

HALF YEAR REPORT
31 December 2021

**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



Planting day at Tōtara Reserve with Awahou school.
Horizons Regional Council

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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 six-months ended 31 December 2021

The six-month period to December was another strong period for LGFA in delivering value to council members and our investor base while meeting our financial targets. A key highlight was our first Green, Social and Sustainable loans to councils as part of our focus on fostering sustainability across the local government sector.

We are pleased to record another period of positive performance by the company for the six-month period to 31 December 2021 and to highlight the following developments.

Strong Financial and Operational Performance

LGFA's total interest income for the six-month period of \$185.89 million was a 2.4% decrease over the 2019-20 comparable period result of \$190.38 million, while net operating profit of \$5.94 million for the six-month period was a 0.3% increase on the 2019-20 comparable period result of \$5.92 million.

Both net interest income and operating profit were slightly ahead of the Statement of Intent (SOI) forecast. We are adopting a prudent approach to our funding by borrowing a greater amount than we are lending to councils and for a longer term. This is having a modest drag on profitability despite the growth in the balance sheet but is a more conservative approach to balance sheet management.

Expenses have been managed below the SOI budget over the past six months. Lower fees paid due to a reduced limit of the New Zealand Debt Management committed credit facility and lower travel and accommodation costs relative to forecast were positive contributions. These savings were offset by higher legal and NZX costs associated with increased council lending and LGFA bond issuance.

LGFA bonds are an attractive investment for investors while delivering savings in borrowing costs for members. Over the last six months, we have launched Green, Social and Sustainable (GSS) lending to councils and approved our first Council-Controlled Organisation (CCO) borrower.

The financial strength of LGFA was reaffirmed by Fitch Ratings who maintained our domestic currency credit rating at 'AA+' in October 2021 while our 'AAA' rating from S&P Global Ratings remains the same as the New Zealand Government.

Borrowing activity

LGFA is the largest issuer of New Zealand dollar (NZD) securities after the New Zealand Government and our bonds are amongst the largest and most liquid NZD debt instruments available for investors. It is pleasing to note increased activity in the secondary market in our bonds.

LGFA issued \$2.06 billion of bonds over the past six months and outstandings now total \$15.94 billion (including \$1.20 billion of treasury stock) across 12 maturities from 2022 to 2037. The average term of our bond issuance during the six-month period at 7.7 years was longer than the prior year period. The debut of new May 2028 and May 2035 bond maturities by syndication helped fill in the gaps between our existing bonds and provided investors with more investment opportunities. It also reduced our mismatch exposure between bond issuance and council lending.

It is also pleasing to observe the increased participation by offshore investors over the past six months as NZD-denominated investments have become relatively more attractive for investors as the Reserve Bank commenced monetary policy tightening. We estimate that offshore investors hold 29.7% of LGFA bonds on issue compared to 21.6% a year ago. Domestic institutional and retail investors hold 32.4%, domestic banks hold 26.7% and the Reserve Bank holds 11.3%.

The performance of LGFA bonds over the past six months has been mixed with LGFA bond spreads to New Zealand Government Bonds moving wider while LGFA bond spreads to swap have tightened slightly, except in the very long end of the curve. Outright yields rose between 53 basis points (bps) (2037 maturity) and 127 bps (2024 maturity) over the six-month period.

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 six months, we added two councils and our first CCO as members, with Southland District and Otago Regional Councils joining as guarantors and Invercargill City Holdings Ltd joining as our first CCO. Total membership is now 74 out of the 78 councils in New Zealand.

Long-dated lending to council and CCO members over the six-month period was \$1.64 billion provided to 46 councils as they refinanced their April 2022 loans and increased their borrowing to finance infrastructure projects. Our estimated market share of total council borrowing of 79% was slightly lower

than forecast but remained high on an historical basis. The average tenor of long-dated borrowing by councils of 5.8 years over the six-month period was in line with prior periods.

Short-dated lending for terms less than 12 months continues to be supported by councils and as at 31 December 2021, LGFA had \$382 million of short-term loans outstanding to 31 council and CCO members.

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

The local government sector continues to face unprecedented and uncertain change having to deal with climate-related events, COVID-19, the Central Government-led initiatives relating to the Three Waters Reform Programme and Future for Local Government Review.

