ANNUAL REPORT
30 June 2022

Benefiting communities through delivering efficient financing for local government.

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

LGFA

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

Contents

Ngā Ihirangi

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

Cover photo: Ngā tumu 'anamata' and the boardwalk
Contents photo: Lakefront upgrade
Rotorua Lakes Council

Message from the Chair and Chief Executive

He karere mai i te Toihau me te Tumuaki

Ten years of LGFA

LGFA was established in December 2011, and we commenced our borrowing and lending activities in February 2012. Over the past decade we have grown our membership from the 18 foundation councils to now providing lending services to 75 councils and one Council-controlled organisation (CCO) having secured an estimated 80% market share of all council borrowing.

We have broadened our product mix from initially providing only term lending to councils to now encompassing short-dated lending, bespoke lending, Green, Social and Sustainable lending, CCO lending and providing standby facilities.

Today, LGFA is the largest issuer of NZD bonds after the New Zealand Government, the largest bond issuer listed on the NZX, and our bonds are amongst the largest and most liquid New Zealand-dollar debt instruments available for investors. In 2021 our credit rating from S&P Global Ratings was raised from AA+ to AAA, which is the highest credit rating available and the same as the New Zealand Government.

We would not have achieved this success over the past decade without the support of many individuals and organisations, so we want to express our thanks to our many stakeholders.

2021-22 Financial and operational performance

Total interest income for the financial year of $393.5 million increased 4.3% over the 2020-21 result of $377.2 million. Net operating profit of $10.7 million decreased 10.8% on the 2020-21 result of $12.0 million but was in line with the 2019-20 result of $10.6 million..

Both net interest income and operating profit were below the Statement of Intent (SOI) forecasts due to:

- a larger than expected liquid asset portfolio (LAP) which, over the year, yielded lower returns than our cost of borrowing (which finances our LAP investments),
- the impact from market pricing in aggressive tightening in monetary policy, as the increase in yields on cash deposits held at the RBNZ did not keep pace with the longer end of the yield curve which sets the base rate for our cost of borrowing, and
- our conservative approach to borrowing longer than our term of lending to members, due to a higher cost of borrowing in these longer terms.

Operating expenses at $7.93 million were $169k over the SOI budget. Higher Approved Issuer Levy (AIL) payments due to a increased levels of offshore investor holdings relative to forecast, higher NZX and legal fees associated with record levels of bond issuance and lending and higher personnel costs were partially offset by lower travel costs.

Borrowing activity

LGFA issued a record $3.9 billion of bonds over the financial year and outstandings now total $16.1 billion (including $1.1 billion of treasury stock) across 11 bond maturities ranging between 2023 to 2037. Bond issuance was significantly higher than the historical average annual issuance of $1.6 billion. The average term of our bond issuance during the year at 6.2 years was shorter than the prior year of 8.7 years; reflecting the more challenging market conditions for issuance and closer matching of council borrowing.

Over the past year, the spreads on LGFA bonds widened against both New Zealand Government Bonds (NZGB) and swap. LGFA bond spreads to NZGB widened between 12 bps (2023 bond) and 38 bps (2037 maturity) while LGFA bond spreads to swap ranged between a 6 bps narrowing (2023 maturity) and a 21 bps widening (2037 maturity). This change was similar to the spread movements on other high grade issuers and also reflected the record amount of bond issuance undertaken by LGFA during the year.

There was also a significant lift in yields over the year, with outright yields rising between 217 bps (2037 maturity) and 305 bps (2024 maturity).

Lending to the sector

Over the past year, we added three new members with Southland District, Waimate District and Otago Regional Council joining. Total council membership is now 75 out of the 78 councils in New Zealand. In addition, Invercargill City Holdings, our first Council Controlled Organisation (CCO), became a member during the year.

Long-dated lending to councils over the year was a record $3.3 billion as councils refinanced their April 2022 loans and increased their borrowing to finance infrastructure projects. Our estimated market share of total council borrowing of 80% was in line with last year's result and remained high on an historical basis. The average tenor of long-dated borrowing by councils of 6.2 years over the 12-month period was shorter than last year's 6.9 years.

Short-dated lending for terms less than 12 months continues to be well supported by councils. At June 2022, there were $478 million of short-term loans outstanding to 31 councils, a 68% increase over last year's $287 million outstanding to 25 councils.

COVID-19 and the proposed Three Waters Reform Programme

Over the year, the local government sector has managed under the impact from COVID-19 and two Central Government led initiatives relating to the proposed Three Waters Reform Programme and Future for Local Government Review.

The sector continues to display great resilience to the impact from COVID-19 with very little financial impact. Financial support from Central Government has assisted the sector with the delivery of infrastructure projects and enabled councils to increase their capital expenditure programmes.

LGFA has been working with Central Government and our members as they work through the proposed Three Waters Reform Programme and its funding and financing implications. Central Government has introduced legislation to create four new Water Service Entities (WSE) that will assume the ownership and management of the three waters assets from 1 July 2024, including the debt and associated revenue from the current 67 council providers.

We are awaiting further details of the proposed WSEs before we consult with our stakeholders on any potential involvement by LGFA going forward.

LGFA is also assisting the local government sector-led initiative in developing a Ratepayer Financing Scheme which is being developed with the objective of providing some financial relief options to ratepayers.

New products and initiatives

We continue to look to innovate with our products for members and launched our Green, Social and Sustainable (GSS) lending product in October 2021, with the first GSS loans to Wellington City and Greater Wellington Regional councils in December 2021.

We undertook our first loan to a CCO in July 2021, with a second CCO member expected in the next six months.

We have increased the level of council standby facilities by $137 million to $662 million at year end, with the number of participating councils increasing by four to 11.

The LGFA board and Shareholders Council have established a Future Director programme to assist the sector with developing governance capability. Anita Furniss has been appointed to the position and commences with LGFA on 1 July 2022.

Increasing focus on sustainability and stakeholder engagement

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

- The establishment of a Sustainability Committee to advise the LGFA Board and management team on sustainability issues. The Committee comprises four external appointees and assists the LGFA Head of Sustainability.
- Ongoing commitment to reducing our carbon emissions and maintaining our CarbonNetZero certification from Toitu Envirocare.
- Launch of our GSS lending product that offers a lower borrowing margin for councils with eligible projects. We have pre-approved borrowing for two eligible projects totalling $407 million and have made loans to date of $63 million.
- Paul Matthews, a student at Massey University, reviewed how Councils are responding to climate change and the implications for LGFA as part of an internship he undertook with us.

This annual report is prepared to meet the requirements of the Global Reporting Initiative (GRI) Standards (core option).

We headlined sponsorship of the 2020 LGFA Taituara Local Government Excellence Awards for the second consecutive year, and the eighth year that we have supported the awards. We were pleased that the winner of the Supreme Award was the **Te Hiku o te Ika Revitalisation Project**, a highly successful collaboration between Far North District Council, the Kaitaia Business Association, the five iwi of Far North's Te Hiku region and the wider community. The project created employment in, and enhanced the vibrancy of, three of New Zealand's most deprived areas. Some 81 urban development, restoration and revitalisation projects were identified and folded into the project.

Acknowledgments

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

Craig Stobo
Chair

Mark Butcher
Chief Executive

Celebrating 10 years of cost efficient financing for councils

Since incorporation in 2011, we have:

- issued a total of **$21.7 billion** bonds to market
- lent a total of **$20.1 billion** to councils and CCOs

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

LGFA Board of Directors, from left:
Philip Cory-Wright, John Avery, Craig Stobo,
Alan Adcock, Linda Robertson, Anthony Quirk,

Performance highlights

Ko ngā tino hua

Bonds issued over the financial year

$3,900 million

Total interest income

$393.5 million

4.3% Increase over 2021-22 year

Lending to members over the financial year

$3,228 million

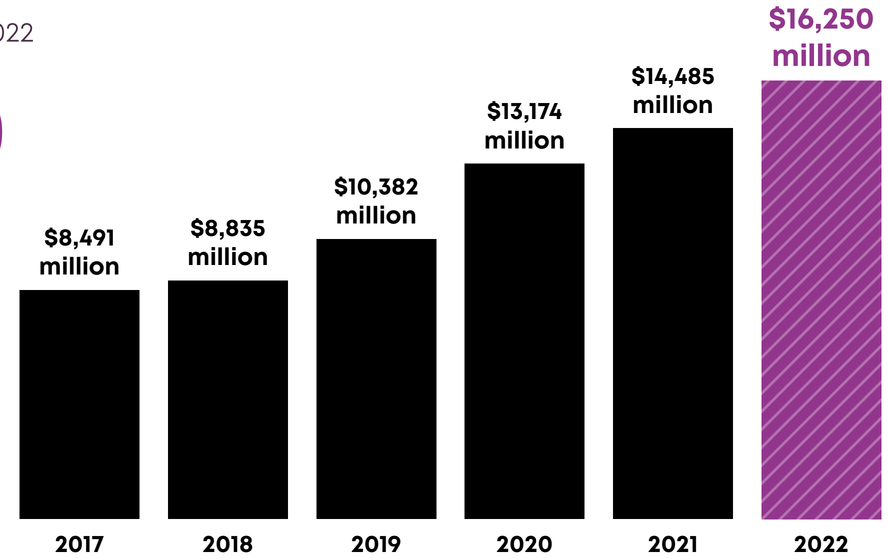
Net operating profit

$10.7 million

11.1% Decrease over 2021-22 year

Total assets at 30 June 2022

$16,250 million



Liquidity at 30 June 2022

$158 million
Cash

$1,491 million
Marketable securities

$462 million
Deposits

$1,100 million
Treasury stock for repurchase

$1,300 million
Government committed liquidity facility

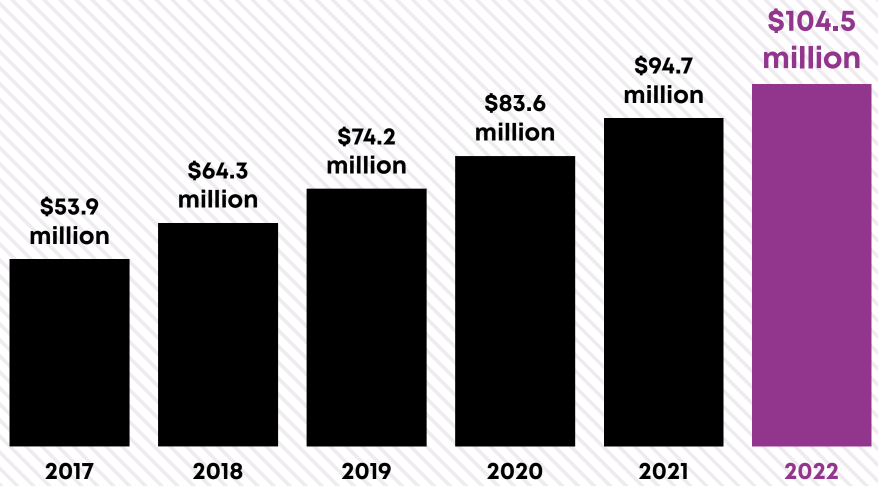
Borrower notes

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

$283 million

Shareholder funds at 30 June 2022

$104.5 million



Fully paid shares

$25.0 million

Retained earnings

$79.5 million

Performance against objectives

Ko ngā whakatutukinga 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 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 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 80% 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 significant matters such as COVID -19 response and the proposed Three Waters Reform Programme.
- 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 year ended 30 June 2022 against the two primary objectives set out in the 2021-22 SOI.

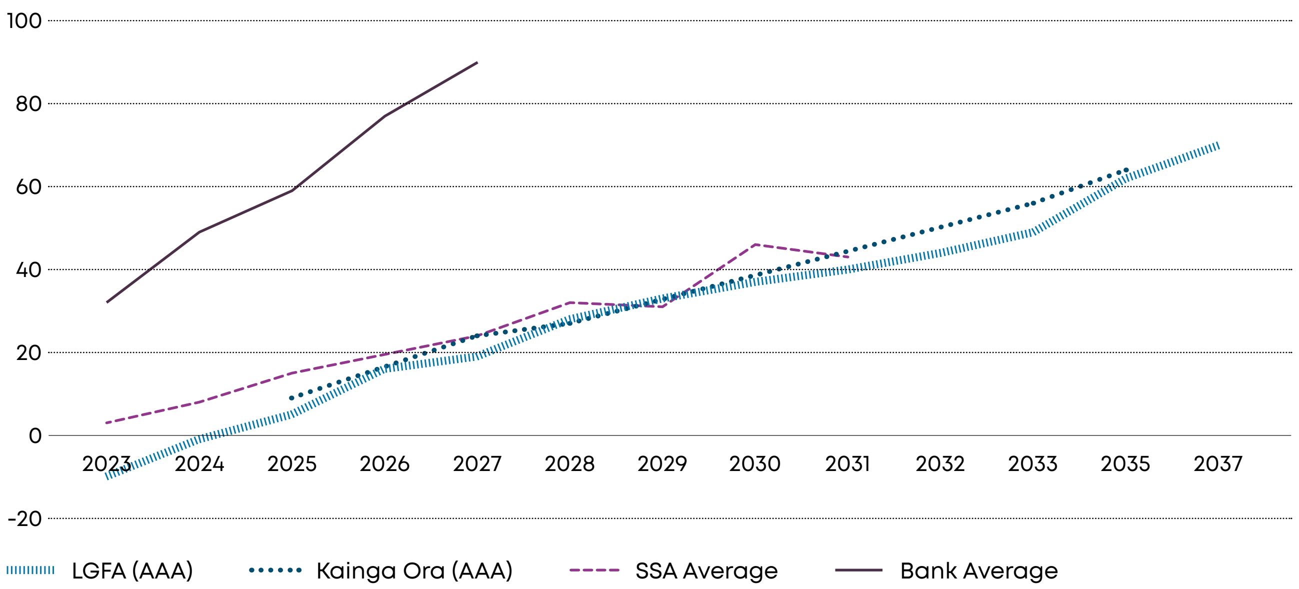
Primary objective 1: LGFA will optimise the debt funding terms and conditions for Participating Borrowers. Among other things, this includes:

Providing interest cost savings relative to alternative sources of financing.

LGFA lending base margin was 15 bps for all borrowing terms for the 2021-22 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.

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.

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



We survey our members each year on their satisfaction with LGFA and our August 2021 stakeholder survey returned a 99% positive response to the question "How would you rate LGFA in adding value to your borrowing requirements?". We also received a 98% positive response to the question "How satisfied are you with the pricing that LGFA has provided to your Council?".

