

ATTACHMENTS

Extraordinary Council Meeting

12 November 2024

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SCHEDULE 1
Foundation Policies

(Clause 5.1 of the Shareholders' Agreement)

These foundation policies may only be changed by a resolution of shareholders in accordance with clause 5.1 of the Shareholders' Agreement

Credit Risk

Lending Policy

All Local Authorities that borrow from the Company will:

- Provide debenture security in relation to their borrowing from the Company and related obligations, and (if relevant), equity commitment liabilities to the Company and (if relevant) guarantee liabilities to a security trustee approved for the Company's creditors.
- Issue securities (bonds / FRNs / CP) to the Company and/or enter into facility arrangements with the Company.
- Comply with their own internal borrowing policies.
- Comply with the financial covenants outlined in the following table, provided that:
 - Local Authorities without a long-term credit rating can have bespoke financial covenants that exceed the:
 - Lending policy covenants outlined in the following table with the approval of the Board;
 - Foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution.
 - Local Authorities with a long-term credit rating:
 - will not be required to comply with the lending policy covenants in the following table; and
 - can have bespoke financial covenants that exceed the foundation policy covenants outlined in the following table:
 - with the approval of an Ordinary Resolution; or
 - in respect of the Net Debt / Total Revenue covenant:
 - with the approval of the Board, can have a bespoke Net Debt / Total Revenue covenant of up to 350%; or
 - until the financial year ending 30 June 2026, will not be required to comply with the Net Debt / Total Revenue foundation policy covenant outlined in the following table. Until that date, such Local Authority must comply with the Net Debt / Total Revenue covenant set out in the table entitled "Alternative Net Debt / Total Revenue Covenant" below.

- 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.
- If the principal amount of a Local Authority's borrowings, or the Company's commitment under a facility agreement with a Local Authority, is at any time greater than NZD 20 million, be a party to a deed of guarantee and an equity commitment deed (in each case in a form set by the Company).

| Financial covenant | Lending policy covenants | Foundation policy covenants |
|------------------------------------|--------------------------|-----------------------------|
| Net Debt / Total Revenue | <175% | <280% |
| Net Interest / Total Revenue | <20% | <20% |
| Net Interest / Annual Rates Income | <25% | <30% |
| Liquidity | >110% | >110% |

| Alternative Net Debt / Total Revenue Covenant | |
|---|--------------------------|
| Financial Year ending | Net Debt / Total Revenue |
| 30 June 2020 | <250% |
| 30 June 2021 | <300% |
| 30 June 2022 | <300% |
| 30 June 2023 | <295% |
| 30 June 2024 | <290% |
| 30 June 2025 | <285% |

Total Revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non government capital contributions (e.g. developer contributions and vested assets).

Net debt is defined as total debt less liquid financial assets and investments.

Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

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 authorities for services provided (and for which the other local authorities rate).

Financial covenants are measured on Council only basis and not consolidated group basis, unless requested by a Local Authority and approved by the Board.

Auckland Council will be limited to a maximum of 40% of the Company's total Local Authority (including CCO) assets.

Subject to implementation of any amendments or other actions considered necessary, advisable or expedient by the Board and the approval of the Board in relation to the relevant CCO (as defined below) (which may be a council-controlled trading organisation, as defined in the Local Government Act), an approved CCO may borrow from the Company provided that:

- The CCO is a "council-controlled organisation" as defined in section 6 of the Local Government Act, where the CCO is a company in which equity securities carrying at least 51% or more of the voting rights at a meeting of the shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities (respectively, a "CCO" and each such Local Authority being a "CCO Shareholder");



- Each CCO Shareholder provides a guarantee in respect of the CCO in favour of the Company and/or there is sufficient uncalled capital in respect of the CCO to meet the financial obligations of the CCO;
- Each CCO Shareholder provides equity commitment liabilities to the Company, guarantees liabilities to a security trustee approved for the Company's creditors, and provides debenture security for its equity commitments to the Company and guarantee liabilities to the security trustee;
- Each CCO Shareholder complies with Lending policy financial covenants, Foundation policy financial covenants or other financial covenants required by the Board (if any).
- The CCO complies with any covenants required by the Board; and
- If required by the Board, the CCO will grant security in favour of the Company (which may be subject to any intercreditor arrangements acceptable to the Board).

Where the Company agrees to provide funding to the CCO, it must within 90 days of receiving annual financial covenant reporting from a CCO Shareholder (in its capacity as a borrower) report to the Shareholders' Council, holders of ordinary shares in the Company and any Local Authority guarantors of the Company's liabilities as to whether that CCO Shareholder has complied with its financial covenants on an individual and consolidated group basis.