LGFA is assisting on an as required basis, both Central Government and our council members as they work through the Three Waters Reform Programme as required. The Government's proposed Three Water Reform Programme would be the largest change to the local authority sector in 30 years.

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 undertook our first loan to a CCO in July 2021 and are looking to approve our second CCO member in the next six months.

We launched our GSS lending product in October 2021 and are pleased to have made our first GSS loans to Wellington City and Greater Wellington Regional Councils in December 2021.

Increasing focus on sustainability

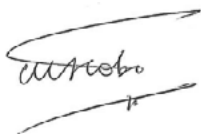
Sustainability plays an important part within the local government sector and at LGFA. We have undertaken several initiatives over the past year, including:

- Appointment of a Head of Sustainability.
- Establishment of a Sustainability Committee that advises the LGFA Board and management team on sustainability issues.
- Achievement of CarbonZero certification from Toitū Envirocare and we have committed to reducing our carbon emissions.
- Launched our GSS lending product that offers a lower borrowing margin for councils with eligible

projects. We have pre-approved borrowing for eligible projects of \$407 million and have made loans to date of \$43 million.

Acknowledgments

LGFA's work cannot be implemented without the support of our staff, directors, shareholders and members, New Zealand Debt Management (NZDM), the Reserve Bank and central and local government, all whose efforts should be acknowledged. We also would like to acknowledge the support of financial institutions, intermediaries and investors. We believe LGFA's future remains positive and look forward to working with all stakeholders in the next six months.



Craig Stobo
Chair



Mark Butcher
Chief Executive



Wetlands in Queen
Elizabeth Park, Kāpiti Coast.
Greater Wellington Regional Council

Performance against objectives

Ko ngāwhakatutukitanga ki ngā whāinga

The statement of service performance details LGFA's performance for the first half of the year against the objectives and targets set out in the LGFA Statement of Intent 2021-22 (SOI)

2021-22 Performance objectives

The SOI sets out two primary performance objectives and eight additional objectives for the year ended 30 June 2022.

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 meet 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 eight measurable and achievable additional objectives which complement the primary objectives. Performance against these objectives is reported annually.

LGFA will:

1. Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency.
2. Provide at least 80% of aggregate long-term debt funding to the local government sector¹.
3. Achieve the financial forecasts for net interest income and operating expenses, including provision for a shareholder dividend payment in accordance with the approved dividend policy.
4. Meet or exceed the Performance Targets.
5. Comply with the Health and Safety at Work Act 2015.
6. Comply with the Shareholder Foundation Policies and the Board-approved Treasury Policy at all times.
7. Assist the local government sector with significant matters such as COVID -19 response and the proposed Three Waters Reform Programme.
8. Improve sustainability outcomes within LGFA and assist the local government sector in achieving their sustainability and climate change objectives.

Performance against primary objectives

This section sets out LGFA's performance for the six months ended 31 December 2021 against the two primary objectives set out in the 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 Sovereign, Supranational and Agencies (SSA) issuers who borrow in the New Zealand debt capital markets, the domestic banks and Kainga Ora, our closest peer issuer.

Secondary market spread to swap (basis points)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2033	2035	2037
LGFA (AAA)	(4)	(1)	(1)	3	10	13	23	25	28	31	42	51	59
Kainga Ora (AAA)		5		11	16		25		33			47	
Asian Development Bank (AAA)		1	2	7	13		23			33			
IADB (AAA)		0	1	10	15		27						
International Finance Corp		1	5	10	14	18							
KBN (AAA)		3	8	14					39				
Rentenbank (AAA)	0	1	6	12									
World Bank (AAA)	2	1	1	8	12	18	23		33				
Nordic Investment Bank (AAA)		1		10									
ANZ (AA-)		25	31										
BNZ (AA-)		17		39	55								
Westpac Bank (AA-)	11	23	40	43	53								
SSA Average	1	1	4	10	14	18	24	31	36	33			
Bank Average	11	22	36	41	54								

1. This includes Auckland Council borrowing both in its own name and through LGFA and recognising that the amount of borrowing by Auckland Council from LGFA is restricted by the Foundation Policy covenants.

