



Benefiting communities through
delivering efficient financing
for local government.

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

HALF YEAR REPORT
31 December 2022

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Rārangi tauwaea

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

Cover photo: The Green Corridors programme enhances areas of native bush along streams, provides a place for wildlife to thrive, improves water quality, and creates open green spaces from the Tararua Ranges to the Manawatū River.
Palmerston North City Council

Contents photo: Tauroa Road Boardwalk.
Hastings District Council

Message from the Chair and Chief Executive

He karere mai i te Toihau me te Tumuaki

For the six-months ended 31 December 2022

The six-months to December presented a challenging period for financial markets, with LGFA's operating performance over this period subdued due to the volatile markets. Despite the difficult conditions, LGFA continued to deliver value to members and our investor base while meeting our financial targets. Highlights over the period included launching our new Climate Action Loan product for members and being awarded the KangaNews New Zealand Debt Issuer of the year.

Financial and Operational Performance

LGFA's total interest income for the six-month period to December 2022 of \$312.9 million was a 68.4% increase over the 2021 comparable period (\$185.9 million), while net operating profit of \$1.1 million for the six-month period decreased 81.3% on the 2021 comparable period (\$5.9 million).

Net operating profit was significantly lower than the comparable period a year ago due to the sharp rise in interest rates combined with increased holdings of liquid assets. This outcome was expected and forecast in our Statement of Intent (SOI) last year. Both net interest income and operating profit were slightly ahead of the SOI forecast and we are forecasting an improvement in financial performance in the second half of the financial year.

Expenses have been managed under the SOI budget over the past six months. Lower fees relative to budget for the NZ Debt Management standby facility and lower NZX and legal fees relating to issuance were positive. These savings were offset by higher legal costs relating to considering the implications from the proposed Three Waters Reform, the development of new sustainability initiatives, including related consultancy costs.

The financial strength of LGFA was affirmed by Fitch Ratings who maintained our domestic currency credit rating at AA+ in October 2022. Our AAA rating from S&P Global Ratings was affirmed in March 2022 and remains the same as the New Zealand Government.

Borrowing activity

LGFA issued \$1.76 billion of bonds over the past six months and outstandings now total \$17.84 billion (including \$1.10 billion of treasury stock) across 11 maturities ranging between 2023 to 2037. The average term of our bond issuance during the six months at 4.37 years was significantly shorter than the prior year period.

LGFA has the largest amount of New Zealand dollar (NZD) bonds on issue after the New Zealand Government and our individual bond tranches are amongst the largest and most liquid NZD debt instruments available for investors. Secondary market activity in our bonds continues to rise, assisting investors' access to our bonds throughout the year.

The performance of LGFA bonds over the past six months has been soft with LGFA bond spreads to New Zealand Government Bonds (NZGBs) and spreads to swap in general moving wider in line with global high grade markets. Spreads widened between 3 basis points (bps) and 25 bps to NZGB and between 7 bps to 12 bps to swap over the six-month period. The inclusion of the NZGBs into the World Government Bond Index was also positive for the performance of NZGBs relative to LGFA bonds. Outright yields on LGFA bonds rose between 157 bps (2024 maturity) and 75 bps (2033 maturity) over the six-month period.

LGFA was voted by market participants as the KangaNews New Zealand Debt Issuer of the Year award for 2022 and we want to acknowledge their support.

It is also pleasing to observe the increased participation by offshore investors over the past six months as NZD-denominated investments have become relatively

more attractive for investors. We estimate that offshore investors have increased their holdings of LGFA bonds over the past six months by \$638 million to a record \$5.09 billion (or 30.1% of LGFA bonds on issue), while domestic institutional and retail investors hold 33.2%, domestic banks 28.2% and the Reserve Bank 8.5%.

Lending to the sector

LGFA was established in 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. The original 31 shareholders including the Crown remain as shareholders. Over the past six months, we added two councils and two Council-controlled organisations (CCOs) as members, with Dunedin City Council and Environment Southland joining as guarantors and Westland Holdings and Dunedin City Treasury joining as CCOs. Total membership is now 77 out of the 78 councils in New Zealand and three CCOs.

Long-dated lending to council and CCO members over the six-month period was \$1.82 billion provided to 51 members. This was the second highest amount lent over a rolling six-month period and was just below the amount of loans made during the six-month period to September 2020. Our estimated market share of total council borrowing of 89% was above forecast and the third highest annual average on record. The average tenor of long-dated borrowing by councils of 5.6 years over the six-month period was in line with prior periods. Short-dated lending for terms less than 12 months continues to be supported by councils. As at 31 December 2022, LGFA had \$493 million of short-term loans outstanding to 30 council and CCO members.