Notwithstanding the definition of "CCO" set out above, the Board may not approve a CCO to borrow from the Company unless 100% of the equity securities carrying voting rights at a meeting of shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities and the Crown (if applicable).

SCHEDULE 1 Foundation Policies

(Clause 5.1 of the Shareholders' Agreement)

These foundation policies may only be changed by a resolution of shareholders in accordance with clause 5.1 of the Shareholders' Agreement

Credit Risk

Lending Policy

All Local Authorities that borrow from the Company will:

- Provide debenture security in relation to their borrowing from the Company and related obligations, and (if relevant), equity commitment liabilities to the Company and (if relevant) guarantee liabilities to a security trustee approved for the Company's creditors.
- Issue securities (bonds / FRNs / CP) to the Company and/or enter into facility arrangements with the Company.
- Comply with their own internal borrowing policies.
- Comply with the financial covenants outlined in the following table, provided that:
 - ~~Unrated~~ Local Authorities ~~without a long-term credit rating or Local Authorities 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 with the approval of the Board;
 - Foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution.
 - Local Authorities with a long-term credit rating ~~of 'A' equivalent or higher~~:
 - will not be required to comply with the lending policy covenants in the following table; and
 - ~~can have bespoke financial covenants that exceed the foundation policy covenants outlined in the following table:~~
 - ~~with the approval of an Ordinary Resolution; and/or~~
 - ~~in respect of the Net Debt / Total Revenue covenant:~~
 - ~~with the approval of the Board, can have a bespoke Net Debt / Total Revenue covenant of up to 350%; or~~
 - ~~until the financial year ending 30 June 2026, in any event,~~ will not be required to comply with the Net Debt / Total Revenue foundation policy covenant outlined in the following table ~~until the financial year ending 30 June 2026~~. Until that date, such Local Authority must comply with the Net Debt / Total Revenue

covenant set out in the table entitled "Alternative Net Debt / Total Revenue Covenant" below.

- 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.
- If the principal amount of a Local Authority's borrowings, or the Company's commitment under a facility agreement with a Local Authority, is at any time greater than NZD 20 million, be a party to a deed of guarantee and an equity commitment deed (in each case in a form set by the Company).

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| 30 June 2024 | <290% |
| 30 June 2025 | <285% |

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Net debt is defined as total debt less liquid financial assets and investments.

Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

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 authorities for services provided (and for which the other local authorities rate).

Financial covenants are measured on Council only basis and not consolidated group basis, unless requested by a Local Authority and approved by the Board.

Auckland Council will be limited to a maximum of 40% of the Company's total Local Authority (including CCO) assets.

Subject to implementation of any amendments or other actions considered necessary, advisable or expedient by the Board and the approval of the Board in relation to the relevant CCO (as defined below) (which may be a council-controlled trading organisation, as defined in the Local Government Act), an approved CCO may borrow from the Company provided that:

- The CCO is a "council-controlled organisation" as defined in section 6 of the Local Government Act, where the CCO is a company in which equity securities carrying at least 51% or more of the voting rights at a meeting of the shareholders of the CCO are held or

controlled, directly or indirectly, by one or more Local Authorities (respectively, a "CCO" and each such Local Authority being a "CCO Shareholder");

- Each CCO Shareholder provides a guarantee in respect of the CCO in favour of the Company and/or there is sufficient uncalled capital in respect of the CCO to meet the financial obligations of the CCO;
- Each CCO Shareholder provides equity commitment liabilities to the Company, guarantees liabilities to a security trustee approved for the Company's creditors, and provides debenture security for its equity commitments to the Company and guarantee liabilities to the security trustee;
- Each CCO Shareholder complies with Lending policy financial covenants, Foundation policy financial covenants or other financial covenants required by the Board (if any) ~~and, in the case of a CCO Shareholder with a long-term credit rating of 'A' equivalent or higher, until the financial year ending 30 June 2026, the Net Debt / Total Revenue covenant in the table entitled "Alternative Net Debt / Total Revenue Covenant" above.~~
- The CCO complies with any covenants required by the Board; and
- If required by the Board, the CCO will grant security in favour of the Company (which may be subject to any intercreditor arrangements acceptable to the Board).

Where the Company agrees to provide funding to the CCO, it must within 90 days of receiving annual financial covenant reporting from a CCO Shareholder (in its capacity as a borrower) report to the Shareholders' Council, holders of ordinary shares in the Company and any Local Authority guarantors of the Company's liabilities as to whether that CCO Shareholder has complied with its financial covenants on an individual and consolidated group basis.