In the 2021 stakeholder survey, our members responded with a 99% satisfaction rating for LGFA in adding value to their borrowing requirements.

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 and CCOs:

- Over the six months ended 31 December 2021, 46 members (45 councils, 1 CCO) borrowed \$1.64 million in 125 new long-term loans, across 46 maturity dates ranging between 2022 and 2036.
- As at 31 December 2021 there were \$382 million of short-term loans outstanding to 31 members (30 councils, 1 CCO) with loan terms ranging between one month and 12 months.
- As at 31 December 2021, nine councils had entered into Standby facilities with LGFA totalling \$522 million.

Delivering operational best practice and efficiency for its lending services;

Over the six months, LGFA operations successfully settled 833 new trades and 5,600 cash flows totalling in excess of \$31 billion.

In the 2021 stakeholder survey, our members responded with a 96% satisfaction rating for 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 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 through 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 high turnover implies a healthy market.

Activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) during the six month period remained at high levels, with primary issuance totalling \$2.055 billion and secondary market turnover of \$4.45 billion. In addition, we successfully launched two new bond maturities, May 2028 and May 2035, by syndication, reducing the gap between existing LGFA bond maturities.

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 councils on the LGFA borrower watch-list. This year, we reviewed councils 2021-2031 Long-Term Plans and liaised directly with councils' where we had issues or queries arising from these.

We have received compliance certificates from all Participating Borrowers, and all remain compliant as at 30 June 2021. There are 14 councils who, due to COVID-19 delays in finalising the audit process, have provided outcomes based on unaudited financial statements. LGFA has reviewed these financial statements and there were no issues of concern.

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

No council has yet requested to be measured on a group basis.

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

Over the six months, LGFA met with 15 councils which is lower than planned due to COVID-19 travel restrictions over the period. Travel permitting, we aim to increase visits in the first half of 2022, with virtual meetings replacing in-person meetings as required.

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

Over the six months, LGFA met with representatives from Central Government on the proposed Three Waters reforms and provided feedback regarding financing of the proposed entities.

LGFA sponsored the Taituarā Funding and Rating Forum and presented on 'Financial Risks in the Local Government Environment' to a forum of Council Audit and Risk Committee Chairs organised by OAG.

LGFA continues to assist the sector and their advisers in offering to provide support for solutions to off-balance sheet financing for councils. LGFA continues to provide technical expertise to the proposed Ratepayer Financing Scheme (RFS).

Additional objectives

LGFA has the following eight 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.

On an annual basis, S&P Global Ratings and Fitch Ratings meet with LGFA and review our credit ratings.

- **S&P Global Ratings** upgraded our long-term local currency credit rating to AAA and our long-term foreign currency credit rating to AA+ on 22 February 2021. Both ratings are the same as the New Zealand Government.
- **Fitch Ratings** affirmed both our local currency credit rating of AA+ (stable) and foreign currency credit rating of AA, positive outlook. 1 November 2021.

Provide at least 80% of aggregate long-term debt funding to the local government sector².

LGFA's estimated market share for the rolling twelve-month period to 31 December 2021 was 79%³. Adjusted for Auckland Council borrowing, this increases to 84%. This market share compares to a historical average of 75% and remains high compared to our global peers.

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

The following table summaries income, expenses and operating result for the six months ended 31 December 2021 against the financial forecasts outlined in our 2021-2022 Statement of Intent.

\$000s	Unaudited result to 31 December 2021	Variance to SOI budget
Net interest income	9,178	+267
Other operating income	526	+26
Total operating income	9,704	+293
Operating expenses	3,769	+88
Net operating profit	5,935	+381

The Net interest income (NII) includes the unrealised mark-to-market movement for fixed rate swaps that are not designated effective for hedge accounting purposes. These swaps reduce exposure to fixed rate loans transacted outside of the normal tender process and reduce mismatches between borrowing and on-lending terms on our balance sheet. The unrealised loss increases as interest rates fall but turns to a profit if interest rates rise. Due to a rise in interest rates since June 2021, the year-to-date unrealised gain was \$1.03 million.