Our role in assisting Local and Central Government

The local government sector continues to face a period of change and uncertainty having to deal with climate-related events, rising cost pressures and the Central Government-led initiatives relating to the proposed Three Waters Reform Programme and the Future for Local Government Review.

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

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

**New Zealand
Issuer of the Year
for 2022**

KANGANEWS
AWARDS
2022

Thank you to our investors,
intermediaries and market
participants for their support.

New products and initiatives

We launched Green, Social and Sustainable (GSS) lending in October 2021 and over the past six months have approved three further projects as being eligible for GSS loans, bringing the number to five loans across five councils. As at 31 December 2022 we have undertaken \$101 million of GSS Loans to three councils. We launched Climate Action Loans (CALs) for councils and CCOs in December 2022. A CAL provides a discounted loan margin to those councils with a Greenhouse Gas Emission Reduction Plan in place and who are meeting their targets.

Increasing focus on sustainability

Sustainability plays an important part within the local government sector and at LGFA. We have undertaken several initiatives over the past year, including maintenance of CarbonZero certification from Toitu Envirocare, actively marketing our GSS loan product and establishing CALs.

We reviewed the Climate Change Emergency Declarations and responses by Councils and a copy of the report is available on our website: [Review of Climate Emergency Declarations and Responses by Councils](#)

Acknowledgments

The Agency's work cannot be implemented without the support of our staff, fellow directors, Shareholders Council, New Zealand Debt Management (NZDM) and Central Government, all of whose efforts should be acknowledged.

John Avery, one of LGFA's foundation directors, retired in November 2022, and we would like to take this opportunity to sincerely thank John for his invaluable contribution to LGFA since 2011.

We believe LGFA's future remains positive and look forward to working with all stakeholders.



Craig Stobo
Chair



Mark Butcher
Chief Executive



Pedestrian bridge, Waikanae River, Otaihangā Domain.
Kapiti Coast District Council. Photo by Mark Coote

Performance against objectives

Ko ngā whakatutukinga ki ngā whāinga

The statement of service performance provides a summary of LGFA's performance for the first half of the financial year against the objectives and performance targets set out in the LGFA Statement of Intent 2022-23 (SOI)

2022-23 Objectives and performance targets

LGFA objectives and performance targets for 2022-23 fall within the following five strategic priorities which encompass our shareholders' foundation objectives and guide the LGFA Board and management in determining our strategy:

- Governance, capability and business practice
- Optimising financing services for local government
- Environmental and social responsibility
- Effective management of loans
- Industry leadership and engagement

Our quarterly reports to shareholders provide more detail on our performance against objectives and performance targets. The reports for the quarters ended September and December 2022 are available on the LGFA website.

Governance, capability and business practice

LGFA is committed to best practice corporate governance to ensure its long-term sustainability and success.

Objectives	Our performance to 31 December 2022
Demonstrate best practice corporate governance.	<p>LGFA is committed to demonstrating best practice corporate governance and we report annually on our compliance with the eight core principles underpinning the NZX Corporate Governance Best Practice Code.</p> <p>Our 2022 Annual Report, released on 30 August 2022, is the most recent report with commentary on our compliance with the NZX Code.</p>
Set and model high standards of ethical behaviour.	<p>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.</p>
Ensure products and services offered to participating borrowers are delivered in a cost-effective manner.	<p>LGFA prepares annual operating budgets and monitors progress against these monthly. Our performance against our financial performance targets for the six months to 31 December is summarised below under our performance targets.</p>
Be a good employer by providing safe working conditions, training and development and equal opportunities for staff.	<p>LGFA is committed to being a good employer and we report our employment practices annually in our Annual Report.</p> <p>Our 2022 Annual Report is our most recent report outlining our health and safety and wellbeing practices and policies, including compliance with the Health and Safety at Work Act, diversity and inclusion and capability and development.</p>

Performance targets	2022-2023 target	Our performance to 31 December 2022
Comply with the Shareholder Foundation Polices and the Board-approved Treasury Policy at all times.	No breaches.	✓ No breaches.
Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency.	LGFA credit ratings equivalent to NZ Sovereign.	<p>✓ Our ratings remain equivalent to the New Zealand Government for both S&P Global Ratings and Fitch Ratings.</p> <p>Fitch Ratings upgraded our long-term foreign currency credit rating to AA+ on 16 September 2022. S&P Global Ratings affirmed our domestic currency credit rating at AAA in February 2022.</p>
LGFA's total operating income for the period to 30 June 2023.	> \$12.2 million.	<p>✓ On target to meet by 30 June 2023.</p> <p>\$5.651 million as at 31 December 2022.</p>
LGFA's total operating expenses for the period to 30 June 2023.	< \$9.4 million.	<p>✓ On target to meet by 30 June 2023.</p> <p>\$4.542 million as at 31 December 2022.</p>