Notwithstanding the definition of "CCO" set out above, the Board may not approve a CCO to borrow from the Company unless 100% of the equity securities carrying voting rights at a meeting of shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities and the Crown (if applicable).



Agenda

Annual Meeting

19 November 2024

The Bolton Hotel, Wellington

2:00pm – 3:00pm

Microsoft Teams details upon request from jane.phelan@lgfa.co.nz

| | Agenda Item | Leading Discussion |
|---|---|--------------------|
| | Afternoon Tea on arrival | All |
| | Introduction from Chair | Craig Stobo |
| | Quorum | Craig Stobo |
| 1 | Financial Statements and Reports | Mark Butcher |
| 2 | Election of Company Directors | Kathryn Sharplin |
| 3 | Election of Nominating Local Authorities to Shareholders' Council | Craig Stobo |
| 4 | Remuneration of Directors | Craig Stobo |
| 5 | Changes to Foundation Policies | Mark Butcher |
| 6 | Questions and Comments from Shareholders | Craig Stobo |
| 7 | General Business | Craig Stobo |

20 September 2024

The Shareholders
NZ Local Government Funding Agency (LGFA)

Dear Shareholder.

The LGFA will hold its Annual Meeting (AM) on 19 November 2024. The Shareholders' Council has considered the AM material and wishes to make recommendations to help with your decision making prior to the meeting.

Our role (as per the Shareholders' Agreement) includes requirements to:

- Make recommendations to Shareholders about the appointment, removal, re-election, replacement and remuneration of Directors.
- Make recommendations to Shareholders about any matters which require the approval of Shareholders.

Our recommendations on the AM **Resolutions 1 to 5** are as follows:

Resolution 1 - Adoption of Financials

The financial statements and Auditor's report for the company for the year ended 30 June 2024 will be presented for consideration and discussion. The Shareholders Council notes the strong financial performance of Local Government Funding Agency which achieved:

- A Net Operating Profit of \$10.05m was achieved, with both operating revenue and operating expenditure above SOI targets. Total operating income at \$20.9m (excl. unrealised hedging gains and losses) was \$0.3m above SOI budget, due to larger than forecast lending and interest rates. Operating expenditure at \$11.8m was \$1.8m above SOI budget, driven by Approved Issuer levies on off-shore borrowing.
- Record lending of \$6.1b was provided to the sector for the year, which is 90% of council's borrowing (excluding Auckland Council's offshore borrowings).
- LGFA has diversified its borrowing into offshore markets to meet the growing financing requirements of the sector.

The Shareholders' Council recommends the resolution 1 is approved to adopt the financial statements and auditors report.

Resolution 2 - Election of Company Directors

There are four nominees two independent and two non-independent directors (Council staff). Biographies of the nominees are attached to the "Notice of LGFA Annual Meeting November 2024" to which this letter of Shareholders' Council Recommendations is attached.

Shareholders' Council¹ has considered the nominations for election of company directors in the light of the skills required for the LGFA Board and recommends appointment of both independent Board nominees and one non-independent based on skills required for the

¹ the central govt representatives on Shareholders' Council abstained from voting for the non-independent Director role.

Board. Attachment 1 to this letter identifies the skills requirement for the Board of Directors of LGFA.

Craig Stobo

In accordance with clause 3.3 of the Shareholders Agreement ("SHA"), Craig Stobo retires by rotation and being eligible, offers himself for re-election as an Independent Director.

The Shareholders' Council **supports the re-appointment of Craig Stobo for a further term** as an Independent Director of LGFA. Craig has been Chair of LGFA since its inception and has played a critical role in leading LGFA from its inception to its current lending of \$20.5b to 77 councils and 5 CCOs. Craig has played a key role in advising central government ministers on the potential role and benefits of LGFA into the future, particularly to support councils and waters CCOs under Local Water Done Well reforms.

Re-election of Craig for a further term will provide continuity of the core roles of LGFA while preparing the organisation for the changing environment. Craig has been a long-standing director and Shareholders' Council has asked the Board to prioritise succession planning. The SOI for LGFA includes goals for succession planning of the long-standing board to new leadership over the next few years and Craig would play a lead role in the success of this transition in his final term.

Elena Trout

The Shareholders' council **supports the election of Elena Trout as an independent director**. In accordance with clause 3.1 of the SHA, the number of directors is proposed to be increased to the maximum number of 7, with Shareholders' Council and LGFA Board agreeing to the nomination of a sixth independent Board member to meet the changing and increasing demands of the Board, particularly to meet the increased complexity and breadth of operation in lending to waters CCOs under the Local Water Done Well reforms.