Operating expenses for the six-month period were \$88k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at \$1.308 million were \$46k below budget. A lower NZDM Liquidity Facility fee was offset by higher legal expenses and NZX fees due to the additional amount of bond issuance.
- Operating costs at \$2.135 million were \$48k below budget due to lower operating overhead, travel and IT costs offset by higher personnel costs relative to budget.
- Approved Issuer Levy (AIL) payments of \$325k were in line with budget. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment for a small number of LGFA bond maturities.

Meet or exceed the Performance Targets.

As at 31 December 2021, we forecast we are on track to achieve eight out of the 10 performance targets by 30 June 2022.

Comply with the Health and Safety at Work Act 2015.

LGFA has a Health and Safety Staff Committee which is chaired by the Risk and Compliance Manager and reports to the LGFA Board on a regular basis. There were no Health and Safety incidents during the six months.

Over the Covid lockdown period, Auckland and Wellington based staff worked from home as required and we have adopted safety protocols to minimise risks to staff on returning to our offices. All staff, directors and visitors are required to hold a valid vaccine passport before entering LGFA offices.

2. This includes Auckland Council borrowing both in its own name and through LGFA and recognising that the amount of borrowing by Auckland Council from LGFA is restricted by the Foundation Policy covenants.

3. Source: PwC Local Government Debt Report

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

There were no compliance breaches during the six month period.

Assist the local government sector with significant matters such as COVID -19 response and the proposed Three Waters Reform Programme.

Over the six months, LGFA:

- Contributed expertise to the Ratepayer Financing Scheme project that, if successful, could offer temporary financial relief to ratepayers via rates postponement.
- Provided a Standby Facility product that will provide greater certainty of access to emergency funding for councils at a lower cost than going to traditional bank providers. This has been well supported by councils with \$522 million of standbys written with nine councils.
- Outlined its views on the proposed Three Waters Reform for the Shareholders Council and this was distributed to all council members.

Improve sustainability outcomes within LGFA and assist the local government sector in achieving their sustainability and climate change objectives.

LGFA has:

- Appointed a Head of Sustainability.
- Achieved Carbon zero certification from Toitū Envirocare.

- Established a Sustainability Committee, comprising:
 - Three LGFA staff members and
 - Four external members - Alison Howard, Chris Thurston, David Woods and Erica Miles.
- Launched a GSS lending programme for council and CCO members. Projects that meet one of 16 green or social lending categories are now eligible for a discounted loan margin. As at December 2021, Wellington City (WCC) and Greater Wellington Regional (GWRC) Councils have borrowed under this programme
 - WCC financed the construction of 'Takina', the Wellington Convention and Exhibition Centre.
 - GWRC financed the flood protection work on the RiverLink project in the Hutt Valley.



The Waimakariri River has been the site of many recent biodiversity projects and planting days.
Environment Canterbury

Performance Targets

Performance measure	Result for the six month period to 31 December 2021	Outcome
LGFA net interest income for the period to June 2022 will be greater than \$19.1 million	\$9.7m	✓
Annual issuance and operating expenses (excluding AIL) will be less than \$7.2 million	\$3.4m	✓
Total nominal lending (short and long term) to participating councils to be at least \$13,294 million	\$13.513 million	✓
Conduct an annual survey of councils and achieve 85% satisfaction score as to the value added by LGFA to council borrowing activities	August 2021 survey outcome of 99.2%	✓
Meet all lending requests from PLAs	100%	✓
Achieve 80% market share of all council borrowing in New Zealand	79%	✗
Review each Participating Borrower's financial position, its headroom under LGFA policies and arrange to meet each Participating Borrower at least annually	Council meetings to total 74 over year. Financial position and headroom review completed.	✗
No breaches of Treasury Policy, any regulatory or legislative requirements including the Health and Safety at Work Act 2015	No breaches	✓
Successfully refinance of existing loans to councils and LGFA bond maturities as they fall due	100%	✓
Maintain a credit rating equal to the New Zealand Government rating where both entities are rated by the same credit rating entity	AA+/AAA	✓



Financial statements

Nga tauki pūtea

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Statement of comprehensive income

For the six months ended 31 December 2021 in \$000s

	Note	Unaudited six months ended 31 December 2021	Unaudited six months ended 31 December 2020
Interest income		185,886	190,375
Interest expense		176,709	180,523
Net interest income	4	9,178	9,852
Other operating income	5	526	5
Total operating income		9,704	9,857
Operating expenses	6	3,769	3,938
Net operating profit		5,935	5,918
Total comprehensive income		5,935	5,918