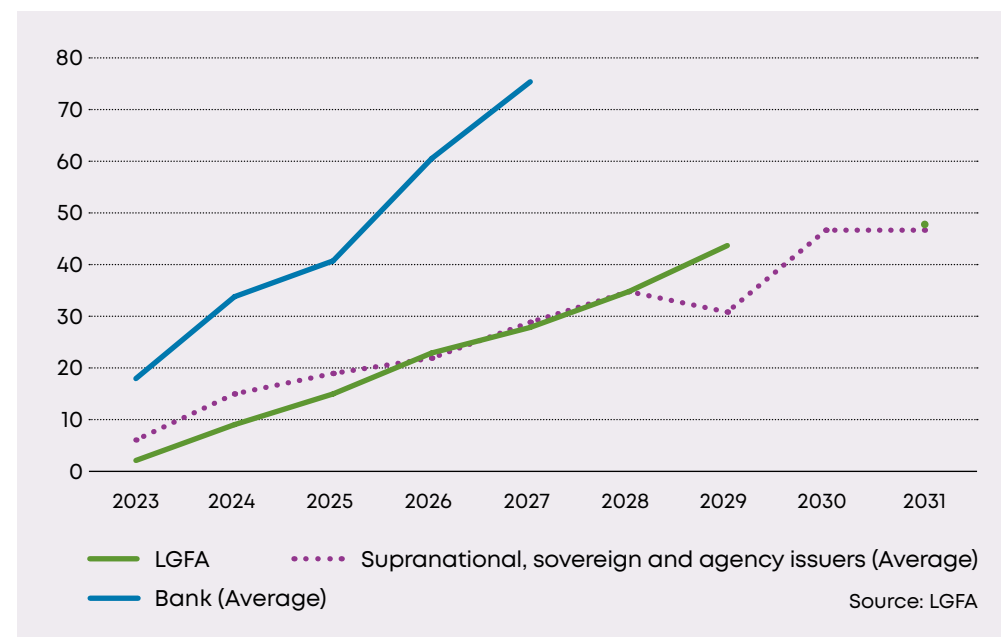
Optimising financing services for local government

LGFA's primary objective is to optimise the terms and conditions of the debt funding it provides to participating borrowers. Amongst other things, LGFA will achieve this by delivering operational best practice and efficiency across our lending products and services.

Objectives	How we measure our performance
------------	--------------------------------

Provide interest cost savings relative to alternative sources of financing.

Comparison to other high-grade issuers - secondary market spread to swap (bps)



Supranational, sovereign and agency issuers

- | | |
|----------------------------------|------------------------------|
| Kainga Ora (AAA) | KBN (AAA) |
| Asian Development Bank (AAA) | Rentenbank (AAA) |
| IADB (AAA) | World Bank (AAA) |
| International Finance Corp (AAA) | Nordic Investment Bank (AAA) |

Banks

- | | |
|-----------|--------------------|
| BNZ (AA-) | Westpac Bank (AA-) |
|-----------|--------------------|

Offer flexible short and long-term lending products that meet the borrowing requirements for borrowers.

LGFA provides members with short term loans (less than one year), long term loans on either a floating or fixed rate basis (between one year and April 2037), Green Social and Sustainable Loans and standby facilities.

- Over the six months to 31 December 2022, our members borrowed \$1.82 billion in 163 long term loans across maturity dates ranging between 2023 and 2033, with December quarter lending being the second highest on record.
- As at 31 December 2022 there were 45 short term loans totaling \$497 million.
- As at 31 December 2022, standby facilities totalled \$682 million across 13 members.

Deliver operational best practice and efficiency for lending services.

Over the six months to 31 December 2022, LGFA operations staff successfully:

- settled 842 new trades with a gross value of \$9.97 billion,
- processed 6,067 cash flows with a gross value of \$15.0 billion, and
- rate set 4,305 existing trades.

There were no LGFA settlement errors over the six months.

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

There was strong activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors). Over the six months to 31 December 2022, we issued \$1.76 billion of primary bonds and secondary market turnover totalled \$5.14 billion. Secondary market turnover of \$3.1 billion over the December quarter was at the second highest on record.