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

Both short and long-term borrowing has been well supported by our members:

- At June 2022, $478 million short-term loans were outstanding to 31 councils and CCOs, with loan terms ranging between one month and 12 months.
- Over the year, 66 members borrowed $3,228 million in 292 new long-term loans, across 77 maturity dates ranging between 2021 and 2037.
- Our Green Social and Sustainability (GSS) loan product was formally launched in late 2021 with Wellington City Council and Greater Wellington Regional Council our inaugural borrowers under the GSS programme.
- Our first CCO member, Invercargill City Holdings, undertook borrowing in July 2021.

Standby facilities provided to councils increased by $147 million over the year to total $662 million across 12 councils.

Delivering operational best practice and efficiency for its lending services.

Over the year, the LGFA operations team successfully settled 1,783 new trades and 11,474 cash flows in excess of $36 billion.

In the August 2021 stakeholder survey, respondents recorded a 96% positive response 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.

LGFA issued a record $3,900 million in bonds over the year through nine tenders and two syndications. There were 12 bill tenders over the year with $565 million of bills on issue at June 2022. Proceeds from bill and bond issuances fund our lending to members, with the balance invested in our liquid asset portfolio.

In October 2021, LGFA issued two new bonds, a May 2028 and May 2035, providing members with the opportunity to extend their long-term borrowing. The weighted average borrowing term by members over the year was 6.2 years (excluding short-dated borrowing).

LGFA maintains an Australian Medium-Term Notes Programme which, to date, has not been used but which provides additional flexibility if required under future market conditions.

Primary objective 2: 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 borrowers financial statements on an annual basis and the agendas and management reports on an ongoing basis for all councils and CCOs on the LGFA borrower watch-list.

Borrowers are required to complete annual compliance certificates by 30 November each year. We have received compliance certificates from all borrowers, and all remained compliant as at 30 June 2021.

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

All LGFA members are measured on a parent level basis.

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

LGFA met with all council and CCO members over the course of year. Where practical, we met in person with members and held meetings virtually if 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 year, LGFA management met with representatives from Reserve Bank of New Zealand, Department of Internal Affairs, Office of the Auditor General, Taituara, the New Zealand Debt Management section of the Treasury (NZDM).

LGFA continue to assist the sector and 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 Standard and Poor's and Fitch Ratings and meets with both agencies at least annually.

- **Standard and Poor's (S&P).** On 2 March 2022, S&P affirmed our long-term local currency credit rating of AAA and our long-term foreign currency credit rating of AA+.
- **Fitch Ratings (Fitch).** On 1 November 2021 Fitch affirmed both our local currency credit rating of AA+ (stable) and foreign currency credit rating of AA (positive outlook).

Both S&P and Fitch ratings are the same as the New Zealand Government.

Provide at least 80% of aggregate long-term debt funding to the Local Government sector.

LGFA use the PwC Local Government Debt Report to determine our market share. Our estimated market share for the rolling twelve-month period to June 2022 was 80%. If we exclude Auckland Council borrowing of $500 million in its own name over the past year in the domestic market, then market share increases to 89%. This compares to a historical average of 75% and our market share remains high compared to our global peers.

Over the year, three new councils became members of LGFA, lifting total participating council members to 75. Otago Regional Council, Southland District Council and Waimate District Council joined as guarantors. In addition, Invercargill City Holdings Ltd became our first CCO member bringing total council and CCO membership to 76.

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 $17.516 million, which was $0.569 million under budget, while expenses of $7.933 million were $0.169 million over budget. Net operating profit of $10.673 million was $0.648 million under 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 lending terms in our balance sheet. Over the year, there was an unrealised gain on these swaps of $2.33 million.

Operating expenses for the year:

- **Issuance and on-lending costs** at $2.829 million were $0.092 million over budget. Higher issuance and lending volumes than forecast resulted in higher costs for NZX, legal and registry.
- **Other operating costs** at $4.403 million were $0.014 million over budget.
- **Approved Issuer Levy (AIL)** payments of $0.701 million were $0.063 million over budget. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment and offshore investor holdings were just over our SOI forecast.

Comply with the Health and Safety at Work Act 2015.

LGFA has a Health and Safety Staff Committee and reporting on health and safety issues is made to the LGFA board on a regular basis by the Risk and Compliance Manager. There were no health and safety incidents during the 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 significant matters such as COVID -19 response and the proposed Three Waters Reform Programme.

LGFA continue to have ongoing dialogue with Central Government on the proposed Three Waters reforms and provided feedback regarding financing of the proposed entities during and beyond the transition period. We are waiting for clarification from Central Government as to the role that LGFA could play, if any, in providing financing.

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

LGFA continues to develop our processes with regards to demonstrating commitment to social and environmental responsibility and aims to be a key contributor to the local government sector's investment in green projects and to support the transition to a low-carbon society.

- In September 2021 we established our Sustainability Committee, which followed our appointment of Nick Howell as Head of Sustainability in May 2021;
- In October 2021 we launched our Green, Social and Sustainability Lending Programme which offers funding to enable members to undertake GSS projects that will help drive forward climate, environmental and social projects in the New Zealand local government sector; and
- Over the course of the year, we progressed work on improving our sustainability outcomes, which include reducing our carbon footprint and implementing our Responsible Investment Policy.

Throughout the year, LGFA has been looking to widen its sustainable finance options for members by offering them the future opportunity to apply for Climate Initiative Loans (CILs). The product is currently under development but offering CIL's will align to LGFA's aim of displaying leadership to the sector on sustainable lending.

Performance Targets

Meet or exceed the Performance Targets

Performance measure	Result for the 12 month period to 30 June 2022	Outcome
LGFA total operating income for the period to June 2022 will be greater than $19.1 million	$18.6 million.	✗
Annual issuance and operating expenses (excluding AIL) will be less than $7.2 million	$7.2 million.	✗
Total nominal lending (short and long term) to participating councils to be at least $13.294 billion	$14.019 billion.	✓
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	80%	✓
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 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	✓

About us

Mō mātou

Incorporated on 1 December 2011 under the Companies Act 1993

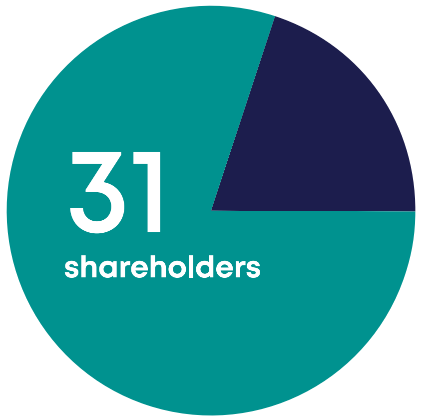
Enabled by Local Government Borrowing Act 2011

Council-controlled organisation under the Local Government Act 2002

Ownership

45
million ordinary shares on issue

20 million of which remain uncalled



80%
30 Councils

20%
New Zealand Government

Share ownership is restricted to New Zealand Government or councils.

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.

Credit rating at 30 June 2022

S&P Global Ratings	Fitch Ratings
Domestic Currency **AAA** **Stable outlook**	Domestic Currency **AA+** **Stable outlook**
Foreign Currency **AA+** **Stable outlook**	Foreign Currency **AA** **Positive outlook**

Guarantee structure

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

Governance overview

31 Shareholders

30 Councils

80%

New Zealand Government

20%

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

Our history
by financial year

Incorporated – Dec 2011

- Commenced bond issuance February 2012
- **2012**
- KangaNews NZ Domestic Issuer of the Year – 2012
- INFINZ award for Best Bond issue of 2012
- Inaugural LGFA Borrowers Forum
- **2013**
- Inaugural dividend of $1.5m declared
- **2014**
- Bespoke lending introduced
- Implemented Treasury Management System and transitioned outsourced services from NZDMO
- **2015**
- LGFA Bonds listed on NZX November 2015
- Commenced LGFA Bill issuance
- Commenced short-term lending to councils
- Transitioned to Financial Markets Conduct Act
- **2016**
- Bond lending facility established October 2016
- **2017**
- First LGFA bond not matched to a New Zealand Government bond maturity
- **2018**
- Inaugural syndication ($1.0b)
- **2019**
- KangaNews. NZ Domestic Bond Deal of the Year
- Reserve Bank adds LGFA bonds to its Large Scale Asset Purchase programme. April 2020
- **2020**
- AAA credit rating achieved
- Toitū ZeroCarbon certification (TOITŪ NET CARBON ZERO ISO 14064-1 ORGANISATION)
- **2021**
- 10 year anniversary
- Green, social and sustainability lending offered to members
- Commenced lending to Council-controlled Organisations
- Future Director programme launched
- Record $3.90 billion bonds issued in year
- **2022**

LGFA bonds on issue

Ko ngā pūtea taurewa pūmau kua tukuna e te LGFA

How we issue bonds

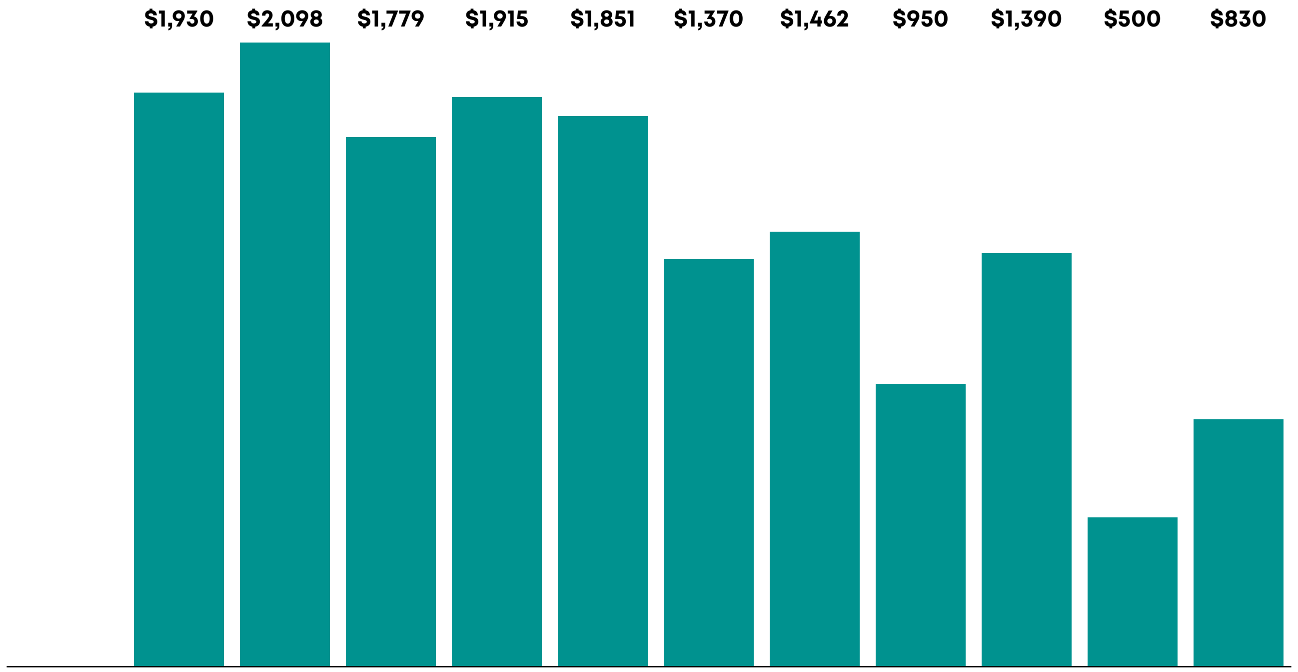
LGFA typically issues a new bond maturity via an initial syndication and then through ongoing regular scheduled tenders.

- 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 cap of $2.5 billion 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.

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

As 30 June 2022 : NZ$16,075 million

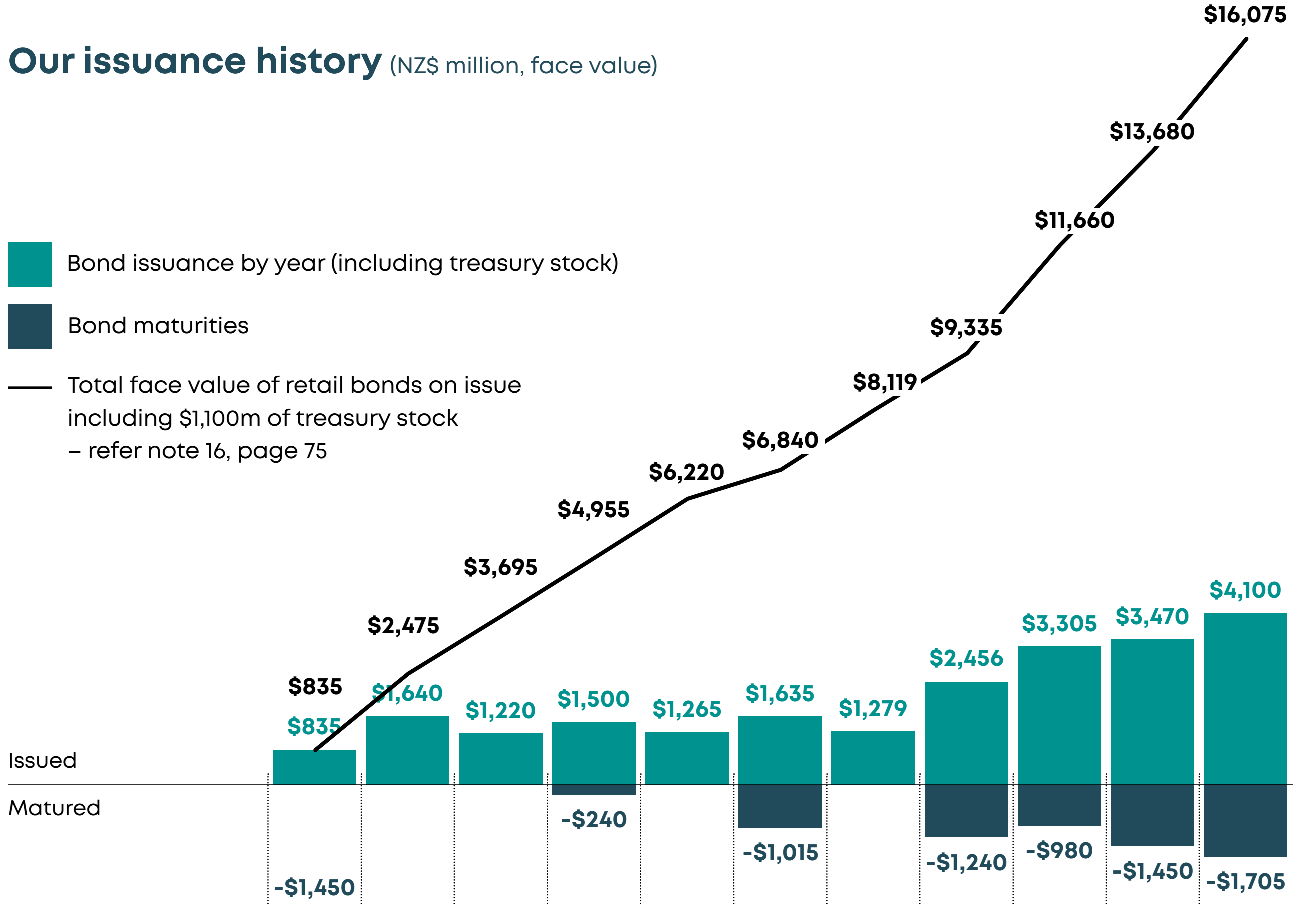
Includes NZ$1,100 million treasury stock (refer note 16, page 75)