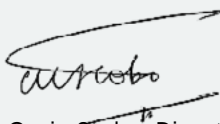
Statement of changes in equity

For the six months ended 31 December 2021 in \$000s

	Note	Share capital	Retained earnings	Total equity
Equity as at 1 July 2020		25,000	58,616	83,616
Net operating profit			12,007	12,007
Total comprehensive income for the year			12,007	12,007
Transactions with owners			-	-
Dividend paid on 4 September 2020			(879)	(879)
Equity as at 1 July 2021		25,000	69,744	94,744
Net operating profit			5,935	5,935
Total comprehensive income for the half year			5,935	5,935
Transactions with owners			-	-
Dividend paid on 3 September 2021			(857)	(857)
Unaudited closing balance as at 31 December 2021	17	25,000	74,822	99,822

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 28 February 2022.



Craig Stobo, Director
Board Chair



Linda Robertson, Director
Chair, Audit and Risk Committee

Statement of financial position

As at 31 December 2021 in \$000s

	Note	Unaudited as at 31 December 2021	Audited as at 30 June 2021
Assets			
Financial assets			
Receivables		42	43,587
Cash and bank balances		374,236	391,835
Marketable securities		1,385,022	768,453
Deposits		841,628	654,961
Derivatives in gain		246,072	559,635
Loans	8	13,513,127	12,065,668
Non-financial assets			
Prepayments		1,002	683
Other assets	9	218	345
Total assets		16,361,346	14,485,167
Equity			
Share capital	16	25,000	25,000
Retained earnings		68,887	69,744
Total comprehensive income for the period		5,935	-
Total equity		99,822	94,744
Liabilities			
Financial liabilities			
Payables and provisions	10	93,014	40,900
Bills	11	534,258	609,624
Bond repurchases	12	225,850	110,220
Derivatives in loss		415,046	187,098
Bonds	13	14,732,861	13,217,759
Borrower notes	14	259,934	224,281
Non-financial liabilities			
Other liabilities	15	561	539
Total liabilities		16,261,524	14,390,422
Total equity and liabilities		16,361,346	14,485,167

Statement of cash flows

For the six months ended 31 December 2021 in \$000s

	Note	Unaudited six months ended 31 December 2021	Unaudited six months ended 31 December 2020
Cash Flow from Operating Activities			
Cash applied to loans	8	(1,427,636)	(1,420,594)
Interest paid on bonds issued		(215,363)	(212,221)
Interest paid on bills issued		(1,591)	(1,149)
Interest paid on borrower notes		(212)	(137)
Interest paid on bond repurchases		(254)	(599)
Interest received from loans		76,952	77,156
Interest received from cash & cash equivalents		1,031	377
Interest received from marketable securities		5,624	5,376
Interest received from deposits		2,206	2,978
Net interest on derivatives		136,753	139,963
Cash proceeds from provision of standby facilities		526	-
Payments to suppliers and employees		(3,927)	(4,172)
Net cash flow from operating activities	18	(1,425,888)	(1,413,023)
Cash flow from investing activities			
Purchase of marketable securities		(594,958)	(27,701)
Purchase of deposits		(185,743)	(140,161)
Purchase of plant and equipment		-	-
Net cash flow from investing activities		(780,701)	(167,862)
Cash flow from financing activities			
Cash proceeds from bonds issued	13	2,096,802	2,026,534
Cash proceeds from bills issued		(75,367)	(34,910)
Cash proceeds from bond repurchases		158,143	(165,546)
Cash proceeds from borrower notes		35,509	37,876
Dividends paid		(857)	(878)
Cash applied to derivatives		(25,240)	(124,161)
Net cash flow from financing activities		2,188,991	1,738,914
Net (decrease) / increase in cash		(17,599)	158,029
Cash, Cash Equivalents and at beginning of year		391,835	165,826
Cash and cash equivalents at end of half year		374,236	323,854

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

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

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

These financial statements were authorised for issue by the Directors on 28 February 2022.

2. Statement of compliance

The interim financial statements are for the six months ended 31 December 2021 and are to be read in conjunction with the annual report for the year ended 30 June 2021.

