,150)                 | (12,038,468)         |
| Borrower notes                  | -              | (438)          | (31,198)           | (99,957)          | (59,551)          | (191,144)                    | (182,272)            |
| Derivatives                     | -              | (21,309)       | 266,054            | 554,255           | 265,760           | 1,064,760                    | 999,700              |
|                                 | <b>165,121</b> | <b>52,258</b>  | <b>512,953</b>     | <b>257,766</b>    | <b>(950,898)</b>  | <b>37,199</b>                | <b>83,008</b>        |

## Capital and dividends

### 27. Share capital

As at 30 June 2021, 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.

### 28. Shareholder information

| Registered holders of equity securities<br>as at 30 June | 2021              |             | 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> |



## 29. Capital management

LGFA's capital is equity, which comprises share capital and retained earnings. The objective of managing LGFA's equity is to ensure LGFA achieves its goals and objectives for which it has been established, whilst remaining a going concern.

## 30. Dividend

LGFA paid a dividend of \$878,500 on 4 September 2020, being \$0.03514 per paid up share (2019: \$1,285,000 on 6 September 2019, being \$0.0462 per paid up share).

## Other Notes

### 31. Reconciliation of net profit to net cash flow from operating activities

| For the year ended 30 June in \$000s        | 2021               | 2020               |
|---|--------------------|--------------------|
| Net profit/(loss) for the period            | 12,007             | 10,623             |
| Cash applied to loans                       | (1,127,002)        | (1,556,511)        |
| <b>Non-cash adjustments</b>                 |                    |                    |
| Amortisation and depreciation               | (2,347)            | 528                |
| <b>Working capital movements</b>            |                    |                    |
| Net change in trade debtors and receivables | 105                | 87                 |
| Net change in prepayments                   | (41)               | (72)               |
| Net change in accruals                      | 29                 | 58                 |
| <b>Net Cash From Operating Activities</b>   | <b>(1,117,249)</b> | <b>(1,545,287)</b> |

## 32. Capital commitments

As at 30 June 2021, there are no capital commitments.

## 33. Contingencies

There are no contingent liabilities at balance date.

## 34. Related parties

### Identity of related parties

LGFA is related to the local authorities set out in the Shareholder Information in note 28.

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 borrowers. 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 borrowers. The lending to individual councils is disclosed in note 12, and interest income recognised on this lending is shown in the statement of comprehensive income.

The purchase of LGFA borrower notes by participating borrowers Refer note 18.

As at 30 June 2021, Mike Timmer was a non-independent director of LGFA and was also employed by Greater Wellington Regional Council (GWRC) as Treasurer. GWRC borrowed from LGFA during the financial year on the same terms and conditions as any other council borrower.

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

Key management personnel:

Salaries \$989,100 (2020: \$951,900)

Fees paid to directors are disclosed in operating expenses in Note 6.

### 35. Subsequent events

On 24 August 2021, the Directors of LGFA declared a dividend of \$856,500 (\$0.03426 per paid up share).

COVID-19 pandemic update. On 17 August 2021, New Zealand moved to Alert Level 4. LGFA has processes in place to manage the day-to-day impacts and the changing risk levels within each lockdown Alert Level. Management have considered the implications of COVID-19 on all aspects of our business and note there no events which require adjustment to or disclosure in these financial statements.

Subsequent to balance date, LGFA has issued \$485 million in bonds.



## INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2021

The Auditor-General is the auditor of New Zealand Local Government Funding Agency Limited (the company). The Auditor-General has appointed me, Brent Manning, using the staff and resources of KPMG, to carry out the audit of the financial statements and performance information of the company on his behalf.

#### Opinion

We have audited:

- the financial statements of the company on pages 59 to 82, that comprise the statement of financial position as at 30 June 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 10 to 15.

In our opinion:

- the financial statements of the company on pages 59 to 82:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2021; and
    - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS); and
- the performance information of the company on pages 10 to 15 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2021.

Our audit was completed on 30 August 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

#### Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$110 million determined with reference to a benchmark of company Total Assets. We chose the benchmark because, in our view, this is a key measure of the company's performance. In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of a reasonably knowledgeable person ('qualitative' materiality).