A recruitment process was undertaken by a Nomination Panel made up of representatives from the LGFA Board and the LGFA Shareholders' Council. Elena Trout was identified as the preferred candidate for nomination. The Panel identified Elena Trout as bringing the necessary additional and complementary skills to the LGFA Board.

Elena is an experienced company director, board chair, management executive and professional civil engineer who has held leadership positions in the transport, energy and infrastructure sectors. In terms of Governance of utilities, Elena is a current director of Contact Energy. Elena's skills and experience bring diversity of background to the Board and complement existing skills with her engineering background and her management and governance experience in infrastructure management and new investment, particularly around the risks and challenges of large infrastructure projects.

Non-independent directors

Allan Adcock from Whangarei District Council was appointed as a **non-independent director** at the November 2021 AGM for a three-year term that expires at the November 2024 AGM. In accordance with clause 3.3 of the SHA, Alan Adcock retires by rotation and offers himself for re-election as a **non-independent** director.

In accordance with clause 3.5 of the SHA, **Kumaren Perumal** has been nominated by Bay of Plenty Regional Council as a non-independent Director.

Recognising the mix of skills being sought for the board, and consistent with historic practice, the Shareholders' Council recommends that only one non-independent director be selected. We have reviewed both nominees' skills and experience against the skills matrix for the Board and note that both Alan and Kumaren have skills and experiences relevant to the non-independent director position and have worked positively over the years to support LGFA.

The Shareholders' Council considered the relevance of both nominees' skills and experience in the context of the relatively turbulent environment of the next three years of LGFA operation. Both Local Waters Done Well reforms and the increasing pressure of higher debt levels for growth councils will impact on LGFA lending. Taking into account these matters, and after a formal process to consider where to place our recommendation, the Shareholders' Council recommends Alan Adcock for a second term on the Board.

Alan, who is current CFO at Whangarei District Council, has strong governance experience combining many years of local government executive leadership and CCO governance experience with an extensive commercial and banking background. His diversity of skills and experience mean he is well-placed to contribute effectively to the LGFA Board through the significant changes expected over the next few years.

The Shareholders' Council notes the importance of regular changes to the Board which need to be balanced against the benefits of board continuity, and considers a maximum two terms on the Board is the recommended maximum duration of membership for a high performing non-independent director unless there are extenuating circumstances.

In summary with respect to resolution 2 The Shareholders' Council recommends:

- ***Craig Stobo is re-elected as an independent director for an additional three-year term.***
- ***Elena Trout is elected as an independent director for a three-year term.***
- ***Alan Adcock is re-elected as a non-independent director for an additional three-year term.***

Resolution 3 - Election of Nominating Local Authorities to the Shareholders Council

In accordance with clause 4.6 of the SHA, Auckland Council and Wellington City Council retire by rotation. Auckland Council and Wellington City Council being eligible, offer themselves for re-election. The primary representative for Auckland Council is their Head of Group Treasury, Andrew John. The primary representative to the shareholders council for Wellington City Council is their Treasurer Sarah Houston-Eastergaard. There have been no other nominations to the shareholders council.

In summary for Resolution 3 The Shareholders Council recommends:

- ***the re-election of Auckland Council and***
- ***the re-election of Wellington City Council.***

Resolution 4 - Directors' Remuneration

Approval is sought in accordance with clause 3.6 of the SHA, to approve, by way of Ordinary Resolution, an increase in the Directors' fees payable to:

- a) With effect from 1 July 2024, the Director acting as chair of the Board, an increase of \$3,720 per annum, from \$124,000 per annum to \$127,720 per annum.
- b) With effect from 1 July 2024, each of the other Directors acting as members of the audit and risk committee, an increase of \$2,190 per annum, from \$73,000 per annum to \$75,190 per annum.
- c) With effect from 1 July 2024, the Director acting as chair of the audit and risk committee, an increase of \$2,340 per annum, from \$78,000 per annum to \$80,340 per annum.
- d) With effect from 1 July 2024, each of the other Directors, an increase of \$2,100 per annum, from \$70,000 per annum to \$72,100 per annum

The director increases sought are an adjustment of 3% which is just below the CPI to June of 3.3% of the Board fees that were set at the November 2023 AM for 2023/24. The Shareholders' Council supports the annual CPI movement to maintain parity with market rates and avoid the requirement for more significant adjustments to director remuneration through periodic full market review. The next full market review for the LGFA board is proposed for the November 2025 AM.

In summary for Resolution 4 Shareholders' Council recommends adoption of the directors' remuneration increases proposed.