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

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

There have been no changes to accounting policies.

Early adoption standards and interpretations

LGFA has not early adopted any standards.

Standards not yet adopted

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

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, 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 31 December 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

in \$000s	Unaudited six months ended 31 December 2021	Unaudited six months ended 31 December 2020
Interest income		
Cash and cash equivalents	1,036	385
Marketable securities	4,259	1,911
Deposits	3,129	3,493
Derivatives	90,015	107,810
Loans	87,447	76,776
Fair value hedge ineffectiveness	-	-
Total interest income	185,886	190,375
Interest expense		
Bills	1,591	1,149
Bond repurchase transactions	319	325
Lease liability	5	9
Bonds	173,439	177,963
Borrower notes	1,355	1,077
Total interest expense	176,709	180,523
Net interest income	9,178	9,852

5. Other operating income

As at 31 December 2021, LGFA had provided credit standby facilities totalling \$522 million to selected councils. As at balance date, there were no drawdowns outstanding under the facilities.

in \$000s	Unaudited six months ended 31 December 2021	Unaudited six months ended 31 December 2020
Standby facilities fee income	526	5
Total other operating income	526	5

6. Operating expenses

in \$000s	Unaudited six months ended 31 December 2021	Unaudited six months ended 31 December 2020
Issuance and on-lending expenses		
Approved issuer levy	325	593
Rating agency fees	324	311
NZDMO facility fee	250	308
Legal fees - issuance	225	294
NZX	390	340
Trustee fees	51	50
Regulatory, registry, other fees	68	97
	1,633	1,993
Other operating expenses		
Information technology	399	367
Consultants	95	16
Directors fees	212	200
Insurance	43	42
Legal fees	51	95
Other expenses	136	159
Auditors' remuneration		
Statutory audit	55	54
Advisory services	-	-
Personnel	1,145	1,012
	2,135	1,945
Total operating expenses	3,769	3,938

7. Hedge accounting

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

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

in \$000s	Unaudited gain/(loss) for the six months ended 31 December 2021	Unaudited gain/(loss) for the six months ended 31 December 2020
Hedging instruments – interest rate swaps	520,010	635,001
Hedged items attributable to the hedged risk	(520,010)	(635,001)
Ineffectiveness recognised in profit or loss from fair value hedges	-	-

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

8. Loans

in \$000s	Unaudited as at 31 December 2021		Audited as at 30 June 2021	
	Short-term loans	Loans	Short-term loans	Loans
Ashburton District Council	10,021	60,757	10,011	60,723
Auckland Council	-	3,381,550	-	3,303,915
Bay of Plenty Regional Council	25,477	161,153	25,428	155,995
Buller District Council	-	20,007	-	20,005
Canterbury Regional Council	4,008	62,189	4,003	59,133
Carterton District Council	4,013	12,752	-	-
Central Hawkes Bay District Council	2,011	20,108	-	20,107
Christchurch City Council	2,003	2,083,566	14,533	1,951,017
Clutha District Council	2,005	20,061	2,004	16,042
Far North District Council	-	71,810	-	51,702
Gisborne District Council	-	80,946	-	68,774
Gore District Council	6,016	26,585	6,011	26,563
Greater Wellington Regional Council	-	540,335	-	450,945
Grey District Council	3,993	21,670	3,995	21,642
Hamilton City Council	-	591,533	-	481,019
Hastings District Council	-	228,619	-	205,357
Hauraki District Council	-	48,139	-	44,101
Hawkes Bay Regional Council	-	29,939	-	18,868
Horizons Regional Council	11,992	42,228	11,991	37,194
Horowhenua District Council	16,014	118,260	16,000	92,178
Hurunui District Council	8,018	30,081	8,002	30,062
Hutt City Council	-	261,416	-	201,225
Invercargill City Council	-	68,677	-	68,666
Invercargill City Holdings Ltd	29,937	60,054	-	-
Kaikoura District Council	-	5,016	-	5,014
Kaipara District Council	-	44,132	-	44,088
Kapiti Coast District Council	-	250,572	-	230,366
Manawatu District Council	11,546	74,153	11,522	72,681
Marlborough District Council	30,243	87,179	30,226	73,136
Masterton District Council	-	56,650	-	48,609
Matamata-Piako District Council	-	30,097	-	26,567
Nelson City Council	-	105,255	-	90,146
New Plymouth District Council	-	181,117	-	169,999
Northland Regional Council	-	14,148	-	14,147
Opotiki District Council	-	8,590	-	8,600
Otorohanga District Council	-	-	-	-