Performance targets	2022-2023 target	Our performance to 31 December 2022
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Share of aggregate long-term debt funding to the Local Government sector.	> 80%	✓ 89% as at 31 December 2022 (compared to a historical average of 75% since 2012).
Total lending to Participating Borrowers.	> \$15,004 million	✓ On target to meet by 30 June 2023. \$15,751 million as at 31 December 2022.
Conduct an annual survey of Participating Borrowers who borrow from LGFA as to the value added by LGFA to the borrowing activities.	> 85% satisfaction score	✓ 100% satisfaction score in August 2022 Stakeholder Survey.
Successfully refinance existing loans to councils and LGFA bond maturities as they fall due.	100%	✓ 100%
Meet all lending requests from Participating Borrowers, where those requests meet LGFA operational and covenant requirements.	100%	✓ 100%



Waikato riverpath.
Hamilton City Council

Environmental and social responsibility

LGFA recognises the risks inherent in climate change for councils and supports New Zealand's shift to a low-carbon economy. LGFA will exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

Objectives	How we measure our performance
Assist the local government sector in achieving their sustainability and climate change objectives.	<p>Over the six months, we approved GSS loans to Hutt City Council for the Naenae swimming pool, Whangarei District Council for the Civic Centre, and approved our first eligible project for social lending for Christchurch City Council's Ōtautahi Community Housing Trust.</p> <p>In total, to date we have approved five GSS loans with a combined approved value of \$543 million, with \$101 million of loans drawn down to date.</p> <p>On 1 December 2022, we launched Climate Action Loans (CALs) which provides councils with a discounted loan margin if they have implemented a Greenhouse Gas Emission Reduction Plan and meet their emission reduction targets.</p> <p>LGFA completed research on which New Zealand councils declared a climate emergency over 2019-2020 (16 out of 78), their subsequent responses and any opportunities for LGFA. A copy of our report is available from our website: Review of Climate Emergency Declarations and Responses by Councils</p>
Improve sustainability outcomes within LGFA.	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. We are currently working on translating this target into annual carbon reduction plan targets.

Performance targets	2022-2023 target	Our performance to 31 December 2022
Comply with the Health and Safety at Work Act 2015.	No breaches	✓ No breaches.
Maintain Toitū Carbon Zero certification.	Carbon-zero certification maintained.	✓ Toitū Net Carbon-zero recertification approved 11 October 2022.
Meet reduction targets outlined in our carbon reduction management plan.	Reduction targets met.	✗ We are currently working on translating this target into annual carbon reduction plan targets.
Increase our GSS lending book.	Two new participating borrowers enter into GSS loans.	✓ Three new participating borrowers approved for GSS lending.
Ensure Annual Report is prepared in compliance with applicable GRI Standards.	100%	✓ 2022 Annual Report prepared to meet the requirements of the Global Reporting Initiative (GRI) Standards (core option).
Meet all mandatory climate reporting standards.	100%	✓ Voluntarily comply with GRI standards (core option). Undertaking development work on meeting Climate Related Disclosure requirements.

Effective management of loans

LGFA will ensure its loan book remains at a high standard by ensuring it understands each participating borrower's financial position. LGFA manages its assets within an appropriate risk management framework to ensure shareholder value is not compromised.

Objectives	How we measure our performance
Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies.	Over the six months, we reviewed council agendas and management reports on an ongoing basis for all members on the LGFA borrower watch-list. We have received compliance certificates for LGFA covenants from all of our members with debt outstanding at June 2022 and no council has requested that they be measured on a group basis. Some certificates have been provided based upon unaudited financial statements given the delays in providing final audit signoff due to audit shortages.
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.	We met with 30 borrowers over the six months and are on target to meet with all members by 30 June 2023.

Performance targets	2022-2023 target	Our performance to 31 December 2022
Review each participating borrower's financial position under LGFA policies.	100%	✓ On target to meet by 30 June 2023.
Arrange to meet each Participating Borrower at least annually, including meeting with elected officials as required, or if requested.	100%	✓ On target to meet by 30 June 2023.

Industry leadership and engagement

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

Objectives

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.

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

Support councils and CCOs in the development of reporting disclosures of the impacts of sector activity on climate change.

How we measure our performance

This year we have introduced two new webinars for members:

- LGFA Quarterly Update
- An Economic and Financial Market Update by BNZ

These inaugural webinars were well attended by participants and will be formalised as ongoing quarterly events.