Maturity	Apr 2023	Apr 2024	Apr 2025	Apr 2026	Apr 2027	May 2028	Apr 2029	May 2031	Apr 2033	May 2035	Apr 2037
Coupon	5.50%	2.25%	2.75%	1.50%	4.50%	2.25%	1.50%	2.25%	3.50%	3.00%	2.00%
NZX Code	LGF050	LGF100	LGF070	LGF120	LGF060	LGF150	LGF110	LGF140	LGF080	LGF160	LGF130

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

Our issuance history (NZ$ million, face value)



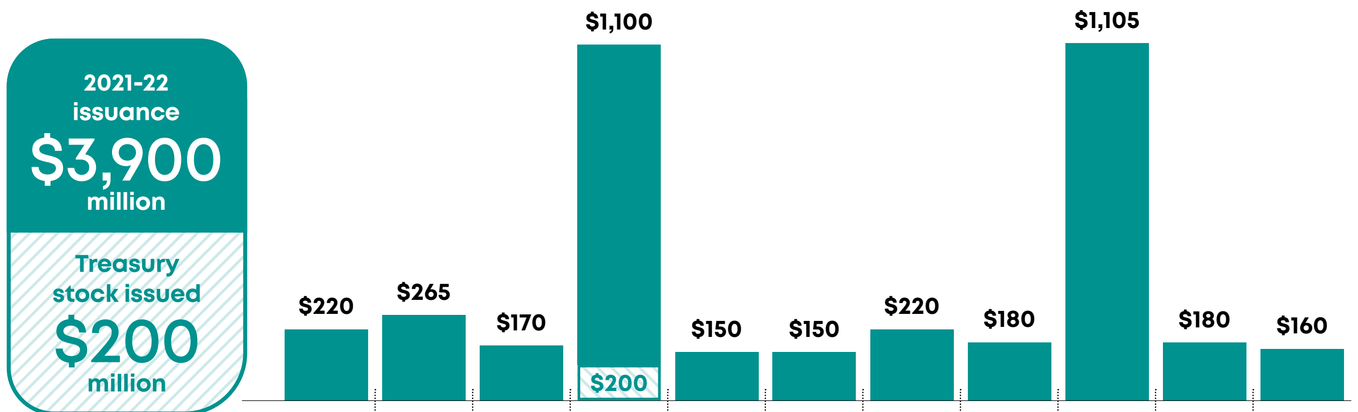
Financial year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Average tender size (NZ$ million)	209	182	153	188	141	143	137	188	182	191	188
Average issuance term (years)	5.3	6.6	7.0	7.9	8.1	8.3	6.1	6.6	6.9	8.7	5.5

2021-22 issuance by maturity (NZ$ million, face value)

LGFA bond issuance by bond maturity over the 12-month period to 30 June 2022

Tenders	Apr 23	Apr 24	Apr 25	Apr 26	Apr 27	May 28	Apr 29	May 31	Apr 33	May 35	Apr 37	Total
7 Jul 21	-	-	50	60	-	-	60	-	50	-	-	220
12 Aug 21	90	-	50	-	45	-	-	80	-	-	-	265
8 Sep 21	-	50	-	40	-	-	40	-	40	-	-	170
10 Nov 21	-	70	-	-	50	-	-	-	-	-	30	150
12 Dec 21	-	-	50	50	50	-	-	-	-	-	-	150
2 Feb 22	-	60	-	-	-	60	60	40	-	-	-	220
9 Mar 22	-	60	-	-	60	-	30	-	30	-	-	180
11 May 22	80	-	-	-	60	-	-	40	-	-	-	180
8 Jun 22	-	-	60	-	-	60	-	40	-	-	-	160
2021/22 tender issuance	170	240	210	150	265	120	190	200	120	-	30	1,695
2021/22 syndication	-	230	-	425	-	1,150	-	-	-	400	-	2,205
Total 2021/22 issuance	**170**	**470**	**210**	**575**	**265**	**1,270**	**190**	**200**	**120**	**400**	**30**	**3,900**
Prior issuance	1,660	1,528	1,469	1,240	1,486	-	1,172	650	1,170	-	700	11,075
Total bonds excluding Treasury Stock	1,830	1,998	1,679	1,815	1,751	1,270	1,362	850	1,290	400	730	14,975
Treasury stock	100	100	100	100	100	100	100	100	100	100	100	1,100
Total bonds on issue	1,930	2,098	1,779	1,915	1,851	1,370	1,462	950	1,390	500	830	16,075

2021-22 issuance by month (NZ$ million, face value)



	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Feb 22	Mar 22	Apr 22	May 22	Jun 22
	Tender	**Synd**	**Tender**	**Synd**	**Tender**	**Tender**	**Tender**	**Tender**	**Synd**	**Tender**	**Tender**
Tender coverage ratio	2.6x	1.8x	2.4x	N/A	2.6x	3.0x	2.6x	2.5x	N/A	4.3x	3.3x
Weighted average yield	1.71%	1.71%	1.80%	2.28%	2.31%	2.15%	2.22%	2.30%	2.76%	2.81%	2.87%

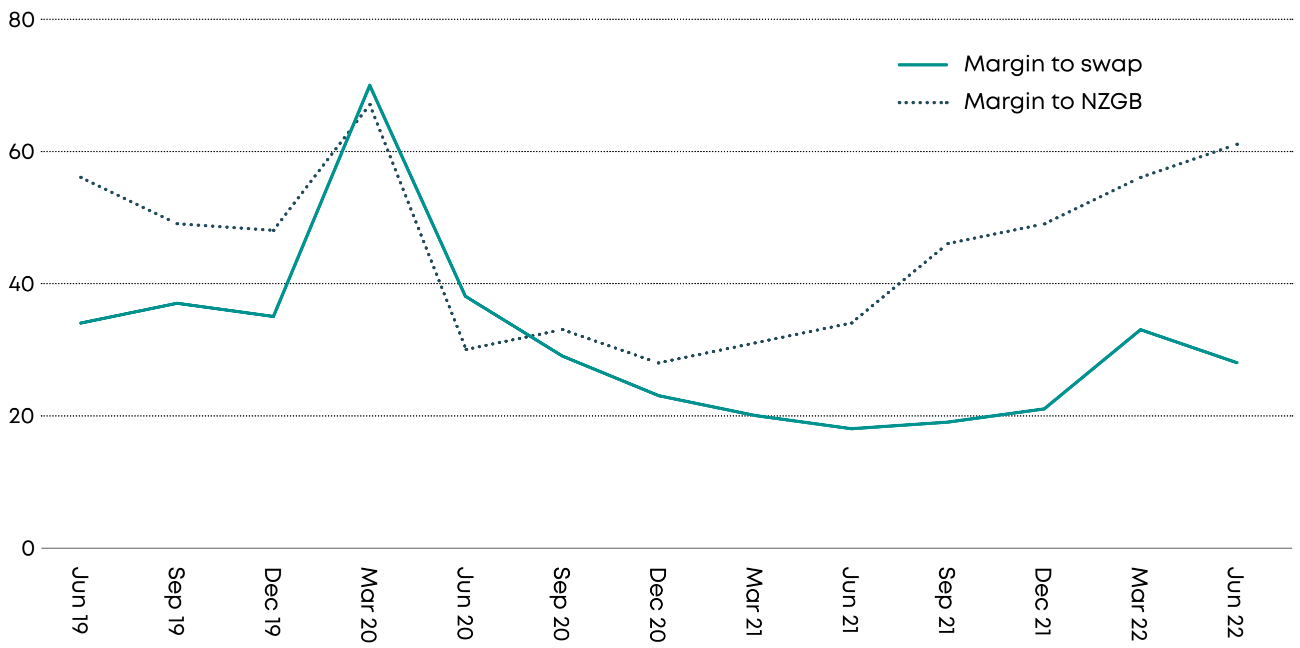
LGFA bond margins (basis points)

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

Margin to swap	Apr 23	Apr 24	Apr 25	Apr 26	Apr 27	May 28	Apr 29	May 31	Apr 33	May 35	Apr 37
30 June 2021	(1)	2	7	13	15	N/A	25	33	39	N/A	51
30 June 2022	(10)	(1)	5	16	19	28	33	40	49	62	70
Annual change	9	3	2	(3)	(4)	N/A	(8)	(7)	(10)	N/A	(19)

Margin to NZGB	Apr 23	Apr 24	Apr 25	Apr 26	Apr 27	May 28	Apr 29	May 31	Apr 33	May 35	Apr 37
30 June 2021	22	26	31	36	40	N/A	43	44	43	N/A	44
30 June 2022	34	53	55	61	60	61	62	66	65	78	79
Annual change	(12)	(27)	(24)	(25)	(20)	N/A	(19)	(22)	(22)	N/A	(35)

LGFA bond margins to swap over NZGB over the 36 months to 30 June 2022 (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.

LGFA is New Zealand's largest:

- issuer of NZD bonds (excluding New Zealand Government)
- issuer of debt listed on the NZX

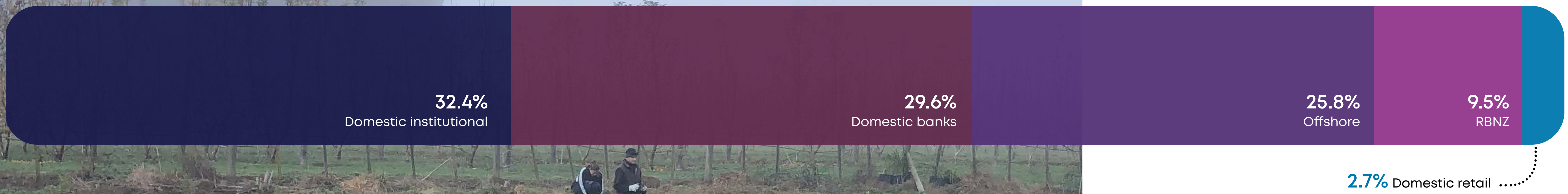
New bond maturities issued in the year to June 2022

May 2028
2.25%

May 2035
3.00%

LGFA bond holders by country of residence as at 31 March 2022

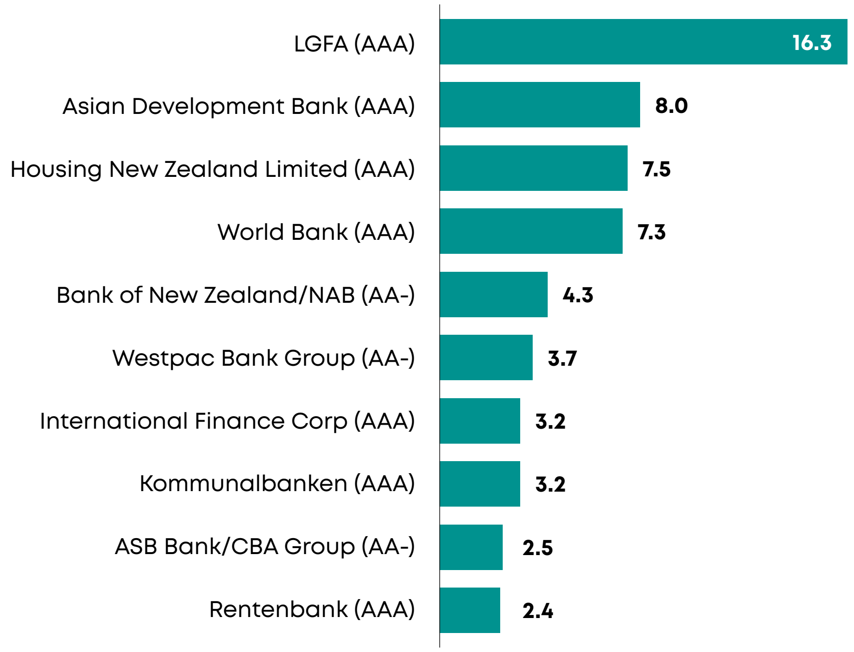
LGFA bond holders by investor group as at 30 June 2022



Right Tree, Right Place project
Hawkes Bay Regional Council

Largest issuers of NZD bonds by outstandings

excluding NZGB, as at 30 June 2022 (NZ$ billion)



LGFA estimate, based on aggregation of Bloomberg sourced data.

LGFA members

Ko ngā LGFA e noho mema ana

LGFA operates with the primary objective of optimising the debt funding terms and conditions for its members.

Participating local authorities and Council-controlled organisations are collectively referred to as LGFA members.

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 of LGFA, a council or CCO is required to complete a formal application. Following an application for membership, LGFA management completes a review of the prospective member'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 monitors all members' 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.