Resolution 5 Changes to LGFA Foundation Policies

Amendments are sought to Schedule 1 of the SHA Foundation policies. These amendments are to:

- a) **remove the "A" credit rating requirement noting instead that the higher borrowing limits are available to rated councils.**
To assess credit quality of borrowing councils LGFA relies upon the financial covenants and its own credit monitoring rather than the "A" rating required in the foundation policies. LGFA notes the "A" rating is subjective amongst rating agencies. This change would avoid doubt as to whether the covenants would apply to "A-" ratings, with some councils' ratings potentially moving lower as council debt increases over time in response to infrastructure investment requirements.
- b) **Allow bespoke covenants up to 350% Net Debt:Total Revenue ratio for rated councils on a bespoke basis at the discretion of the Board.**
This proposal is to support high growth councils that may exceed covenants to provide growth infrastructure. The expectation of LGFA Board is that the bespoke higher covenants would not apply to more than 15-20% of total LGFA lending to councils. This ratio will be monitored by the shareholders' council with a view to such covenants not exceeding 20% of total Council lending by LGFA. A fuller

discussion of the Board's recommendation regarding delegation to provide bespoke covenants is provided in explanatory note 5 to the Notice of Annual Meeting.

In summary with respect to Resolution 5 Shareholders' Council supports the proposed amendments to the foundation policies.

I trust you find this information helpful. Please contact me or your Shareholders' Council contact should you wish to discuss any matter relating to this letter or any other aspects of LGFA operations.

The emails of Shareholders' Council representatives are as follows:

Chair: Kathryn Sharplin – Tauranga City Council - kathryn.sharplin@tauranga.govt.nz

Deputy Chair: Sarah Houston-Eastergaard – Wellington City Council - sarah.houston-eastergaard@wcc.govt.nz

Other Local Authority Members:

- Kumaren Perumal – Bay of Plenty Regional Council - kumaren.perumal@boprc.govt.nz
- Mike Drummond – Tasman District Council - mike.drummond@tasman.govt.nz
- David Bryant – Hamilton City Council - david.bryant@hcc.govt.nz
- Andrew John – Auckland City Council - andrew.john@aucklandcouncil.govt.nz
- Steven Ballard – Christchurch City Council - steve.ballard@ccc.govt.nz
- Adele Henderson – Western Bay of Plenty District Council - adele.henderson@westernbay.govt.nz
- Jacqueline Baker – New Plymouth District Council - jacqueline.baker@NPDC.govt.nz

Yours sincerely



Kathryn Sharplin

Chair, LGFA Shareholders' Council

cc. Mark Butcher, Chief Executive LGFA

Attachment 1: LGFA Shareholders Council Recommendations for AM 19 November 2024**Skills requirement for Board of Directors of LGFA**

Regarding Director appointments, we believe there are core competencies that every Director should have, and aspects that the Board as a whole should cover. We do not expect every Director to cover all areas because diversity in thinking and experience can be achieved by having a Board with a wide range of backgrounds. Across the Board we look for complementary skills to cover the areas listed below.

We believe the areas listed below are critical. We have recently added the last two items to reflect the current and future pressures facing local authorities and LGFA:

- Proven financial & commercial experience
- Governance experience
- Strategic Thinking capability
- Risk and Compliance Understanding
- Networks within Central and Local Government
- Understanding of infrastructure and capital projects and risks
- Understanding of the infrastructure financing challenges facing local and central government

For the areas listed below, we expect to see the overall composition of the Board covering all of them. The Shareholders' Council will keep this list under review to make sure it meets both current and foreseeable needs:

- Risk management
- Treasury, Legal and Financial Strategy experience
- IT Technology, Cyber-security
- ESG or Green Funding
- Local Government experience including large Scale infrastructure project understanding
- State Owned Enterprise and Crown Company experience.

To meet the increased complexity and breadth of operation of LGFA, particularly in lending to waters CCOs under the Local Water Done Well reforms, the nomination of a sixth independent Board member to meet the changing and increasing demands of the Board is supported by Shareholders Council. Looking to enhance skills in large infrastructure investments including project cost benefit assessment, delivery, and risk.



NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED NOTICE OF ANNUAL MEETING

Notice is given that the 2024 annual meeting of Shareholders of New Zealand Local Government Funding Agency Limited ("Company" or "LGFA") will be held at the **Bolton Hotel, 11 Bolton Street, Wellington** on **19 November 2024** commencing at **2:00pm**.