Over the six months we met with Treasury, the National Transition Unit and Policy teams at DIA (and their advisers) regarding proposed Three Waters Reform, working actively on issues relating how to the transition of council debt on 1 July 2024, as well as the borrowing options for the Water Services Entities (WSEs) following transition. The Water Services Legislation Bill was introduced to Parliament in December and, in consultation with key stakeholders, we are considering the contents of the Bill and what potential role LGFA could play under the proposed Three Waters Reform Programme.

LGFA has provided input into the Ratepayer Financing Scheme (RFS) project managed by a group of councils with advice from Cameron Partners. If successful, the RFS could offer temporary financial relief to ratepayers via rates postponement. LGFA is not contributing financially to this project but providing intellectual capital and assistance.

We are continuing work on initiatives to reduce compliance and documentation requirements for members when they borrow.

Met with Chair of the Review into the Future for Local Government.

Bay of Plenty Regional Oil Spill Response Team training exercise in Tauranga Harbour.
Bay of Plenty Regional Council



Financial statements

Nga tauki pūtea

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Statement of comprehensive income

For the six months ended 31 December 2022 in \$000s

	Note	Unaudited six months ended 31 December 2022	Unaudited six months ended 31 December 2021
Interest income		312,883	185,886
Interest expense		307,904	176,709
Net interest income	4	4,979	9,178
Other operating income	5	671	526
Total operating income		5,651	9,704
Operating expenses	6	4,542	3,769
Net operating profit		1,108	5,935
Total comprehensive income		1,108	5,935

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

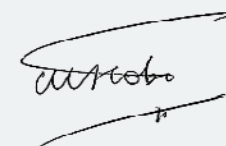
Due to rounding, numbers presented in the financial statements and associated notes may not add up precisely to the reported totals.

The Board of Directors of the New Zealand Local Government Funding Agency Limited authorised these statements or issue on 24 February 2023.

Statement of changes in equity

For the six months ended 31 December 2022 in \$000s

	Note	Share capital	Retained earnings	Total equity
Equity as at 1 July 2021		25,000	69,744	94,744
Net operating profit			10,673	10,673
Total comprehensive income for the year			10,673	10,673
Transactions with owners			-	-
Dividend paid on 3 September 2021			(857)	(857)
Equity as at 1 July 2022		25,000	79,559	104,560
Net operating profit			1,108	1,108
Total comprehensive income for the year			1,108	1,108
Transactions with owners			-	-
Dividend paid on 2 September 2022			(1,218)	(1,218)
Unaudited closing balance as at 31 December 2022	17	25,000	79,450	104,450



Craig Stobo, Director
Board Chair



Linda Robertson, Director
Chair, Audit and Risk Committee

Statement of financial position

As at 31 December 2022 in \$000s

	Note	Unaudited as at 31 December 2022	Audited as at 30 June 2022
Assets			
Financial assets			
Receivables		1,895	360
Cash and bank balances		64,921	158,033
Cash pledged as collateral		337,009	76
Marketable securities		1,312,958	1,491,148
Deposits		594,359	462,866
Derivatives in gain		77,470	94,767
Loans	8	15,751,420	14,041,908
Non-financial assets			
Prepayments		1,150	852
Other assets	9	112	156
Total assets		18,141,294	16,250,167
Equity			
Share capital	16	25,000	25,000
Retained earnings		79,450	79,560
Total equity		104,450	104,560
Liabilities			
Financial liabilities			
Payables and provisions	10	95,576	45,066
Bills	11	636,949	562,803
Bond repurchases	12	108,077	31,671
Derivatives in loss		1,717,879	1,206,175
Bonds	13	15,146,187	14,015,862
Borrower notes	14	331,468	283,180
Non-financial liabilities			
Other liabilities	15	708	850
Total liabilities		18,036,844	16,145,607
Total equity and liabilities		18,141,294	16,250,167