in \$000s	Unaudited as at 31 December 2021		Audited as at 30 June 2021	
	Short-term loans ¹	Loans	Short-term loans	Loans
Palmerston North City Council	-	177,476	-	152,314
Porirua City Council	-	156,927	-	141,794
Queenstown Lakes District Council	50,113	210,612	25,030	130,333
Rangitikei District Council	-	3,020	-	3,020
Rotorua District Council	12,850	245,204	12,823	215,034
Ruapehu District Council	8,010	21,497	8,005	21,474
Selwyn District Council	-	65,180	-	60,129
South Taranaki District Council	-	95,284	-	95,210
South Waikato District Council	13,975	20,046	8,987	15,030
Southland District Council	19,996	16,819	-	-
South Wairarapa District Council	-	24,526	-	24,520
Stratford District Council	-	22,273	-	22,271
Taranaki Regional Council	1,993	8,528	4,999	-
Tararua District Council	-	46,135	-	44,100
Tasman District Council	24,065	176,151	27,037	152,035
Taupo District Council	-	135,302	-	125,177
Tauranga City Council	-	657,330	-	516,688
Thames-Coromandel District Council	-	73,216	-	61,145
Timaru District Council	22,571	117,402	22,529	117,181
Upper Hutt City Council	2,999	74,225	-	65,153
Waikato District Council	4,983	90,277	-	80,189
Waikato Regional Council	-	32,098	-	32,082
Waimakariri District Council	-	170,642	-	170,506
Waipa District Council	24,533	105,282	8,000	90,123
Wairoa District Council	-	8,042	-	8,041
Waitaki District Council (WD)	2,497	17,542	2,498	12,523
Waitomo District Council	7,011	24,052	4,003	30,045
Wellington City Council	-	1,009,389	-	792,505
West Coast Regional Council	2,003	6,611	2,001	6,610
Western Bay Of Plenty District Council	-	70,209	-	70,154
Westland District Council	-	24,880	-	21,858
Whakatane District Council	-	82,265	-	77,203
Whanganui District Council	7,513	100,362	7,507	94,289
Whangarei District Council	9,986	162,416	9,993	162,296
Fair value hedge adjustment	-	(19,835)	-	(1,091)
	382,396	13,130,731	287,140	11,778,528

1. As at 31 December 2021, \$1,751 million of loans are due to mature within 12 months. This comprises all short-term loans and \$1,369 million of loans.

9. Other assets

in \$000s	Unaudited as at 31 December 2021	Audited as at 30 June 2021
Intangible assets ¹	79	154
Right-of-use lease asset	139	190
Total other assets	218	345

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

10. Payables and provisions

in \$000s	Unaudited as at 31 December 2021	Audited as at 30 June 2021
Loans to be advanced	68,000	40,000
Unsettled investments	24,000	-
Trade creditors	576	658
Credit provision	265	193
Other provisions	172	49
Total receivables	93,014	40,900

11. Bills

Unaudited as at 31 December 2021 in \$000's	Face value	Unamortised premium	Accrued interest	Total
12 January 2022	70,000	-	(10)	69,990
18 January 2022	55,000	-	(17)	54,983
3 February 2022	25,000	-	(18)	24,982
9 February 2022	80,000	-	(70)	79,930
1 March 2022	50,000	-	(72)	49,928
11 March 2022	70,000	-	(107)	69,893
15 March 2022	50,000	-	(88)	49,912
21 March 2022	27,000	-	(54)	26,946
7 April 2022	65,000	-	(142)	64,858
13 May 2022	43,000	-	(164)	42,836
	535,000	-	(742)	534,258

Audited 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
	610,000	-	(376)	609,624

12. 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 31 December 2021, \$1,200 million of LGFA bonds had been subscribed as treasury stock.