For those Shareholders unable to attend in person, you can attend via Teams. **Jane Phelan will provide the Teams details upon request at jane.phelan@lgfa.co.nz.**

BUSINESS

1. **FINANCIAL STATEMENTS AND REPORTS:** To receive and consider the financial statements of the Company for the year ended 30 June 2024, together with the Directors' and auditor's reports to Shareholders.

2. **ELECTION OF COMPANY DIRECTORS**

In accordance with clause 3.3 of the Shareholders' Agreement ("SHA"):

- (a) **Alan Adcock** retires by rotation and being eligible, offers himself for re-election as a non-Independent Director; and
- (b) **Craig Stobo** retires by rotation and being eligible, offers himself for re-election as an Independent Director.

In addition, and in accordance with clause 3.5 of the SHA:

- (a) **Kumaren Perumal** has been nominated by Bay of Plenty Regional Council as a non-Independent Director; and
- (b) **Elena Trout** has been nominated by Hamilton City Council as an Independent Director.

Clause 3.1 of the SHA states that the number of Directors serving on the Board shall not at any time be more than seven nor less than five, and no less than five of those Directors shall be Independent Directors. There are currently six Directors (five of whom are Independent Directors). With two Directors retiring and seeking re-election (one being an Independent Director and one being a non-Independent Director), there are up to three vacant Board positions available. Of those positions, at least one must be filled by an Independent Director.

Accordingly, there will be a poll whereby up to three of the candidates may be elected as a Director. The following resolutions will be put to the meeting. To:

- (a) Re-elect **Alan Adcock** as a non-Independent Director, by way of Ordinary Resolution;
- (b) Re-elect **Craig Stobo** as an Independent Director, by way of Ordinary Resolution;

- (c) Elect **Kumaren Perumal** as a non-Independent Director, by way of Ordinary Resolution; and
- (d) Elect **Elena Trout** as an Independent Director, by way of Ordinary Resolution

The election procedure is specified in the Explanatory Notes. In addition, brief biographies for each of the persons standing for the position of Director are included at Appendix One to this notice of meeting.

(See Explanatory Note 2)

3. ELECTION OF NOMINATING LOCAL AUTHORITIES TO THE SHAREHOLDERS' COUNCIL

In accordance with clause 4.6 of the SHA, **Auckland Council** and **Wellington City Council** retire as Nominating Local Authorities by rotation. **Auckland Council** and **Wellington City Council** being eligible, each offer themselves for re-election as a Nominating Local Authority.

Accordingly, to:

- (a) re-elect **Auckland Council** as a Nominating Local Authority, by way of Ordinary Resolution; and
- (b) re-elect **Wellington City Council** as a Nominating Local Authority, by way of Ordinary Resolution.

(See Explanatory Note 3)

4. DIRECTORS' REMUNERATION

In accordance with clause 3.6 of the SHA, to approve, by way of Ordinary Resolution, each of the following increases in Directors' fees payable, in each case with effect from 1 July 2024:

- (a) in respect of the Director acting as chair of the Board, an increase of \$3,720 per annum, from \$124,000 per annum to \$127,720 per annum;
- (b) in respect of the Director acting as chair of the audit and risk committee, an increase of \$2,340 per annum, from \$78,000 per annum to \$80,340 per annum;
- (c) in respect of each of the other Directors acting as members of the audit and risk committee, an increase of \$2,190 per annum, from \$73,000 per annum to \$75,190 per annum; and
- (d) in respect of each of the other Directors, an increase of \$2,100 per annum, from \$70,000 per annum to \$72,100 per annum.

(See Explanatory Note 4)

5. **CHANGES TO FOUNDATION POLICIES**

In accordance with clause 5.1(c) of the SHA, to approve, by way of Ordinary Resolution, the amendments to the foundation policies of the Company ("**Foundation Policies**") as explained in Explanatory Note 5.

6. **QUESTIONS AND COMMENTS FROM SHAREHOLDERS**

Opportunity for Shareholders to comment or question Directors, Shareholder Council or management.

7. **GENERAL BUSINESS**

To consider such other business as may properly be raised at the meeting.

Please refer to the Explanatory Notes that accompany this notice of meeting.