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

Statement of cash flows

For the six months ended 31 December 2022 in \$000s

	Note	Unaudited six months ended 31 December 2022	Unaudited six months ended 31 December 2021
Cash Flow from Operating Activities			
Cash applied to loans	8	(1,639,024)	(1,427,636)
Interest paid on bonds issued		(228,725)	(215,363)
Interest paid on bills issued		(10,088)	(1,591)
Interest paid on borrower notes		(131)	(212)
Interest paid on bond repurchases		(1,738)	(254)
Interest received from loans		224,165	76,952
Interest received from cash & cash equivalents		2,396	1,031
Interest received from marketable securities		13,570	5,624
Interest received from deposits		5,897	2,206
Net interest on derivatives		2,276	136,753
Cash proceeds from provision of standby facilities		671	526
Payments to suppliers and employees		(5,317)	(3,927)
Net cash flow from operating activities	18	(1,636,047)	(1,425,888)
Cashflow from Investing Activities			
Purchase of marketable securities		206,657	(594,958)
(Purchase)/maturity of deposits		(462,937)	(185,743)
Purchase of plant and equipment		-	-
Net Cashflow from Investing Activities		(256,280)	(780,701)
Cash flows from financing activities			
Cash proceeds from bonds issued	13	1,477,890	2,096,802
Cash proceeds (outflows) from bills issued		74,146	(75,367)
Cash proceeds (outflows) from bond repurchases		76,195	158,143
Cash proceeds from borrower notes		41,598	35,509
Dividends paid		(1,218)	(857)
Cash applied to derivatives		130,604	(25,240)
Net cash flows from financing activities		1,799,215	2,188,991
Net (Decrease) / Increase in Cash		(93,112)	(17,599)
Cash, cash equivalents at beginning of year		158,033	391,835
Cash, cash equivalents at end of year		64,921	374,236

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.

These financial statements were authorised for issue by the Directors on 24 February 2023.

2. Statement of compliance

The interim financial statements are for the six months ended 31 December 2022 and are to be read in conjunction with the annual report for the year ended 30 June 2021.

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

3. Basis of preparation

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

There have no changes to accounting policies.

Early adoption standards and interpretations

LGFA has not early adopted any standards.

Standards not yet adopted

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

Financial instruments

Financial assets

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

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

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 31 December 2022 include estimates and judgements of 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 proposed Three Waters Reform Programme on the local government sector.

4. Net interest income

in \$000s	Unaudited six months ended 31 December 2022	Unaudited six months ended 31 December 2021
Interest income		
Cash and cash equivalents	4,098	1,036
Marketable securities	18,342	4,259
Lease liability	16	-
Deposits	9,668	3,129
Derivatives	-	90,015
Loans	280,759	87,447
Fair value hedge ineffectiveness	-	-
Total interest income	312,883	185,886
Interest expense		
Bills	10,088	1,591
Bond repurchase transactions	1,949	319
Lease liability	-	5
Derivatives	66,245	-
Bonds	224,425	173,439
Borrower notes	5,196	1,355
Total interest expense	307,904	176,709
Net interest income	4,979	9,178

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.

in \$000s	Unaudited six months ended 31 December 2022	Unaudited six months ended 31 December 2021
Standby facilities fee income	671	526
Total other operating income	671	526

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.

in \$000s	Unaudited six months ended 31 December 2022	Unaudited six months ended 31 December 2021
Issuance and on-lending expenses		
Approved issuer levy ¹	343	325
Rating agency fees	333	324
NZDM facility fee	652	250
Legal fees - issuance	205	225
NZX	367	390
Trustee fees	55	51
Regulatory, registry, other fees	106	68
	2,062	1,633
Other operating expenses		
Information technology	341	399
Consultants	127	95
Directors fees	213	212
Insurance	47	43
Legal fees	156	51
Other expenses	230	136
Auditors' remuneration		
Statutory audit	55	55
Advisory services	-	-
Personnel	1,312	1,145
	2,481	2,135
Total operating expenses	4,542	3,769

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

7. Hedge accounting

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

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

in \$000s	Unaudited six months ended 31 December 2022	Unaudited six months ended 31 December 2021
Hedging instruments - interest rate swaps	329,876	520,010
Hedged items attributable to the hedged risk	(329,876)	(520,010)
Ineffectiveness recognised in profit or loss from fair value hedges	-	-

The gains or losses on the hedging instrument (interest rate swaps) and the hedged item (bonds, loans and investments) are mapped to the same fair value account. For this reason, the statement of comprehensive income will only report any ineffectiveness arising from the fair value hedge.