Total member borrowings at 30 June 2022

(NZ$ million)

Member type	Number of councils	Amount borrowed	% of total borrowings
Guarantors	68	14,015	99.6%
Non guarantors	7	63	0.4%
Total	**75**	**14,078**	**100%**

Member	Amount borrowed	% of total borrowings
Auckland Council	3,413	24.2%
Christchurch City Council	2,039	14.5%
Wellington City Council	967	6.9%
Tauranga City Council	649	4.6%
Hamilton City Council	633	4.5%
Greater Wellington Regional Council	576	4.1%
Rotorua District Council	288	2.0%
Hutt City Council	257	1.8%
Kapiti Coast District Council	256	1.8%
Hastings District Council	238	1.7%
63 members	4,762	33.8%
	14,078	**100%**

Loans to Auckland Council are limited to a maximum of

40%

of total loans

As at 30 June 2022

75 councils 1 council-controlled organisation

were eligible to borrow from LGFA

30 member councils are shareholders

68 member councils were guarantors

THE NUMBERS

Over the 12 months to 30 June 2022

$3,228

million of long term loans

were issued to

66

members

across

292

individual term loans

with an average term of

6.22

average borrowing years

At 30 June 2022

$478

million of short term loans

were outstanding to

31

members

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

80%

LGFA's estimated market share of local government debt

LGFA members 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	Masterton 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 and Guarantor
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 and Guarantor
2016-17	Northland Regional Council	Borrower and Guarantor
2016-17	Waitomo District Council	Borrower and Guarantor
2017-18	Rangitikei District Council	Borrower
2017-18	Stratford District Council	Borrower and Guarantor
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

- 2011-2012 (18)
- 2012-2013 (21)
- 2013-2014 (3)
- 2014-2015 (3)
- 2015-2016 (5)
- 2016-2017 (3)
- 2017-2018 (3)
- 2018-2019 (8)
- 2019-2020 (3)
- 2020-2021 (5)
- 2021-2022 (3)

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 and Guarantor
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 and Guarantor
2017-18	Westland District Council	Borrower and Guarantor
2018-19	Clutha District Council	Borrower and Guarantor
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
2021-22	Otago Regional Council	Borrower and Guarantor
2021-22	Southland District Council	Borrower and Guarantor
2021-22	Waimate District Council	Borrower and Guarantor
2021-22	Invercargill City Holdings Ltd	Council-controlled organisation

New member councils

LGFA welcomes the following three councils who joined as eligible borrowers in the year ended 30 June 2022

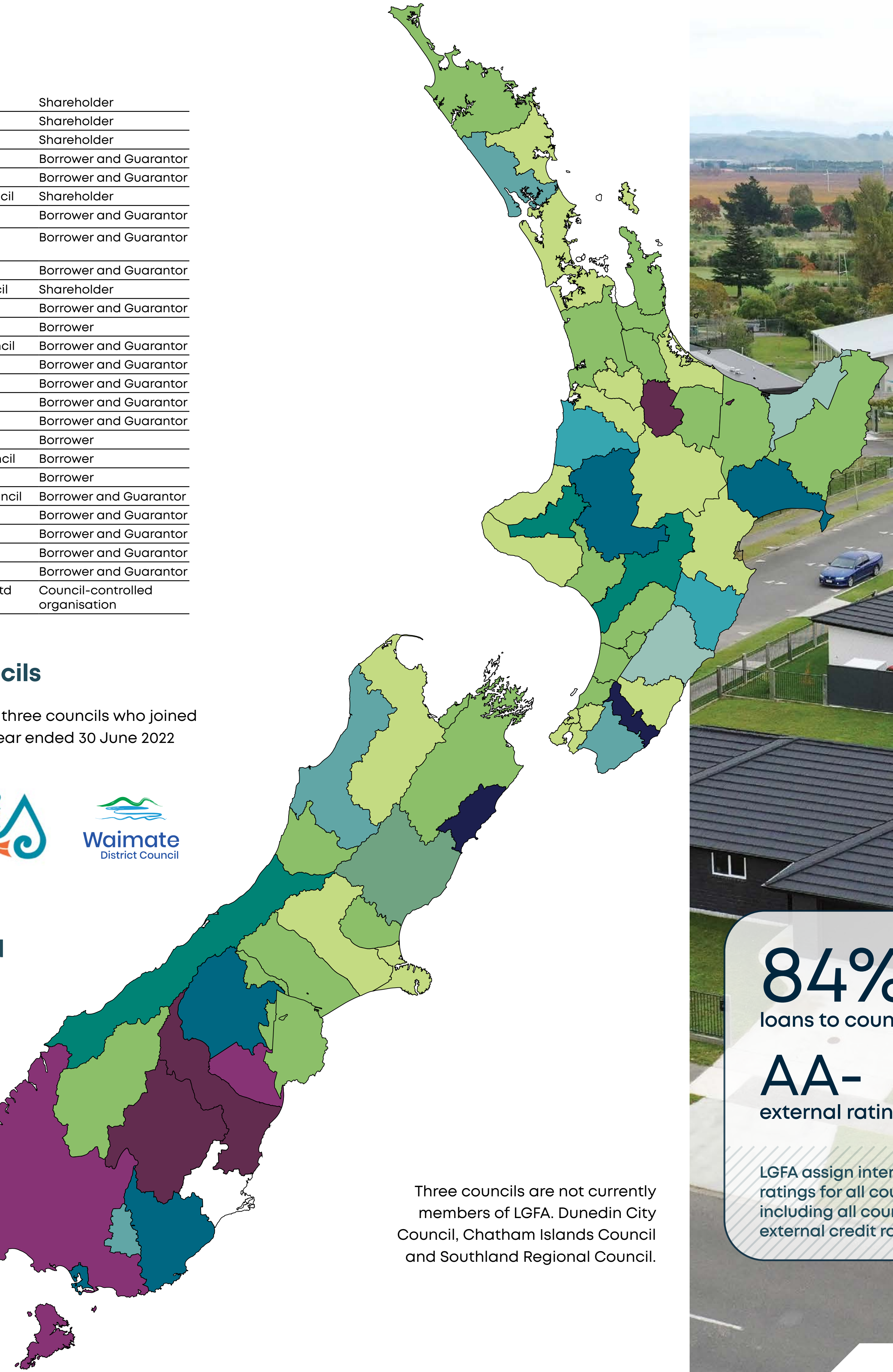
Otago Regional Council

Southland District Council

Waimate District Council

New member Council-controlled organisations

ICHL



Three councils are not currently members of LGFA. Dunedin City Council, Chatham Islands Council and Southland Regional Council.

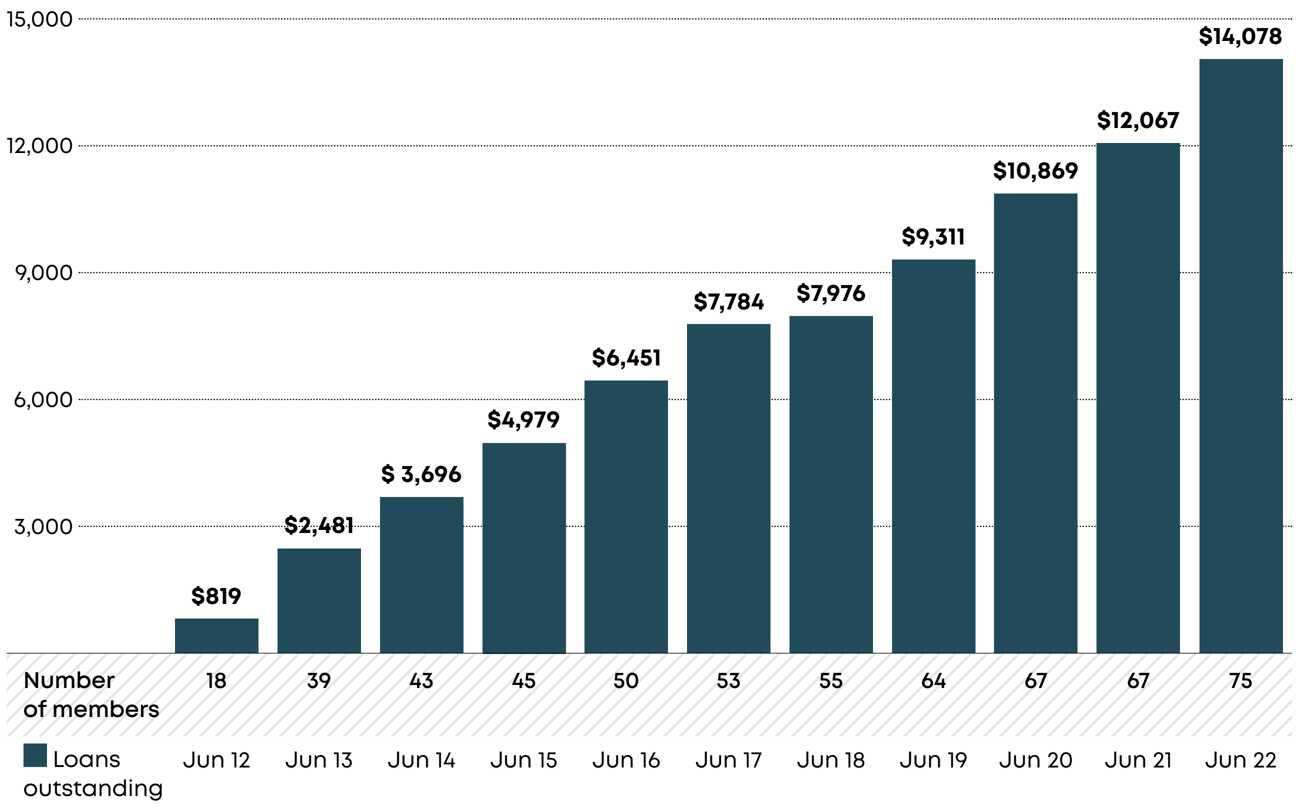
Community housing project
Hastings District Council

84% loans to councils with **AA-** external rating or better

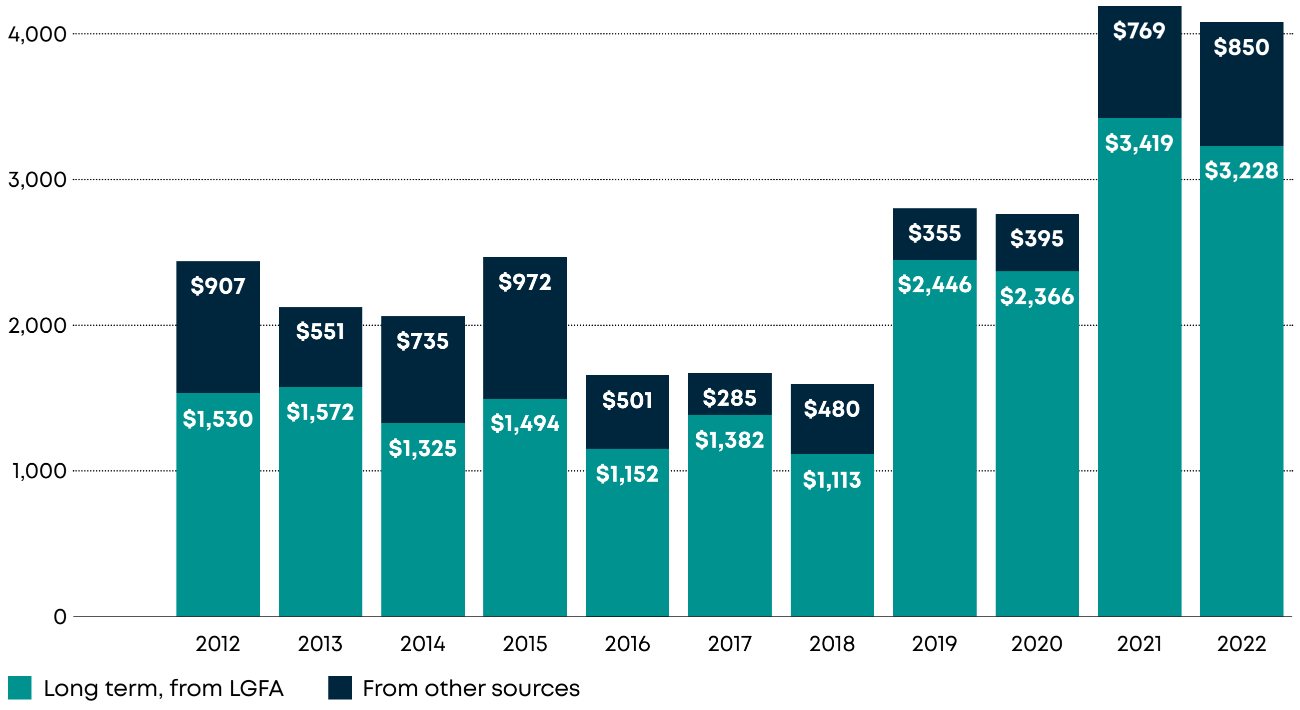
LGFA assign internal credit ratings for all councils, including all councils without external credit ratings.

75 of **New Zealand's 78 councils** are approved borrowers as at 30 June 2022

Loans to members outstanding (NZ$ million, nominal)



Borrowing by members (NZ$ million, nominal)



Community housing project
Hastings District Council

Sustainability at LGFA

Te toitūtanga kei te LGFA

LGFA seeks to continuously improve sustainability outcomes within the company as well as assisting the local government sector in achieving their sustainability and climate change objectives.

LGFA are committed to assist councils and council-controlled organisations finance projects that promote environmental and social wellbeing in New Zealand.

The LGFA Statement of Intent (SOI) requires us to improve sustainability outcomes within LGFA and assist the local government sector in achieving their sustainability and climate change objectives.

This section sets out our management approach for LGFA's environmental, social and governance (ESG) risks and opportunities. LGFA is committed to improving sustainability outcomes within the company, as well as assisting the local government sector achieve their sustainability and climate change objectives within their communities.

This Annual Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards (core option).

Sustainability Committee

In 2021, LGFA established our Sustainability Committee to assist us to achieve our sustainability objectives. The Committee is chaired by LGFA's Head of Sustainability and comprises three employees and four independent members.

The Committee's purpose is to advise the Chief Executive and Board on sustainability issues within LGFA, across its operating, borrowing and lending activities and includes providing input in our GSS lending programme. GSS loan applications are reviewed by LGFA's Sustainability Committee prior to approval, with approved loans monitored for ongoing compliance.

Independent members of the LGFA Sustainability Committee at 30 June 2022

Alison Howard
Erica Miles
Chris Thurston
David Woods

Our material issues

Material issues 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 materiality issues were determined with the assistance of Proxima, an independent sustainability consultancy. Over the past year, Proxima has worked with the executive, directors and shareholders to update the material issues relevant to our business and key stakeholders.

This year, LGFA's material issues have been updated to reflect our increasing focus on sustainability, with other material topics relatively unchanged from 2021.