By order of the Board:



Craig Stobo, LGFA Board Chair
20 September 2024

ORDINARY RESOLUTIONS: *Ordinary resolutions are resolutions approved by a simple majority of more than 50% of the votes of the Shareholders entitled to vote and voting on the question at the annual meeting.*

SHAREHOLDERS ENTITLED TO ATTEND AND VOTE: *Pursuant to section 125 of the Companies Act 1993, for the purposes of voting at the annual meeting, those registered shareholders of the Company as at 9.00am on Wednesday 19 November 2024 shall be entitled to exercise the right to vote at the meeting.*

CAPITALISED TERMS: *Unless otherwise defined in this notice, capitalised terms have the meanings given to them in the Shareholders' Agreement dated 7 December 2011 (as amended and restated on 23 November 2021).*

EXPLANATORY NOTES**EXPLANATORY NOTE 1 - PROXY VOTE**

A Shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of the Shareholder. The proxy need not be a Shareholder. To be effective, a copy of the proxy form must be received by the Company at **Level 11, City Chambers, 142 Featherston Street, Wellington 6145** or via email to jane.phelan@lgfa.co.nz not later than 48 hours before the start of the meeting.

A body corporate may appoint a person to attend the meeting as its representative in the same manner as that in which it could appoint a proxy.

EXPLANATORY NOTE 2 - ELECTION OF DIRECTORS

Clause 3.3 of the SHA was amended by Ordinary Resolution at the 2021 annual meeting of Shareholders to state that 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.

In this case, **Craig Stobo**, who was re-elected on 23 November 2021, and **Alan Adcock**, who was elected on 23 November 2021, shall retire at this year's annual meeting.

Alan Adcock being eligible, offers himself for re-election as a non-Independent Director.

Craig Stobo being eligible, offers himself for re-election as an Independent Director.

Kumaren Perumal offers himself for election as a non-Independent Director.

Elena Trout offers herself for election as an Independent Director.

In accordance with the Ordinary Resolution passed by Shareholders at the 2021 annual meeting of Shareholders, and clause 3.1 of the SHA, the size of the Board shall be between five and seven Directors, including no less than five Independent Directors. The Board currently consists of six Directors (being Alan Adcock (non-Independent Director), Philip Cory-Wright (Independent Director), David Rae (Independent Director), Linda Robertson (Independent Director), Helen Robinson (Independent Director) and Craig Stobo (Independent Director)). As Craig Stobo and Alan Adcock are retiring at this meeting, the Shareholders will need to appoint at least one Independent Director and up to three Directors in total to the Board.

The vacant positions on the Board will be filled by those candidates whose appointment is approved by an Ordinary Resolution. However, given there are more candidates than the three available Director positions, if each of the four candidate's appointments is approved by an Ordinary Resolution, the three candidates who receive the highest number of votes in favour of their appointment will be appointed as Directors. If none of the candidates' appointments are approved by an Ordinary Resolution, or neither of the Independent Director candidates is approved by an Ordinary Resolution, the Board will be inquorate (as it will have too few Directors and/or too few Independent Directors). In that case, a further meeting of Shareholders will need to be called to either amend the Board composition provisions in the SHA or to fill the relevant vacancy or vacancies.

The following biographies have been provided by the candidates and are attached at Appendix One to this notice of meeting:

- **Alan Adcock**
- **Craig Stobo**
- **Kumaren Perumal**
- **Elena Trout**

Director election process

The election process for Directors will be undertaken by way of a poll, with voting able to be undertaken by way of in person voting (including by way of proxy).

Shareholders may vote for each candidate, however, as noted above, where the appointment of all four candidates is approved by an Ordinary Resolution, the three candidates who receive the highest number of votes in favour of their appointment will be appointed as Directors.

EXPLANATORY NOTE 3 - ELECTION OF NOMINATING LOCAL AUTHORITIES TO THE SHAREHOLDERS' COUNCIL

Clause 4.3 of the SHA provides that a Principal Shareholder may be appointed or removed as a nominator to the Shareholders' Council ("**Nominating Local Authority**") at any time by an Ordinary Resolution, provided that no more than nine Nominating Local Authorities may be so appointed. Each Nominating Local Authority, and the New Zealand Government (for so long as it is a Shareholder), may appoint one member of the Shareholders' Council, and remove and replace any member so appointed, in accordance with clause 4.4 of the SHA.

Clause 4.6 of the SHA provides that, beginning at, and including, the annual meeting for 2013, the Shareholders shall ensure that two Nominating Local Authorities retire from office at the annual meeting of the Company in each year. The Nominating Local Authorities to retire shall be those who have been longest in office since their last election, and if two or more of those Nominating Local Authorities were last elected on the same day, the Nominating Local Authority to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Nominating Local Authority is eligible for re-election.