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

As at 31 December 2021, bond repurchase transactions comprised:

in \$000s	Unaudited as at 31 December 2021	Audited as at 30 June 2021
14 April 2022	15,163	-
15 April 2023	84,569	32,887
15 April 2024	10,033	-
15 April 2025	20,244	-
15 April 2026	3,826	-
15 April 2027	60,371	-
15 May 2028	4,852	-
20 April 2029	10,963	33,810
15 May 2031	9,505	-
14 April 2033	6,324	38,957
15 May 2035	-	-
15 April 2037	-	4,566
	225,850	110,220

13. Bonds

Bonds on issue do not include \$1,200 million face value of issued LGFA bonds subscribed by LGFA and held as treasury stock. Refer Note 12: Treasury stock and bond repurchase transactions.

Unaudited as at 31 December 2021 in \$000's	Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
Fixed interest bonds					
14 April 2022	1,605,000	5,592	9,579		
15 April 2023	1,750,000	38,281	20,625		
15 April 2024	1,648,000	14,928	7,946		
15 April 2025	1,619,000	(13,109)	9,541		
15 April 2026	1,390,000	3,296	4,468		
15 April 2027	1,631,000	90,026	15,728		
15 May 2028	700,000	(5,440)	2,045		
20 April 2029	1,272,000	(13,369)	3,826		
15 May 2031	730,000	(4,336)	2,133		
14 April 2033	1,260,000	46,048	9,571		
15 May 2035	400,000	2,234	1,558		
15 April 2037	730,000	(13,169)	3,129		
Total fixed interest	14,735,000	150,984	90,148	(373,638)	14,602,493
Floating rate notes					
14 October 2022	130,000	(20)	388	-	130,368
Total	14,865,000	150,964	90,536	(373,638)	14,732,861

Audited as at 30 June 2021 in \$000's	Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
Fixed interest bonds					
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		
Total fixed interest	12,680,000	162,045	79,326	166,138	13,087,509
Floating rate notes					
14 October 2022	130,000	(33)	283	-	130,250
Total	12,810,000	162,012	79,610	166,138	13,217,759

14. 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.

15. Other liabilities

in \$000s	Unaudited as at 31 December 2021	Audited as at 30 June 2020
Lease liability	139	190
Accruals	422	349
Total receivables	561	539

Capital and dividends

16. Share capital

As at 31 December 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.

17. Shareholder information

Registered holders of equity securities	As at 31 December 2021		As at 30 June 2021	
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 City 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%
	45,000,000	100%	45,000,000	100%

Other Notes

18. Reconciliation of net profit to net cash flow from operating activities

in \$000s	Unaudited six months ended 31 December 2021	Unaudited six months ended 31 December 2020
Net profit/(loss) for the period	5,935	5,918
Cash applied to loans	(1,427,636)	(1,420,594)
Non-cash adjustments		
Amortisation and depreciation	(3,955)	1,937
Working capital movements		
Net change in trade debtors and receivables	13	149
Net change in prepayments	(319)	(321)
Net change in accruals	73	(113)
Net Cash From Operating Activities	(1,425,888)	(1,413,023)

19. Related parties

Identity of related parties

LGFA is related to the local authorities set out in the Shareholder Information in note 16.

LGFA operates under an annual Statement of Intent 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 8, 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 14.

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

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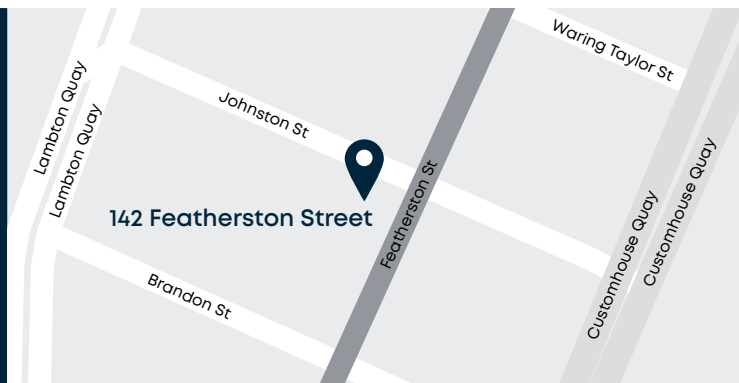
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