Our organisation

- Culture, ethics and governance
- Transparency and disclosure
- Health, safety and wellbeing
- Diversity and inclusion
- Capability and development

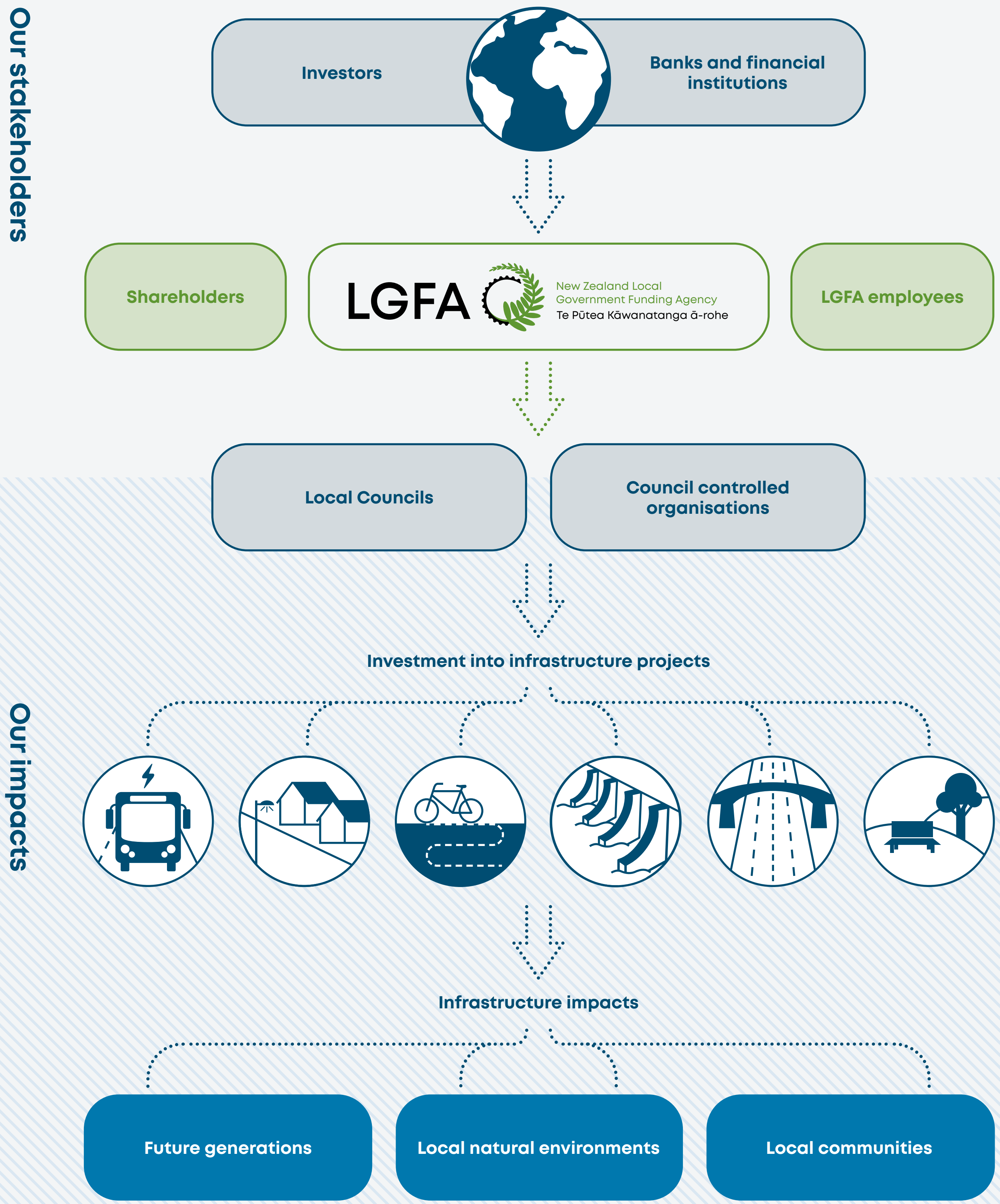
Responsible finance

- Deliver efficient and cost-effective funding
- Financial performance
- Industry collaboration and engagement
- Best practice and influence

Our environment

- Green, social and sustainability lending
- Responsible investment
- Sustainable business practices

LGFA is New Zealand's largest issuer after the New Zealand Government. Our issuance and lending functions impact our stakeholders, our communities and the environment.



LGFA is the predominant funder of New Zealand's local government and their activities and projects funded through our loans impact across our communities and environment. The impacts from council activities funded via LGFA will be either positive and negative and, while we do not specify or control the use of our proceeds from our loans, we are increasingly working with council members and the sector on identifying and progressing positive impact projects for the environment and our communities.

At the time of this report, we have begun working with members to better understand the environmental footprint for each council, as well as identifying where they are undertaking climate reduction initiatives. This information will assist us with developing future processes for reporting on the extent of LGFA's financed emissions to members.

Promoting environmental and social stewardship

LGFA recognises the emerging risks for councils from climate change and supports their commitment towards improving sustainable outcomes for local communities. LGFA supports New Zealand's contribution to meeting the United Nations' Sustainable Development Goals (UN SDGs) and will work with member councils and council-controlled organisations (CCOs) on financing projects to build towards a more sustainable and resilient society

As the primary lender to the local government sector, LGFA finances members' core investment into improving New Zealand's infrastructure and services to residents and visitors. By extension, these members' investments form an important element of LGFA's sustainability context.

Green, social and sustainability lending

A commitment to assist councils and council-controlled organisations finance projects that promote environmental and social wellbeing in New Zealand

LGFA acknowledges the importance of financing projects that promote environmental and social wellbeing in New Zealand, progress the United Nations Sustainable Development Goals, and which fund eligible green and/or social projects.

To assist our members finance sustainability projects, in 2022 we launched our green, social and/or sustainability (GSS) lending programme across the following ten green project categories and six social project categories:

Green Bond Categories

- Energy Efficiency
- Green Buildings
- Clean Transportation
- Sustainable Water and Wastewater Management
- Renewable Energy
- Pollution Prevention and Control
- Sustainable Management of Living Natural Resources and Land Use
- Climate Change Adaptation
- Terrestrial and Aquatic Biodiversity Conservation
- Circular Economy and Eco-efficient Products

Social Project Categories

- Affordable Basic Infrastructure-Clean Water, Sewer, Transport
- Access to Essential Services-Education, Healthcare
- Affordable Housing
- Employment Generation
- Food Security
- Socioeconomic Advancement and Empowerment

Under the GSS programme, LGFA lends to councils and CCOs at a discounted margin to incentivise them to undertake projects that help drive forward climate, environmental and social projects across the New Zealand local government sector.

Following the launch of our GSS loan product, LGFA are pleased to welcome Wellington City Council (WCC) and Greater Wellington Regional Council (GWRC) as inaugural lenders under the GSS programme.

Tākina Wellington Convention and Exhibition Centre
Wellington City Council

There was significant work required to investigate the correct market for GSS lending; other options investigated by Wellington City Council (WCC) were not going to align well to its needs. Working with, and issuing through, the LGFA provides benefit to the local government sector in building up to scale; and to WCC in getting this project funded in a way that works with WCC's balance sheet requirements.

Tākina Wellington Convention and Exhibition Centre, the Capital's largest infrastructure investment since the Wellington Regional Stadium two decades ago, will offer a powerful combination of facilities across three floors and 18,000 sqm that will draw visitors to Wellington to learn, meet and be inspired.

Being built to a 5 Green Star standard and rated at more than 100% of NBS, Tākina will act as a post event gathering point for the city. WCC are building resilience to climate change and natural disaster with various features including base isolation, elevated floor level, standalone plug in power supply and rain harvesting ability to ensure back up water supply is available. By doing so, WCC are ensuring the building can provide crucial post event support to the local community. All this in addition to putting Wellington on the map as a convention destination.

WCC declared a climate emergency June 2019 and have adopted Te Atakura (first to zero) carbon strategy to ensure it is demonstrating commitment to its climate response promise in everything they do. Building up a green loan portfolio and aligning GSS funding with a significant project, both in construction and over the term of the loan/life of the asset, demonstrates this commitment to its climate response for current and future generations of ratepayers.

GSS lending also provided WCC with marginally cheaper funding to offset additional compliance costs. Monitoring and complying with GSS loan requirements does involve some additional overhead and the 5 basis point reduction in funding costs goes some way to covering these.

RiverLink Project
Greater Wellington Regional Council

RiverLink brings together a range of different flood protection strategies to help protect the Hutt Valley from a natural disaster by managing flood risk and mitigating for climate change for the next 100 years. Borrowing under the LGFA's 'Climate Change Adaptation' category, the reduced cost of borrowing on the GSS loan will provide important savings each year over the asset's life.

The RiverLink Project is a partnership between Greater Wellington Regional Council (GWRC), Hutt City Council and Waka Kotahi NZ Transport Agency, working together with Mana Whenua partners – Ngāti Toa Rangatira and Taranaki Whānui ki te Upoko o te Ika.

Working collaboratively, the project encompasses flood protection works within and around Te Awa Kairangi Hutt River, the Making Places Urban Development Plan, and Melling transport improvements.

The flood protection works will upgrade the stopbanks on either side of Te Awa Kairangi Hutt River and deepen and widen the river channel to protect Lower Hutt city centre from a one in 440-year flood. As well as shielding the city, the flood protection will enhance the ecological health of the waterway. By making more space for the river it can create more fish habitats, including pools and undercut banks – places where trout, native eels and whitebait will thrive.

In August 2019, GWRC declared a climate emergency and has since developed a programme of climate action relating to corporate operations and regional outcomes. The climate emergency declaration encompasses everything GWRC are doing to combat climate change, including emissions from the Wellington region as a whole, and adapting to the effects of climate change. For GWRC to reduce its corporate carbon emissions, it has set the goal to become carbon neutral by 2030. GWRC aim to reduce net emissions by 40% by 30 June 2025, 100% net reduction by 2030 and become carbon negative by 2035.

Deliver efficient and cost-effective funding

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

By providing our members with access to cost-effective and efficient financing, LGFA supports local government by financing development and investment into New Zealand's local and regional sectors for a resilient and sustainable society.

A key indicator of satisfaction with service and pricing to members is LGFA's estimated overall market share for council lending. Since our incorporation in 2011, LGFA has firmly established itself as the prime lender to the local government sector, with a current estimated market share of 80% of local government debt.

Over the 10 years we have been in operation, LGFA has lent over $19 billion to the local government sector, with $14 billion in current loans as at 30 June 2022. With sector debt forecast to increase to $37 billion by 2031, LGFA's lending services will continue to assist New Zealand's local government sector to invest in community infrastructure and wellbeing.

Under the Local Government Act 2002, councils' are required to manage finances prudently. To assist councils, LGFA works closely with our members to encourage ongoing best practice local government financial management. LGFA's financial covenants for lenders ensure prudent levels of debt are maintained and our tiered credit margins provide financial incentives for members to seek independent external credit ratings.

Over the last seven years, there has been an improving trend in the underlying credit quality of New Zealand's council sector. As at June 2022, 33 members had current external credit ratings, with 84% of all LGFA loans being held by AA- rated councils and CCOs or better.

LGFA reports on its cost of borrowing relative to other issuers on a quarterly basis to shareholders and in our annual and half year reports. LGFA surveys members on its performance annually in relation to business delivery and satisfaction with pricing.

Best practice and influence

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 developing our risk management framework to reflect financial markets best practice, the objective being to ensure effective management of our risks and compliance with LGFA's governance and legislative requirements.

Managing treasury risks is a critical component of LGFA's market operations and in 2021 we engaged external consultants to assist in providing an independent assessment of our treasury 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 11,000 transactions with total gross cash flows in excess of $36 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 engaged to review our cyber control environment for compliance against best practice cyber risk controls.

Responsible investment

LGFA utilises a liquid assets portfolio (LAP) to manage its liquidity, refinancing and asset-liability mismatch risks.

In 2021, we approved our Responsible Investment Policy which commits to investing responsibly by incorporating environmental, social and governance (ESG) factors into its investment analysis and decision-making processes relating to the management of the LAP.

Industry collaboration and engagement

One of LGFA's core objectives is 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, CCOs, central Government and investors in relation to the work being progressed on the proposed three waters reform project.

This year, LGFA were again proud to be principal sponsor for the 2022 Taituarā LGFA Local Government Excellence Awards.

Far North District Council takes top spot in the 2022 LGFA Taituarā Local Government Excellence Awards

We are delighted to announce that Far North District Council has won the 2022 LGFA Supreme Award for its Te Hiku o te Ika Revitalisation Project.

Te Hiku o te Ika Revitalisation Project is highly successful collaboration between Far North District Council, the Kaitaia Business Association, the five iwi of Far North's Te Hiku region and the wider community. Its purpose is to create employment in, and enhance the vibrancy of, three of New Zealand's most deprived areas. Some 81 urban development, restoration and revitalisation projects were identified and folded into the project

Our team

Health, safety and wellbeing

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 maintains policies on health and safety, flexible working, diversity and employment which outlines the company's commitment to health, safety and wellbeing.

Our Health and Safety Policy 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 on health and safety issues at each Board meeting.

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.

Capability and development

LGFA is committed to ongoing education and professional development for staff and directors by funding professional development courses, membership of professional bodies and attendances at industry conferences. Over the last year, sustainability and climate-related training was a key focus with training completed in Climate Competency for Boards, Task Force on Climate-related Financial Disclosures Masterclass and New Zealand Green Building Green Star training.

The Future Director programme was launched in 2021 by the LGFA board and Shareholder Council. The programme aims to give young talented people from within the Local Government sector with an interest in corporate governance the opportunity to observe and participate in Boardroom discussions for an 18-month period. The Future Director attends all Board meetings, but they have no voting rights and are not involved in decision making. Anita Furniss was appointed as the inaugural Future Director starting on 1 July 2022.

Diversity and inclusion

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

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

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.

Each year, we complete a diversity review which is reported through to the Board and, when undertaking recruitment, selection panels for interview are split by gender.

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

	2022	
	Female	Male
Board		
Staff		

	2021	
	Female	Male
Board		
Staff		

	2022		
	Under 30 years	30-50 years	Over 50 years
Board	-	-	100%
Staff	12%	22%	66%

	2021		
	Under 30 years	30-50 years	Over 50 years
Board	-	-	100%
Staff	12%	22%	66%

Sustainable business practices

LGFA is committed to reviewing internal processes to reduce our carbon emissions. In 2021, LGFA directors committed to reducing our carbon emissions over time, with our target of cutting per employee emissions by 30% by 2030, compared with a 2018/19 base year.

Air travel represents the majority of our carbon emissions. While air travel is essential for our business, we constantly review practical options to reduce, including virtual meetings. In 2022, we introduced one virtual Board meeting as well as a virtual attendance option for our Shareholder day. In 2022, we were able to resume travel following lifting of Covid restrictions, the reason our Scope 3 emissions increased over FY 21.