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the readers as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

| The key audit matter   | How the matter was addressed in our audit   |
|--|---|
| <b>Existence and impairment of loans</b>   |   |
| <p>Refer to Note 12 to the Financial Statements.</p> <p>The loans LGFA has provided to local government make up over 83% of total assets. The loans are recognised at amortised cost and the nature of the counterparties is such that we do not consider these loans to be at high risk of significant misstatement. However, based on their materiality, and the judgement involved in assessing the credit worthiness of counterparties they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.</p>  | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>- understanding the processes in place to assess borrowers and to record loan transactions. This included evaluating the control environment in place at LGFA.</li> <li>- agreeing the 30 June 2021 loan balances to external confirmations received from NZ Clear.</li> <li>- assessing the borrowers' compliance with financial covenants.</li> </ul> <p>We did not identify any material differences in relation to the existence or impairment of loans.</p>   |
| <b>Application of hedge accounting</b>   |   |
| <p>Refer to Note 9 of the Financial Statements.</p> <p>LGFA enters into derivatives (interest rate swaps) to manage interest rate risk related to issuing fixed rate bonds. Fair value hedge accounting is applied where specific requirements are met around documentation of the hedge relationship and the relationship is demonstrated as being an effective hedge. Hedge accounting is complex, particularly in the area of whether the requirements (both initial and ongoing) for its application are met. Should the requirements for hedge accounting not be met, LGFA could experience significant volatility in the Statement of Comprehensive Income from changes in the fair value of the derivatives.</p> <p>Due to the size of the derivative positions and the complexity of hedge accounting we consider this to be a key audit matter.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>- reviewing LGFA's accounting policies related to financial instruments.</li> <li>- agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty.</li> <li>- using our treasury valuation specialists we independently recalculated the fair value of all of the derivatives recorded by LGFA.</li> <li>- ensuring the hedge documentation supporting the application of hedge accounting was in accordance with NZ IFRS 9 and the disclosures made in the financial statements were appropriate.</li> <li>- determining that management's hedge effectiveness calculations were correctly performed using appropriate source information.</li> </ul> |
| <p>We did not identify any material differences in relation to the application of hedge accounting.</p>  |   |

## Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand in accordance with NZ IFRS and IFRS. The Board of Directors is also responsible for preparing the performance information for the company.



The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Markets Conduct Act 2013.

### **Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

#### **Other Information**

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 4 to 9, 16 to 58 and 87 to 91, but does not include the financial statements and the performance information, and our auditor's report thereon.


Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Independence**

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the company.



Brent Manning  
KPMG  
On behalf of the Auditor-General  
Wellington, New Zealand

# Other disclosures

## He whākitanga anō

### Donations

A donation of \$3,000 was made to Kauri 2000 for the year ended 30 June 2021.

### Earnings per security

Earnings per \$1,000 of bonds on issue as at 30 June 2021 is \$0.87 (2020: \$0.90).

### Net Tangible Assets

Net tangible assets per \$1,000 of listed bonds as at 30 June 2021 is \$6.86 (2020: \$7.09).

### Amount per security of final dividends

Not applicable

### Spread of Quoted Security holders

| Holding Range                  | Holder Count | Holder Count % | Holding Quantity        | Holding Quantity % |
|--------------------------------|--------------|----------------|-------------------------|--------------------|
| 10,000 to 49,999               | 426          | 45.61          | \$ 10,381,000           | 0.08               |
| 50,000 to 99,999               | 187          | 20.02          | \$13,111,000            | 0.1                |
| 100,000 to 499,999             | 212          | 22.7           | \$42,439,000            | 0.31               |
| 500,000 to 999,999             | 25           | 2.68           | \$17,352,000            | 0.13               |
| 1,000,000 to 9,999,999,999,999 | 84           | 8.99           | \$13,596,717,000        | 99.39              |
| <b>Total</b>                   | <b>934</b>   | <b>100.0</b>   | <b>\$13,680,000,000</b> | <b>100.01</b>      |

# GRI Index

## Tāpiritanga GRI

The GRI Standards are the world's most widely used sustainability reporting standard.

This is the second year LGFA has prepared its annual report in compliance with the GRI Standards.

The following index is based on the GRI core option.

| Disclosure title   | Reference/Disclosure                 |
|--|--------------------------------------|
| 102-1. Name of the organisation                                      | Page 16                              |
| 102-2. Activities, brands, products and services                     | Pages 16-27                          |
| 102-3. Location of headquarters                                      | Page 91                              |
| 102-4. Location of operations  | Page 91                              |
| 102-5. Ownership and legal form                                      | Pages 16,62                          |
| 102-6. Markets served  | Pages 4-6, 10-15, 16-27, New Zealand |
| 102-7. Scale of the organisation                                     | Pages 4-6, 16-32, 60                 |
| 102-8. Information on employees and other workers                    | Pages 49, 51, 81                     |
| 102-9. Supply chain  | Pages 16-27                          |
| 102-10. Significant changes to the organization and its supply chain | None                                 |
| 102-11. Precautionary Principle or approach                          | Page 40                              |
| 102-12. External initiatives   | Page 44                              |
| 102-13. Membership of Associations                                   | Financial Service Providers Register |
| 102-14. Statement from senior decision-maker                         | Pages 4-6                            |
| 102-16. Values, principles, standards, and norms of behaviour        | Pages 44-53                          |
| 102-18. Overview of Governance Structure                             | Page 17                              |
| 102-40. List of stakeholder groups                                   | Pages 4-7, 10-15, 28-32, 53          |
| 102-41. Collective bargaining agreements                             | None                                 |
| 102-42. Identifying and selecting stakeholders                       | Page 34                              |
| 102-43. Approach to stakeholder engagement                           | Pages 34-38                          |