8. Loans

in \$000s	Unaudited as at 31 December 2022		Audited as at 30 June 2022	
	Short-term loans ¹	Loans	Short-term loans	Loans
Ashburton District Council	7,064	79,152	12,048	78,898
Auckland Council	-	3,629,211	-	3,413,415
Bay of Plenty Regional Council	25,465	167,970	25,651	167,941
Buller District Council	-	20,027	-	20,015
Canterbury Regional Council	-	75,366	4,018	75,214
Carterton District Council	-	14,772	-	14,762
Central Hawkes Bay District Council	1,011	28,168	2,024	20,107
Central Otago District Council	10,083	5,050	5,024	-
Christchurch City Council	-	2,285,660	2,017	2,036,724
Clutha District Council	7,547	37,590	5,532	32,394
Far North District Council	-	71,895	-	71,822
Gisborne District Council	-	111,572	-	86,095
Gore District Council	8,573	35,263	6,035	29,631
Greater Wellington Regional Council	-	636,734	-	576,343
Grey District Council	3,944	26,781	3,980	26,717
Hamilton City Council	-	726,508	-	633,049
Hastings District Council	-	275,067	-	237,990
Hauraki District Council	-	52,432	-	43,212
Hawkes Bay Regional Council	-	46,141	-	37,992
Horizons Regional Council	11,942	49,831	11,984	49,771
Horowhenua District Council	21,187	131,653	11,001	127,395
Hurunui District Council	8,073	34,307	8,033	30,147
Hutt City Council	-	303,302	-	256,607
Invercargill City Council	36,004	68,763	12,845	68,725
Invercargill City Holdings Ltd	18,469	68,438	22,076	68,354
Kaikoura District Council	-	5,341	-	5,331
Kaipara District Council	-	44,425	-	44,229
Kapiti Coast District Council	-	257,151	-	256,128
Kawerau District Council	-	2,005	-	-
Mackenzie District Council	2,018	8,080	10,002	-
Manawatu District Council	11,570	77,919	11,559	77,725
Marlborough District Council	47,553	107,324	37,325	100,289
Masterton District Council	-	56,244	-	50,260
Matamata-Piako District Council	-	45,907	-	38,191
Nelson City Council	-	171,371	-	140,581
New Plymouth District Council	10,084	216,117	-	170,350
Northland Regional Council	-	14,148	-	14,147
Opotiki District Council	-	9,067	-	7,073

1. As at 31 December 2022, \$2,415 million of loans are due to mature within 12 months. This comprises all short-term loans and \$1,922 million of loans.

in \$000s	Unaudited as at 31 December 2022		Audited as at 30 June 2022	
	Short-term loans ¹	Loans	Short-term loans	Loans
Otago Regional Council	26,793	73,682	66,715	48,443
Otorohanga District Council	-	4,028	-	4,028
Palmerston North City Council	-	213,980	-	187,872
Porirua City Council	-	178,148	-	172,335
Queenstown Lakes District Council	55,703	401,978	50,275	241,015
Rangitikei District Council	-	19,158	-	19,157
Rotorua District Council	53,600	275,679	43,112	245,298
Ruapehu District Council	8,037	29,588	8,020	29,557
Selwyn District Council	-	85,725	-	75,343
South Taranaki District Council	-	113,060	-	112,566
South Waikato District Council	4,954	34,294	4,874	34,171
Southland District Council	-	16,900	-	16,899
South Wairarapa District Council	-	26,631	-	26,537
Stratford District Council	-	32,359	6,027	26,299
Taranaki Regional Council	3,963	19,632	-	14,587
Tararua District Council	2,013	55,670	-	51,244
Tasman District Council	24,295	235,580	24,193	198,190
Taupo District Council	-	171,208	-	125,522
Tauranga City Council	-	761,621	-	648,528
Thames-Coromandel District Council	-	73,665	-	73,365
Timaru District Council	29,108	152,022	28,724	136,516
Upper Hutt City Council	-	95,766	-	91,421
Waikato District Council	-	110,947	-	95,454
Waikato Regional Council	-	25,202	-	25,120
Waimakariri District Council	-	171,473	-	170,903
Waimate District Council	-	3,534	-	-
Waipa District Council	26,030	154,231	25,530	124,377
Wairoa District Council	-	11,102	-	10,062
Waitaki District Council (WD)	6,903	31,201	4,491	20,583
Waitomo District Council	4,027	24,160	4,017	24,092
Wellington City Council	-	1,195,968	-	967,101
West Coast Regional Council	-	11,396	3,761	6,616
Western Bay Of Plenty District Council	-	70,687	-	70,366
Westland District Council	-	30,050	-	29,933
Westland Holdings Ltd	-	2,405	-	-
Whakatane District Council	-	108,433	-	86,396
Whanganui District Council	7,544	99,907	7,523	99,522
Whangarei District Council	9,947	183,505	9,972	182,813
Fair value hedge adjustment	-	(43,416)	-	(36,332)
Total loans	493,505	15,257,915	478,385	13,563,522

9. Other assets

in \$000s	Unaudited as at 31 December 2022	Audited as at 30 June 2022
Right-of-use lease asset	112	156
Total other assets	112	156

10. Payables and provisions

in \$000s	Unaudited as at 31 December 2022	Audited as at 30 June 2022
Loans/purchases to be advanced	95,000	44,000
Trade creditors	185	800
Credit provision	139	161
Other provisions	252	105
Total payables and provisions	95,576	45,066