Total carbon emissions	Emissions (tC)2e) FY 22	Emissions (tC)2e) FY 21	Variance (change %) To FY 21	Variance (change %) To Base year
Verified				
Scope 1	0.5	1.1	-55%	+10%
Scope 2	2.5	2.9	-14%	+45%
Scope 3	39.8	26.9	+48%	-69%
Total	**42.8**	**30.9**	**+39%**	**-69%**

Toitū Carbonzero certification

As part of our carbon reduction process, LGFA achieved a Toitū CarbonZero certification in 2021. 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.

TOITŪ
NET CARBON ZERO
ISO 14064-1 ORGANISATION

Kauri 2000

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 55,000 trees and continues to plant kauri throughout the Coromandel.

LGFA donates to Kauri 2000 on an annual basis to assist the Trust with their planting programme. In 2022, LGFA donated $4,000.

KAURI 2000

Climate-related disclosure framework

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 makes it mandatory for climate reporting entities to produce climate statements according to disclosure standards currently being developed by the External Reporting Board (XRB).

The XRB states reporting on climate change under the Climate-related disclosures (CRD) will:

- allow investors to make more informed decisions about the climate-related risks and opportunities facing entities and sectors into which they invest, and
- encourage entities to think about their strategic choices in light of the risks and opportunities of climate change, including the transition to a low-emissions future.

LGFA are currently developing our risk and reporting frameworks to meet the forthcoming climate-related disclosures being developed by the XRB. LGFA will be required to report in compliance with the standards for the financial year commencing 1 July 2023 and we will provide an update on our development progress in our 2023 Annual Report.

Governance and culture

Te whakaruruhau me te ahurea

The LGFA Board is responsible for the strategic direction and control of LGFA's activities and is committed to ensuring LGFA demonstrates ongoing commitment to strong and sound corporate governance.

LGFA governance policies and documents

- LGFA Constitution
- Shareholders Agreement
- Code of Ethics
- Board Charter
- Audit and Risk Committee Charter
- Treasury Policy
- Responsible Investment Policy
- Risk Management Policy
- Internal Audit Charter
- Diversity Policy
- Remuneration Policy
- Responsible Investment
- LGFA Foundation Policies

NZX Corporate Governance Best Practice Code

LGFA is a listed issuer on the NZX Debt Market and complies 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 2022. Areas where LGFA has implemented alternative measures to the Code are as follows:

An issuer should establish a nomination committee to recommend director appointments to the board.	The process for the nomination and remuneration of directors is documented in the Constitution of New Zealand Local Government Funding Agency Limited and outlined on page 51.
An issuer should have a remuneration committee which operates under a written charter.	

Our purpose

Benefiting local communities through delivering efficient financing for local government.

Our values
Ō mātau uara

We act with integrity
E pono ana mātau

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

We are customer focused
E arotahi ana mātau ki te kiritaki

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
E whakapau kaha mātau kia hiranga te mahi

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.

We are innovative
He auaha mātau

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

We provide leadership
He kaiārahi mātau

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.

Culture, ethics and governance

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

LGFA's required standards for conduct are defined in our 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.

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, our 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.

Our 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

Our 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

Our 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.

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**

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

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).

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.

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.

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.

Our Board

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 2022

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.

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

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

Alan Adcock
Non-Independent Director
Member Audit and Risk Committee
B.Com, MBA (with Distinction)

Alan has over 35 years' experience in the financial services and local government sectors at executive level, with over twenty years in banking, insurance and funds management followed by his current role as General Manager Corporate / CFO at Whangarei District Council.

His involvement with LGFA began in its initial planning stage, as a representative of the 'tight nine' councils that worked together to turn the concept into reality in 2011. He was an inaugural member of the Shareholders' Council, which he chaired from 2014 before joining the Board in 2021.

Chief Financial Officer
Whangarei District Council

Director
Whangarei Waste Limited

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.

Trustee
Royal New Zealand Ballet

Philip Cory-Wright
Independent Director
Member Audit and Risk Committee

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 NZ Windfarms, 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.

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

Anthony Quirk
Independent Director
Member Audit and Risk Committee

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.

Non-Executive Director/Shareholder
Milford Asset Management Limited (and associated subsidiaries)

Chair
Humanitix, New Zealand
Milford Foundation

Linda Robertson
Independent Director
Chair Audit and Risk Committee

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.

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

Director
Alpine Energy Limited
Dunedin City Holdings Limited
Dunedin City Treasury Limited
Dunedin Railways Limited
Dunedin Stadium Property Limited
Kiwi Wealth Limited (and related entities).

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

Directors did not hold any interests in debt securities (including listed bonds) in the company as at 30 June 2022.

Staff

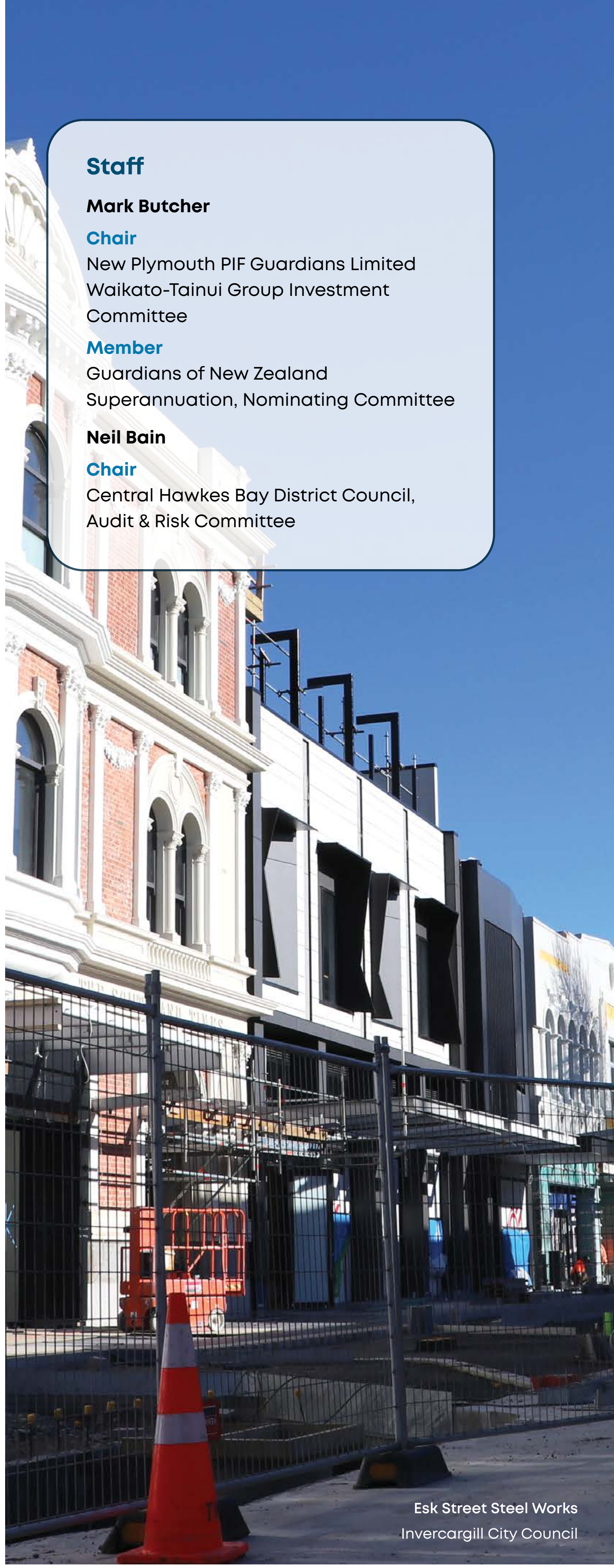
Mark Butcher

Chair
New Plymouth PIF Guardians Limited
Waikato-Tainui Group Investment Committee

Member
Guardians of New Zealand Superannuation, Nominating Committee

Neil Bain

Chair
Central Hawkes Bay District Council, Audit & Risk Committee



Esk Street Steel Works
Invercargill City Council

Director tenure and meetings of the Board

Mike Timmer, non-independent Director, retired from the Board on 23 November 2021. Mike was appointed to the LGFA Board on 24 November 2015 and served as a Director for 6 years.

Board meetings comprised 7 scheduled and 2 additonal.

Director	Date commenced in office	Board meetings held/attended	Audit and Risk Committee held/ attended
Craig Stobo (Chair)	1 December 2011	9/9	-
Alan Adcock	23 November 2021	6/6	3/3
John Avery	1 December 2011	9/9	5/5
Philip Cory-Wright	1 December 2011	9/9	5/5
Anthony Quirk	21 November 2017	9/9	5/5
Linda Robertson	24 November 2015	9/9	5/5
Mike Timmer	24 November 2015	3/3	2/2

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.

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. A Director must not hold office (without re-election) past the third annual meeting of the Company following the Director's appointment or three years, whichever is longer. A retiring Director shall be eligible for re-election.

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.

Remuneration

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 23 November 2021.

Director annual fee breakdown

Position. Fees per annum	2022	2021
Board Chair	$108,000	$102,000
Audit and Risk Committee Chair	$67,000	$63,000
Director / ARC Member	$63,000	$59,000
Director	$60,000	$57,000

Director	2022
Craig Stobo	$108,000
Alan Adcock[1]	$36,750
John Avery	$60,000
Philip Cory-Wright	$63,000
Anthony Quirk	$63,000
Linda Robertson	$67,000
Mike Timmer[2]	$26,250
Total	$424,000

1. Alan Adcock was appointed as director on 23 November 2021.
2. Mike Timmer retired as director on 23 November 2021.

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 $572,900 per annum as at 30 June 2022 ($556,200, 2021) 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	2022	2021
Salary	$572,900	$556,200
Taxable benefits	-	-
Subtotal	$572,400	$556,200
Pay for Performance STI	$85,935	$83,430
Kiwisaver Employer Contribution	$26,245	$25,400
Total remuneration	$685,080	$665,030

Staff remuneration

Total remuneration	2022
$150,000 to $159,999	2
$200,000 to $209,999	1
$250,000 to $259,999	1
$330,000 to $339,999	1
$340,000 to $349,999	1
$680,000 to $689,999	1
Total staff receiving $100,000 or more	7

Shareholders

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 2022

Kumaren Perumal (Chair)
Bay of Plenty Regional Council

Shahlaa Al-Tiay
The Treasury

Steve Ballard
Christchurch City Council

John Bishop
Auckland Council

David Bryant
Hamilton City Council

Joy Buckingham
New Plymouth District Council

Mike Drummond (Deputy Chair)
Tasman District Council

James Graham
Western Bay of Plenty District Council

Sarah Houston-Eastergaard
Wellington City Council

Kathryn Sharplin
Tauranga City Council

James Stratford
Department of Internal Affairs

Stead Street stopbank
Invercargill City Council

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 and approved council-controlled organisations.

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 functions 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.

Treasury risk management

LGFA finances itself through domestic and international wholesale and retail debt capital markets, with the funds raised on-lent to members. 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 members 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.

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 and risk tolerance ranges

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

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 a 90-day period. LGFA is required to maintain sufficient liquidity (comprising a government standby facility, and holdings of cash and liquid investments) to support six months of 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.

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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 members.

All member 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.

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 ended June 2020 a covenant limit of 250% applied. This increased 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.
- 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 Unrated councils	Foundation policy covenants Rated councils
Net debt/ total revenue	<175%	<280%*
Net interest / total revenue	<20%	<20%
Net interest/ annual rates income	<25%	<30%
Liquidity	>110%	>110%

* From June 2026, refer description above.

- **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.

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Financial statements

Nga taukī pūtea

Statement of comprehensive income

For the year ended ended 30 June 2022 in $000s

	Note	2022	2021
Interest income		393,507	377,222
Interest expense		375,991	357,685
Net interest income	**4**	**17,516**	**19,537**
Other operating income	5	1,090	184
Total operating income		**18,606**	**19,721**
Operating expenses	6	7,933	7,714
Net operating profit		**10,673**	**12,007**
Total comprehensive income		**10,673**	**12,007**

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

Due to rounding, numbers presented in the financial statements and associated notes may not add up precisely to the reported totals.

The Board of Directors of the New Zealand Local Government Funding Agency Limited authorised these statements for issue on 29 August 2022.

Statement of changes in equity

For the year ended 30 June 2022 in $000s

	Note	Share capital	Retained earnings	Total equity
Equity as at 30 June 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 6 September 2019			(879)	(879)
Equity as at 30 June 2021		**25,000**	**69,743**	**94,743**
Net operating profit			10,673	10,673
Total comprehensive income for the year			10,673	10,673
Transactions with owners			-	-
Dividend paid on 4 September 2020			(857)	(857)
Equity as at 30 June 2022	**28**	**25,000**	**79,560**	**104,560**

Craig Stobo, Director
Board Chair

Linda Robertson, Director
Chair, Audit and Risk Committee

Statement of financial position

As at 30 June 2022 in $000s

	Note	2022	2021
Assets			
Financial assets			
Receivables	11	360	43,587
Cash and bank balances		158,033	391,835
Cash pledged as collateral		76	-
Marketable securities		1,491,148	768,453
Deposits		462,866	654,961
Derivatives in gain	10	94,767	559,635
Loans	12	14,041,908	12,065,668
Non-financial assets			
Prepayments		852	683
Other assets	13	156	345
Total assets		**16,250,167**	**14,485,167**
Equity			
Share capital	27	25,000	25,000
Retained earnings		79,560	69,744
Total equity		**104,560**	**94,744**
Liabilities			
Financial liabilities			
Payables and provisions	14	45,066	40,900
Bills	15	562,803	609,624
Bond repurchases	16	31,671	110,220
Derivatives in loss	10	1,206,175	187,098
Bonds	17	14,015,862	13,217,759
Borrower notes	18	283,180	224,281
Non-financial liabilities			
Other liabilities	19	850	539
Total liabilities		**16,145,607**	**14,390,422**
Total equity and liabilities		**16,250,167**	**14,485,167**

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

Statement of cash flows

For the year ended 30 June 2022 in $000s

	Note	2022	2021
Cash Flow from Operating Activities			
Cash applied to loans	12	(1,972,398)	(1,127,002)
Interest paid on bonds issued		(445,533)	(437,257)
Interest paid on bills issued		(5,141)	(2,100)
Interest paid on borrower notes		(1,063)	(3,918)
Interest paid on bond repurchases		(1,067)	(674)
Interest received from loans		191,228	153,340
Interest received from cash & cash equivalents		3,234	909
Interest received from marketable securities		14,108	12,059
Interest received from deposits		7,360	6,555
Net interest on derivatives		251,708	288,127
Cash proceeds from provision of standby facilities		1,090	184
Payments to suppliers and employees		(7,752)	(7,470)
Net cash flow from operating activities	**31**	**(1,964,224)**	**(1,117,249)**
Cashflow from Investing Activities			
Purchase of marketable securities		(734,412)	(194,125)
(Purchase)/maturity of deposits		192,800	(155,612)
Net Cashflow from Investing Activities		**(541,613)**	**(349,737)**
Cashflow from Financing Activities			
Cash proceeds from bonds issued	17	2,229,503	1,951,673
Cash proceeds (outflows) from bills issued		(46,822)	(37,397)
Cash proceeds (outflows) from bond repurchases		(35,987)	(134,838)
Cash proceeds from borrower notes		57,246	42,760
Dividends paid		(857)	(878)
Cash applied to derivatives		68,952	(128,326)
Net Cashflow from Financing Activities		**2,272,036**	**1,692,994**
Net (Decrease) / Increase in Cash		(233,801)	226,009
Cash, Cash Equivalents and Bank overdraft at beginning of year		391,835	165,826
Cash, Cash Equivalents and Bank overdraft at end of year		**158,033**	**391,835**

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

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.