|   |   |
|---|---|
| 102-44. Key topics and concerns raised  | Page 34   |
| 102-45. Entities included in the consolidated financial statements              | Page 62   |
| 102-46. Defining report content and topic Boundaries                            | Page 34   |
| 102-47. List of material topics   | Pages 34-38   |
| 102-48. Restatements of information   | None  |
| 102-49. Changes in reporting  | None  |
| 102-50. Reporting period  | 1 July 2020 to 30 June 2021   |
| 102-51. Date of most recent report  | 2020 Annual Report  |
| 102-52. Reporting cycle   | Annual  |
| 102-53. Contact point for questions regarding the report                        | lgfa@lgfa.org.nz  |
| 102-54. Claims of reporting in accordance with the GRI Standards                | The report has been prepared in accordance with the GRI standards : core option |
| 102-55. GRI content index   | Page 88   |
| 102-56. External assurance  | None  |
| Cost effective funding  | Pages 4-6, 10-15, 28  |
| Culture, ethics and governance  | Pages 34-38, 44-53  |
| Transparency and disclosure   | Pages 4-6, 34-38, 44-53, 54-57  |
| Environmental and social impact of lending                                      | Pages 4-6, 34-38, 40-42   |
| Health & safety and wellbeing   | Pages 11, 14-15, 34-38, 52  |
| Collaboration and local engagement  | Pages 4-6, 12, 34-36  |
| Financial markets best practice and influence                                   | Pages 4-6, 10-15, 44-57   |
| Diversity and inclusion   | Pages 4-6, 49   |
| Capability and development  | Pages 4-6, 49   |
| Carbon footprint  | Pages 34-38   |
| <b>Health and Safety and Wellbeing</b>  |   |
| 403-1 Occupational health and safety management system                          | Page 52   |
| 403-9 Work-related injuries   | Page 14   |
| 403-10 Work-related ill health  | Page 14   |
| <b>Diversity and Inclusion</b>  |   |
| 405-1 Diversity of governance bodies and employees                              | Page 49   |
| 405-2 Ratio of basic salary and remuneration of women to men                    | Page 51   |
| <b>Capability and Development</b>   |   |
| 404-2 Programs for upgrading employee skills and transition assistance programs | Page 49   |



Construction of Renwick Reservoir.  
Marlborough District Council



Wharf Street upgrade in the central city has transformed a one-way street to a pedestrian area with gardens and al fresco dining.  
Tauranga City Council

# Directory

## Rārangi tauwaea

### Postal address

P.O. Box 5704  
Lambton Quay  
Wellington 6145

### Office Hours

Monday through Friday,  
09.00-17.00 hrs  
Except Public Holidays

### Main Phone

+64 4 974 6530

### General Enquiries

lgfa@lgfa.co.nz

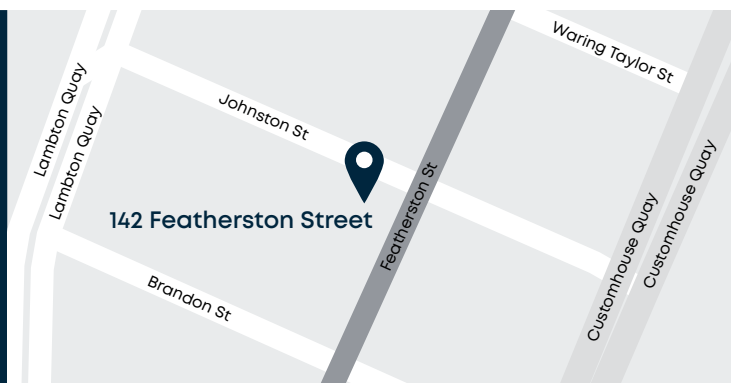
### Staff E-Mail Addresses

firstname.lastname@lgfa.co.nz

### Wellington

Registered office

Level 8  
City Chambers  
142 Featherston Street  
Wellington 6011  
(entrance on Johnston Street)



### Auckland

Level 5  
Walker Wayland Centre  
53 Fort Street  
Auckland 1010





[lgfa.co.nz](http://lgfa.co.nz)