11. Bills

Unaudited as at 31 December 2022 in \$000s	Face value	Unamortised premium	Accrued interest	Total
13 January 2023	145,000	(139)	-	144,861
2 February 2023	25,000	(78)	-	24,922
10 February 2023	80,000	(337)	-	79,663
17 February 2023	20,000	(107)	-	19,893
28 February 2023	50,000	(348)	-	49,652
10 March 2023	70,000	(538)	-	69,462
15 March 2023	50,000	(436)	-	49,564
20 March 2023	52,000	(504)	-	51,496
5 April 2023	25,000	(265)	-	24,735
12 April 2023	20,000	(234)	-	19,766
18 April 2023	15,000	(191)	-	14,809
10 May 2023	15,000	(245)	-	14,755
7 June 2023	25,000	(522)	-	24,478
14 June 2023	50,000	(1,106)	-	48,894
Total bills	642,000	(5,051)	-	636,949

Audited as at 30 June 2022 in \$000s	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
Total bills	565,000	-	(2,197)	562,803

12. Treasury stock and bond repurchases

Periodically, LGFA subscribes for LGFA bonds as part of its tender process and holds these bonds as treasury stock. LGFA bonds held by LGFA as treasury stock are derecognised at the time of issue and no liability is recognised in the statement of financial position. As at 31 December 2022, \$1,100 million of LGFA bonds had been subscribed as treasury stock.

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

in \$000s	Unaudited as at 31 December 2022	Audited as at 30 June 2022
15 April 2023	4,054	
15 April 2024	-	1,456
15 April 2025	9,512	6,773
15 April 2026	893	5,395
15 April 2027	35,962	-
15 May 2028	-	-
20 April 2029	15,416	7,390
15 May 2031	8,223	-
14 April 2033	-	4,566
15 May 2035	-	818
15 April 2037	34,017	5,272
Total bond repurchases	108,077	31,671

13. Bonds

Bonds on issue do not include \$1,100 million face value of issued LGFA bonds subscribed by LGFA and held as treasury stock. Refer Note 12: Treasury stock and bond repurchase transactions.

Unaudited as at 31 December 2022 in \$000s	Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
Fixed interest bonds					
15 April 2023	1,830,000	9,127	21,568		
15 April 2024	2,108,000	862	10,164		
15 April 2025	2,409,000	(45,646)	14,196		
15 April 2026	2,055,000	(52,395)	6,605		
15 April 2027	1,881,000	78,421	18,138		
15 May 2028	1,373,000	(59,559)	4,011		
20 April 2029	1,562,000	(60,236)	4,699		
15 May 2031	1,000,000	(42,471)	2,921		
14 April 2033	1,350,000	34,731	10,255		
15 May 2035	400,000	2,096	1,558		
15 April 2037	770,000	(25,117)	3,300		
Total bonds	16,738,000	(160,188)	97,415	(1,529,039)	15,146,187

Audited as at 30 June 2022 in \$000s	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 bonds	15,105,000	8,955	87,681	(1,185,774)	14,015,862

14. Borrower notes

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

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

15. Other liabilities

in \$000s	Unaudited as at 31 December 2022	Audited as at 30 June 2022
Lease liability	112	156
Accruals	596	694
Total other liabilities	708	850

16. Share capital

As at 31 December 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.

17. Shareholder information

Registered holders of equity securities	As at 31 December 2022		As at 30 June 2022	
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 District Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames-Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
Whanganui District Council	200,000	0.4%	200,000	0.4%
Total	45,000,000	100%	45,000,000	100%

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

in \$000s	Unaudited six months ended 31 December 2022	Unaudited six months ended 31 December 2021
Net profit/(loss) for the period	1,108	5,935
Cash applied to loans	(1,639,024)	(1,427,636)
Non-cash adjustments		
Amortisation and depreciation	2,643	(3,955)
Working capital movements		
Net change in trade debtors and receivables	(378)	13
Net change in prepayments	(298)	(319)
Net change in accruals	(98)	73
Net Cash From Operating Activities	(1,636,047)	(1,425,888)

19. Related parties

Identity of related parties

LGFA is related to the local authorities set out in the Shareholder Information in note 17.

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

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

Related party transactions

LGFA was established for the purpose of raising funds from the market to lend to participating borrowers. The lending to individual councils is disclosed in note 8, and interest income recognised on this lending is shown in the statement of comprehensive income.

The purchase of LGFA borrower notes by participating borrowers. Refer note 14.

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

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