The financial statements are as at and for the year ended 30 June 2022.

These financial statements were authorised for issue by the Directors on 29 August 2022.

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 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.

Cash provided by LGFA as security for financial arrangements remains a financial asset of LGFA and is recognised as cash pledged as collateral in the Statement of Financial Position, separate from cash and cash equivalents

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 2022 include estimates and judgements of the potential impact of COVID-19 and the proposed 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	2022	2021
Interest income		
Cash and cash equivalents	3,527	922
Marketable securities	14,827	4,181
Deposits	7,854	6,080
Derivatives	140,956	212,759
Loans	226,342	153,280
Fair value hedge ineffectiveness	-	-
Total interest income	**393,507**	**377,222**
Interest expense		
Bills	5,141	2,100
Bond repurchase transactions	1,084	398
Lease liability	7	13
Bonds	366,044	353,005
Borrower notes	3,715	2,168
Total interest expense	**375,991**	**357,685**
Net interest income	**17,516**	**19,537**

5. Other operating income

As at 30 June 2022, LGFA had provided credit standby facilities totalling $662 million to selected councils. As at balance date, there were no drawdowns outstanding under the facilities.

For the year ended 30 June in $000s	2022	2021
Standby facilities fee income	1,090	184
Total other operating income	**1,090**	**184**

6. Operating expenses

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

For the year ended 30 June in $000s	2022	2021
Issuance and on-lending expenses		
Approved issuer levy [1]	701	1,055
Rating agency fees	654	633
NZDM facility fee	672	567
Legal fees - issuance	508	477
NZX	715	637
Trustee fees	108	100
Regulatory, registry, other fees	174	207
	3,531	**3,676**
Other operating expenses		
Information technology	807	725
Consultants	208	152
Directors fees	424	399
Insurance	90	85
Legal fees	137	185
Other expenses	309	355
Auditors' remuneration		
Statutory audit	110	108
Advisory services	-	-
Personnel	2,317	2,030
	4,403	**4,038**
Total operating expenses	**7,933**	**7,714**

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 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.

Cash pledged as collateral

LGFA enters into derivative financial instruments for hedging purpose which may require LGFA to post collateral as security with counterparties.

In line with standard industry practice, collateral is provided for derivative transactions in accordance with Credit Support Annexes (CSAs). LGFA's practice is to annex each CSA to the International Swaps and Derivatives Association (ISDA) Master Agreement it has with derivative counterparties.

LGFA is required to pledge cash deposits at call in order to meet its obligations under the CSAs for derivative positions. The pledged assets will be returned to LGFA when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the outstanding liability.

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 2022 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
Financial assets				
Receivables	-	360	-	360
Cash and bank balances	-	158,033	-	158,033
Cash pledged as collateral	-	76	-	76
Marketable securities	-	1,491,148	-	1,597,633
Deposits	-	462,866	-	462,859
Derivatives	-	-	94,767	94,767
Loans to local government	-	14,041,908	-	14,188,283
	-	**16,154,392**	**94,767**	**16,502,012**
Financial liabilities				
Payables and provisions	45,066	-	-	45,066
Bills	562,803	-	-	562,498
Bond repurchases	31,671	-	-	31,671
Derivatives	-	-	1,206,175	1,206,175
Bonds	14,015,862	-	-	14,028,971
Borrower notes	283,180	-	-	276,085
	14,938,582	**-**	**1,206,175**	**16,150,466**

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
Financial assets				
Receivables	-	360	-	360
Cash and bank balances	-	158,033	-	158,033
Cash pledged as collateral	-	76	-	76
Marketable securities	-	1,491,148	-	1,597,633
Deposits	-	462,866	-	462,859
Derivatives	-	-	94,767	94,767
Loans	-	14,041,908	-	14,188,283
	-	**16,154,392**	**94,767**	**16,502,012**
Financial liabilities				
Payables and provisions	45,066	-	-	45,066
Bills	562,803	-	-	562,498
Bond repurchases	31,671	-	-	31,671
Derivatives	-	-	1,206,175	1,206,175
Bonds	14,015,862	-	-	14,028,971
Borrower notes	283,180	-	-	276,085
	14,938,582	**-**	**1,206,175**	**16,150,466**

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 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.

As at 30 June in $000s	2022 Gain/(loss)	2021 Gain/(loss)
Hedged items attributable to the hedged risk	(1,304,237)	(680,122)
Hedging instruments – interest rate swaps	1,304,237	680,122
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.

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 2022 in $000s	Derivative assets	Derivative liabilities
Gross amounts	94,767	1,206,175
Amounts offset	-	-
Carrying amounts	94,767	(94,767)
Amounts that don't qualify for offsetting	-	-
Financial assets & liabilities	(94,767)	(94,767)
Collateral	-	(76)
Net amount	**-**	**1,111,332**

As at 30 June 2021 in $000s	Derivative assets	Derivative 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	-	-
Net amount	**372,536**	**-**

11. Receivables

As at 30 June in $000s	2022	2021
Bond repurchases to be received	-	42,578
Borrower notes to be received	-	1,000
Trade debtors	360	9
Total receivables	**360**	**43,587**

12. Loans

As at 30 June in $000s	2022 Short-term loans	2022 Loans	2021 Short-term loans	2021 Loans
Ashburton District Council	12,048	78,898	10,011	60,723
Auckland Council	-	3,413,415	-	3,303,915
Bay of Plenty Regional Council	25,651	167,941	25,428	155,995
Buller District Council	-	20,015	-	20,005
Canterbury Regional Council	4,018	75,214	4,003	59,133
Carterton District Council	-	14,762	-	-
Central Hawkes Bay District Council	2,024	20,107	-	20,107
Central Otago District Council	5,024	-	-	-
Christchurch City Council	2,017	2,036,724	14,533	1,951,017
Clutha District Council	5,532	32,394	2,004	16,042
Far North District Council	-	71,822	-	51,702
Gisborne District Council	-	86,095	-	68,774
Gore District Council	6,035	29,631	6,011	26,563
Greater Wellington Regional Council	-	576,343	-	450,945
Grey District Council	3,980	26,717	3,995	21,642
Hamilton City Council	-	633,049	-	481,019
Hastings District Council	-	237,990	-	205,357
Hauraki District Council	-	43,212	-	44,101
Hawkes Bay Regional Council	-	37,992	-	18,868
Horizons Regional Council	11,984	49,771	11,991	37,194
Horowhenua District Council	11,001	127,395	16,000	92,178
Hurunui District Council	8,033	30,147	8,002	30,062
Hutt City Council	-	256,607	-	201,225
Invercargill City Council	12,845	68,725	-	68,666
Invercargill City Holdings Ltd	22,076	68,354	-	-
Kaikoura District Council	-	5,331	-	5,014
Kaipara District Council	-	44,229	-	44,088
Kapiti Coast District Council	-	256,128	-	230,366
Mackenzie District Council	10,002	-	-	-
Manawatu District Council	11,559	77,725	11,522	72,681
Marlborough District Council	37,325	100,289	30,226	73,136
Masterton District Council	-	50,260	-	48,609
Matamata-Piako District Council	-	38,191	-	26,567
Nelson City Council	-	140,581	-	90,146
New Plymouth District Council	-	170,350	-	169,999
Northland Regional Council	-	14,147	-	14,147
Opotiki District Council	-	7,073	-	8,600
Otago Regional Council	66,715	48,443	-	-
Otorohanga District Council	-	4,028	-	-
Palmerston North City Council	-	187,872	-	152,314
Porirua City Council	-	172,335	-	141,794
Queenstown Lakes District Council	50,275	241,015	25,030	130,333
Rangitikei District Council	-	19,157	-	3,020
Rotorua District Council	43,112	245,298	12,823	215,034
Ruapehu District Council	8,020	29,557	8,005	21,474
Selwyn District Council	-	75,343	-	60,129
South Taranaki District Council	-	112,566	-	95,210
South Waikato District Council	4,874	34,171	8,987	15,030
Southland District Council	-	16,899	-	-
South Wairarapa District Council	-	26,537	-	24,520
Stratford District Council	6,027	26,299	-	22,271
Taranaki Regional Council	-	14,587	4,999	-
Tararua District Council	-	51,244	-	44,100
Tasman District Council	24,193	198,190	27,037	152,035
Taupo District Council	-	125,522	-	125,177
Tauranga City Council	-	648,528	-	516,688
Thames-Coromandel District Council	-	73,365	-	61,145
Timaru District Council	28,724	136,516	22,529	117,181
Upper Hutt City Council	-	91,421	-	65,153
Waikato District Council	-	95,454	-	80,189
Waikato Regional Council	-	25,120	-	32,082
Waimakariri District Council	-	170,903	-	170,506
Waipa District Council	25,530	124,377	8,000	90,123
Wairoa District Council	-	10,062	-	8,041
Waitaki District Council	4,491	20,583	2,498	12,523
Waitomo District Council	4,017	24,092	4,003	30,045
Wellington City Council	-	967,101	-	792,505
West Coast Regional Council	3,761	6,616	2,001	6,610
Western Bay Of Plenty District Council	-	70,366	-	70,154
Westland District Council	-	29,933	-	21,858
Whakatane District Council	-	86,396	-	77,203
Whanganui District Council	7,523	99,522	7,507	94,289
Whangarei District Council	9,972	182,813	9,993	162,296
Fair value hedge adjustment	-	(36,332)	-	(1,091)
	478,385	**13,563,522**	**287,140**	**11,778,528**

As at 30 June 2022, $2,286 million of loans are due to mature within 12 months. This comprises all short-term loans and $1,807 million of loans.

13. Other assets

As at 30 June in $000s	2022	2021
Intangible assets[1]	-	154
Right-of-use lease asset	156	190
Total other assets	**156**	**345**

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	2022	2021
Loans to be advanced	44,000	40,000
Trade creditors	800	658
Credit provision	161	193
Other provisions	105	49
Total receivables	**45,066**	**40,900**

15. Bills

As at 30 June 2022 in $000's	Face value	Unamortised premium	Accrued interest	Total
7 July 2022	15,000	(4)	-	14,996
13 July 2022	70,000	(30)	-	69,970
19 July 2022	35,000	(33)	-	34,967
4 August 2022	25,000	(33)	-	24,967
10 August 2022	80,000	(167)	-	79,833
19 August 2022	20,000	(60)	-	19,940
30 August 2022	50,000	(201)	-	49,799
9 September 2022	68,000	(296)	-	67,704
14 September 2022	100,000	(538)	-	99,462
19 September 2022	27,000	(120)	-	26,880
6 October 2022	25,000	(148)	-	24,852
9 November 2022	25,000	(238)	-	24,762
7 December 2022	25,000	(329)	-	24,671
	565,000	**(2,197)**	**-**	**562,803**

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**

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 2022, 1,100 million of LFGA 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 in $000s	2022	2021
15 April 2023	-	32,887
15 April 2024	1,456	-
15 April 2025	6,773	-
15 April 2026	5,395	-
20 April 2029	7,390	33,810
14 April 2033	4,566	38,957
15 May 2035	818	-
15 April 2037	5,272	4,566
	31,671	**110,220**

17. Bonds

Bonds on issue do not include $1,100 million (2021: $1,000) 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 2022 in $000's	Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
Fixed interest bonds					
15 April 2023	1,830,000	25,117	21,175		
15 April 2024	1,998,000	5,625	9,458		
15 April 2025	1,679,000	(13,379)	9,714		
15 April 2026	1,815,000	(31,599)	5,728		
15 April 2027	1,751,000	85,460	16,577		
15 May 2028	1,270,000	(53,384)	3,650		
20 April 2029	1,362,000	(21,893)	4,019		
15 May 2031	850,000	(19,801)	2,443		
14 April 2033	1,290,000	43,486	9,622		
15 May 2035	400,000	2,166	1,533		
15 April 2037	730,000	(12,837)	3,072		
Total fixed interest	**14,975,000**	**8,962**	**86,989**	**(1,185,774)**	**13,885,177**
Floating rate notes					
14 October 2022	130,000	(7)	692	-	130,684
Total	**15,105,000**	**8,955**	**87,681**	**(1,185,774)**	**14,015,862**

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**

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 2022	Year ended 2021
Lease liability	156	190
Accruals	694	349
Total receivables	**850**	**539**

20. Operating leases

As at 30 June in $000s	2022	2021
Less than one year	66	111
Between one and five years	90	79
Total non-cancellable operating leases	**156**	**190**

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. The exposure and management of these risks is outlined below.

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 2022 in $000s	Face value	Less than 6 months	6 months - 1 year	1-2 years	2-5 years	Over 5 years
Financial assets						
Cash and bank Balances	158,033	158,033	-	-	-	-
Marketable securities	1,503,175	533,296	401,624	174,200	394,055	-
Deposits	461,649	441,649	20,000	-	-	-
Loans	13,975,845	11,652,617	327,675	266,900	976,700	751,953
Financial liabilities						
Bills	(565,000)	(565,000)	-	-	-	-
Bond repurchases	(31,653)	(31,653)	-	-	-	-
Derivatives	-	(12,419,250)	1,583,750	1,645,500	3,895,200	5,294,800
Bonds	(15,105,000)	(130,000)	(1,830,000)	(1,998,000)	(5,245,000)	(5,902,000)
Borrower notes	(270,059)	(223,289)	(4,574)	(5,557)	(19,932)	(16,707)
Total	**126,991**	**(583,597)**	**498,476**	**83,044**	**1,023**	**128,046**

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
Financial assets						
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
Financial liabilities						
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)
Total	**110,820**	**(441,941)**	**175,071**	**234,105**	**59,877**	**83,708**

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	2022		2021	
	100 bps increase $000s	100 bps decrease $000s	100 bps increase $000s	100 bps decrease $000s
Fair value sensitivity analysis				
Fixed rate assets	-	-	-	-
Fixed rate liabilities	518,112	(529,330)	558,172	(571,857)
Derivative financial instruments	(517,469)	528,667	(557,130)	570,782
	643	**(664)**	**1,042**	**(1,075)**
Cash flow sensitivity analysis				
Variable rate assets	115,784	(115,784)	100,661	(100,661)
Variable rate liabilities	(3,541)	3,541	(3,093)	3,093
Derivative financial instruments	(124,063)	124,063	(105,568)	105,568
	(11,820)	**11,820**	**(7,999)**	**7,999**

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 Agencies or counterparties that meet a minimum credit rating of A (Standard & Poor's 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 2022 in $000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter-parties	Fair Value hedge adjustment	Total carrying value
Financial assets						
Receivables	-		-	360		360
Cash and bank balances	156,331	-	1,702	-		158,033
Cash pledged as collateral	76					76
Marketable securities	239,937	29,235	331,290	890,687		1,491,148
Deposits	-	-	377,463	85,403		462,866
Derivatives	(1,111,408)	-	-	-		(1,111,408)
Loans	-	14,041,908	-	-		14,041,908
	(715,064)	**14,071,143**	**710,455**	**976,450**	**-**	**15,042,984**

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						
Receivables	-	1,000	42,578	9		43,587
Cash and bank balances	388,960	-	2,875	-	-	391,836
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
	761,497	**12,081,765**	**729,542**	**732,246**	**(8,008)**	**14,297,042**

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 2022, the undrawn committed liquidity facility was $1,300 million (2021: $500 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 2022 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
Financial assets							
Receivables	360	-	-	-	-	360	360
Cash and bank balances	158,033	-	-	-	-	158,033	158,033
Cash pledged as collateral	76	-	-	-	-	76	76
Marketable securities	-	199,206	473,654	834,261	-	1,507,122	1,491,148
Deposits	-	322,580	142,572	-	-	465,151	462,866
Loans	-	405,638	2,296,504	7,921,322	5,316,424	15,939,887	14,041,908
Financial liabilities							
Payables and provisions	(45,066)	-	-	-	-	(45,066)	(45,066)
Bills	-	(490,000)	(75,000)	-	-	(565,000)	(562,803)
Bond repurchases	-	(31,681)	-	-	-	(31,681)	(31,671)
Bonds	-	(807)	(2,398,906)	(8,336,675)	(6,560,835)	(17,297,223)	(14,015,862)
Borrower notes	-	(2,194)	(32,788)	(149,518)	(135,615)	(320,116)	(283,180)
Derivatives	-	(74,548)	58,917	(198,031)	(180,497)	(394,159)	(1,111,408)
	113,403	**328,192**	**464,952**	**71,359**	**(1,560,523)**	**(582,617)**	**104,403**

As at 30 June 2021 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
Financial assets							
Receivables	43,587	-	-	-	-	43,587	43,587
Cash and bank balances	391,835	-	-	-	-	391,835	391,835
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
Financial liabilities							
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
	394,522	**7,395**	**306,794**	**262,676**	**(983,195)**	**(11,808)**	**94,256**

Capital and dividends

27. Share capital

As at 30 June 2022, 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 as at 30 June	2022		2021	
Minister of Finance and Minister for Local 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%**

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 $856,500 on 3 September 2021, being $0.03426 per paid up share (2021: $878,500 on 4 September 2020, being $0.03514 per paid up share).

31. Capital commitments

As at 30 June 2022, there are no capital commitments.

Other Notes

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

For the year ended 30 June in $000s	2022	2021
Net profit/(loss) for the period	10,673	12,007
Cash applied to loans	(1,972,398)	(1,127,002)
Non-cash adjustments		
Amortisation and depreciation	(2,527)	(2,347)
Working capital movements		
Net change in trade debtors and receivables	(148)	105
Net change in prepayments	(169)	(41)
Net change in accruals	345	29
Net Cash From Operating Activities	**(1,964,224)**	**(1,117,249)**

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 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 members 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 2022, Alan Adcock was a non-independent director of LGFA and was also employed by Whangarei District Council (WDC) as Chief Financial Officer. WDC 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.

Transactions with key management personnel:

Salaries $1,016,801 (2021: $989,100)

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

35. Subsequent events

On 29 August 2022, the Directors of LGFA declared a dividend of $1,217,500 ($0.0487 per paid up share).

Subsequent to balance date, LGFA has issued $400 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 2022

The Auditor-General is the auditor of New Zealand Local Government Funding Agency Limited (the company). The Auditor-General has appointed me, David Gates, 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 60 to 83, that comprise the statement of financial position as at 30 June 2022, 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 60 to 83:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2022 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 2022.

Our audit was completed on 29 August 2022. 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 $120 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
Existence and impairment of loans	
Refer to Note 12 to the Financial Statements. The loans LGFA has provided to local government make up over 86% 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.	Our audit procedures included: - understanding the processes in place to assess borrowers and to record loan transactions. This included evaluating the control environment in place at LGFA. - agreeing the 30 June 2022 loan balances to external confirmations received from NZ Clear. - assessing the borrowers' compliance with financial covenants. We did not identify any material differences in relation to the existence or impairment of loans.
Application of hedge accounting	
Refer to Note 9 of the Financial Statements. LGFA enters into derivatives (interest rate swaps) to manage interest rate risk related to issuing fixed rate borrowings, loans and investments. 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. Due to the size of the derivative positions and the complexity of hedge accounting we consider this to be a key audit matter.	Our audit procedures included: - reviewing LGFA's accounting policies related to financial instruments. - agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty. - using our treasury valuation specialists we independently recalculated the fair value of all of the derivatives recorded by LGFA. - 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. - determining that management's hedge effectiveness calculations were correctly performed using appropriate source information. We did not identify any material differences in relation to the application of hedge accounting.

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 59 and 88 to 93 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: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

For the year ended 30 June 2022 and subsequently, the Chair of the company's Audit and Risk Committee is a member of the Auditor-General's Audit and Risk Committee. The Auditor-General's Audit and Risk Committee is regulated by a Charter that specifies that it should not assume any management functions. There are appropriate safeguards to reduce any threat to auditor independence, as the member of the Auditor-General's Audit and Risk Committee does not assume any management functions as part of their oversight role of the audit of the company.

Other than the audit, and the relationship with the Auditor-General's Audit and Risk Committee, we have no relationship with, or interests in, the company.

David Gates
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

Other disclosures

He whākitanga anō

Donations

A donation of $4,000 was made to Kauri 2000 for the year ended 30 June 2022.

Earnings per security

Earnings per $1,000 of bonds on issue as at 30 June 2022 is $0.71 (2021: $0.87).

Net Tangible Assets

Net tangible assets per $1,000 of listed bonds as at 30 June 2022 is $6.92 (2021: $6.86).

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	425	46.0	$10,266,000	0.06
50,000 to 99,999	187	20.2	$13,047,000	0.08
100,000 to 499,999	193	20.9	$37,135,000	0.23
500,000 to 999,999	36	3.9	$24,218,000	0.15
1,000,000 to 9,999,999,999,999	84	9.1	$15,990,334,000	99.47
Total	**925**	**100.0**	**$16,075,000,000**	**100.00**

Directory

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Wellington

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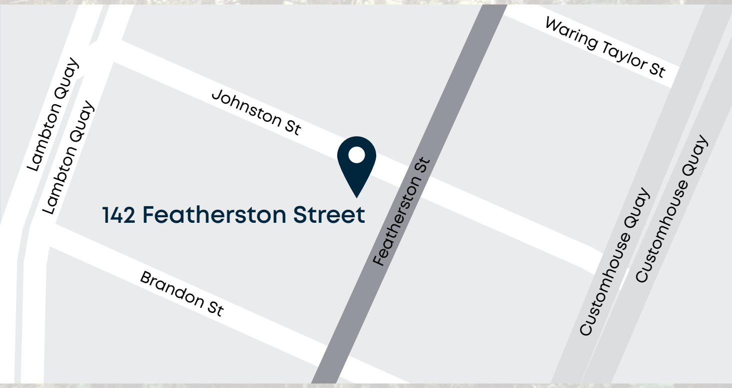

Auckland

Level 5
Walker Wayland Centre
53 Fort Street
Auckland 1010

Whakarewarewa Forest Loop (Great Ride)
Rotorua Lakes Council
Photo by Graeme Murray

GRI Index

Kuputohu GRI

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102-8. Information on employees and other workers	Pages 40, 50-51
102-9. Supply chain	Pages 16-25, 34
102-10. Significant changes to the organization and its supply chain	None
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102-13. Membership of Associations	Financial Service Providers Register
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102-18. Overview of Governance Structure	Pages 18-19, 32
102-40. List of stakeholder groups	Pages 4-7, 10-15, 26-31, 52
102-41. Collective bargaining agreements	None
102-42. Identifying and selecting stakeholders	Pages 33
102-43. Approach to stakeholder engagement	Pages 33-41
102-44. Key topics and concerns raised	Page 33
102-45. Entities included in the consolidated financial statements	Page 64
102-46. Defining report content and topic Boundaries	Page 33
102-47. List of material topics	Pages 32-45
102-48. Restatements of information	None
102-49. Changes in reporting	None

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
102-50. Reporting period	1 July 2021 to 30 June 2022
102-51. Date of most recent report	2022 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	Pages 90-91
102-56. External assurance	None
Cost effective funding	Pages 4-7, 10-15, 27
Culture, ethics and governance	Pages 32-41, 42-52.
Transparency and disclosure	Pages 4-7, 32-41, 42-52, 54-59
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305-2 Energy indirect (Scope 2) GHG emissions.	Page 41
305-3 Other indirect (Scope 3) GHG emissions.	Page 41
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403-9 Work-related injuries	Pages 14-15
403-10 Work-related ill health	Pages 14-15
Diversity and Inclusion	
405-1 Diversity of governance bodies and employees	Page 40
Capability and Development	
404-2 Programs for upgrading employee skills and transition assistance programs	Page 40

Glossary

Kuputaka

AIL	Approved Issuer Levy
Annual Plans	Annual budgets issued by councils ahead of their June financial year end
Bespoke Lending	Any lending to a council with a maturity date that does not match an LGFA bond maturity dated
bps	basis points (100 basis points equals one percentage).
CCO	Council Controlled Organisation
CCTO	Council Controlled Trading Organisation
CIL	Climate Initiative Loans
Coverage Ratio	In a tender the amount of bids received divided by the amount of bonds on offer. The higher the Bod Coverage ratio the more demand there is
ESG	Environmental, social and governance
Financial Covenants	Four financial covenants that council must adhere to Debt/Revenue, Interest Expense to Rates Revenue, Interest Expense to Total Revenue, Liquidity. Annual attestation and if in breach then can be an event of repayment of loans.
Fitch	Credit rating agency who rates LGFA and a small number of councils
Foundation Policy Covenants	Within Shareholder Agreement - any changes require shareholder approval. Now mainly the financial covenants.
GHG	Greenhouse gas
GRI	Global Reporting Initiative
GSS	Green, Social and Sustainability New Zealand
GSA	General security arrangement
Guarantee and Indemnity Deed	Joint and Several Guarantee with a side agreement that pro ratas the council guarantors obligations to that of proportionate share of rates revenue
Guarantor	Any council shareholder or any council who borrows more than $20m is required to sign the Guarantee and Indemnity Deed.
IA	Internal audit
INFINZ	Institute of Finance Professionals
LAP	Liquid Assets Portfolio
LGFA Bills	Short dated securities (less than 1 year) issued by LGFA
LGFA Bonds	Fixed rate coupon bonds issued by LGFA with maturities between 2022 and 2037. Issued via tenders or syndication
Local Government Act 2002	Overarching legislation for Councils, CCOs and CCTOs
Local Government Borrowing Act 2011	Act that established LGFA
Multi Issuer Deed (MID)	Over arching borrowing document - accession of councils and CCOs, reps and warranties, financial covenants, BN conversion
NII	Net interest income
Non Guarantor	Any member council that is not a guarantor. Non-Guarantor member councils cannot borrow more than $20m
NZD (also NZ$)	New Zealand Dollar
NZDM	New Zealand Debt Management of the Treasury - our contact point for our Crown Liquidity Facility and derivative swap counterparty
NZDM Facility	Crown Liquidity Facility where we can drawdown up to $1.5 billion of emergency funding (subject to certain conditions)
NZGB	New Zealand Government Bonds
PDH	Partial Differential Hedge
S&P	Standard and Poor's
Shareholders Agreement	Board, Shareholder Council appointments, sale of shares, voting rights and Foundation policies
SOI	Statement of Intent
Spread to NZGB	The basis point difference between LGFA Bonds and NZ Government Bonds. Investors will often use the spread the gauge when LGFA bonds are trading at a premium or discount
Spread to Swap	The basis point difference between LGFA Bonds and the swaps curve. The spread is often used as a proxy to gauge if LGFA bonds are being issued at a discount or premium
SSA	Supra and Sub Sovereign Agency issuers- same as Supras - they issue Kauri bonds in NZD. Examples are World Bank, Asian Development Bank, Kommunalbanken (LGFA Norway equivalent)
Swap	Interest rate derivative instruments transacted with the NZDM to hedge the balance sheet and convert fixed rate borrowing into floating rate exposures.
Syndication	The LGFA issues LGFA Bonds by Syndication normally twice a year, if market conditions are favourable. Syndications provide diversity to the LGFA funding program, by offering an alternative funding tool to the scheduled bond tenders.
Taituara	Formerly Society of Local Government Managers (SOLGM)
TCFD	Task Force on Climate Related Financial Disclosures
Tender	The LGFA issues LGFA Bonds and Bills to the market in scheduled tenders, typically every six weeks of the financial year.
UN SDG	United Nations' Sustainable Development Goals
VaR	Value at risk
WSE	Water service entities

LGFA

New Zealand Local Government Funding Agency

Te Pūtea Kāwanatanga ā-rohe

lgfa.co.nz