In this case, Auckland Council, having been re-elected as a Nominating Local Authority on 21 November 2019, and Wellington City Council, having been re-elected as a Nominating Local Authority on 19 November 2020, are the Nominating Local Authorities who have been longest in office since their last election (Tasman District Council having been re-elected on 19 November 2020, Christchurch City Council having been re-elected on 23 November 2021, New Plymouth District Council having been elected on 23 November 2021, Bay of Plenty Regional Council having been re-elected on 23 November 2022, Hamilton City Council having been re-elected on 23 November 2022, Western Bay of Plenty District Council having been re-elected on 23 November 2023 and Tauranga City Council having been re-elected on 23 November 2023). Accordingly, being the longest in office since their last election, **Auckland Council** and **Wellington City Council** shall retire by rotation at this annual meeting.

The Shareholders' Council is comprised of between five and ten members. The New Zealand Government can appoint a member and the remaining members are nominated by up to nine Nominating Local Authorities. Following the retirement of **Auckland Council** and **Wellington City Council** there are currently two positions available.

Auckland Council offers themselves for re-election as a Nominating Local Authority.

Wellington City Council offers themselves for re-election as a Nominating Local Authority.

EXPLANATORY NOTE 4 – DIRECTORS' REMUNERATION

This resolution seeks Shareholders' approval for an increase in Directors' remuneration with effect from 1 July 2024. The proposed fee increases for Directors (as set out in the notice of meeting) have been calculated based on an increase of 3.3% which is the annual increase in the headline Consumer Price Index (CPI) for the year ending June 2024.

The proposed fee increases recognise the change in the CPI over the past 12 months, the increased Director duties relating to Water Reform and greater size and complexity of the LGFA business. A CPI adjustment will also reduce the size of any potential Director fee adjustment following the next external independent review that is likely to take place in 2025.

The Director remuneration was last adjusted in November 2023 with effect from 1 July 2023.

EXPLANATORY NOTE 5 – CHANGES TO FOUNDATION POLICIES

The Foundation Policies of the Company are set out in Schedule 1 to the SHA. Clause 5.1(c) of the SHA provides that neither the Board nor any Shareholder shall take or permit any action to cause any alteration to any of the Foundation Policies unless it is approved by Ordinary Resolution of the Company's shareholders (or, if required by law or clause 5.1(k), a Special Resolution). The Company has confirmed that none of the changes to the Foundation Policies are required to be approved by Special Resolution.

The Board recommends that Shareholders approve the proposed changes to the Foundation Policies. The changes will provide the Board with the authority to grant a bespoke Net Debt/Total Revenue covenant above 285% (or 280% from 1 July 2025), but no more than 350%. The changes will assist both high growth councils and any councils who might require short term emergency assistance with financing.

LGFA covenants are the same for councils, regardless of their future growth trajectories. A small number of high growth councils are facing constraints on their current or future borrowing because of the current level of the Net Debt/Total Revenue Foundation Policy covenant.

Increasing covenants for growth councils allows for councils that can support more debt to do so. Councils can currently use the Infrastructure Funding and Financing Act 2020 ("IFF") to establish a special purpose vehicle to borrow to fund new infrastructure, with the debt being serviced by a levy on property owners who benefit from the new infrastructure. Using an IFF structure is more costly and time consuming for councils than borrowing from LGFA.

Furthermore, a council might need to urgently undertake unplanned borrowing (e.g. following a natural disaster). This additional borrowing could potentially exceed the current Net Debt / Total Revenue Foundation Policy covenant of 285% (or 280% from 1 July 2025). The SHA would require an Ordinary Resolution of Shareholders to approve a council to borrow above that limit. The Shareholder approval process could take some time to pass, so providing a delegation to the Board seems appropriate.

To support the Government's National Policy Statement on Urban Development 2020 (updated in May 2022) published by the Ministry for the Environment ("NPS"), LGFA will consider applications from Tier 1 and Tier 2 local authorities where the increase in borrowing capacity will be used to invest in growth infrastructure.

There were eighteen councils considered as Tier 1 local authorities under the NPS. These include four regional councils who are unlikely to be approved if they apply, as they cover a wide geographic area with some overlap with territorial councils. The remaining fourteen councils are Auckland, Hamilton City, Waikato District, Waipa District, Tauranga City, Western Bay of Plenty District, Wellington City, Porirua City, Hutt City, Upper Hutt City, Kapiti Coast District, Christchurch City, Selwyn District and Waimakariri District Councils.

There were sixteen councils considered as Tier 2 local authorities under the NPS. These include six regional councils who are unlikely to be approved if they apply, as they cover a wide geographic area with some overlap with territorial councils. The remaining ten councils are Whangarei District, Rotorua District, New Plymouth District, Napier City, Hastings District, Palmerston North City, Nelson City, Tasman District, Queenstown Lakes District and Dunedin City Councils.

Based on councils 2024-2034 LTPs, LGFA would expect only five Tier 1 and 2 councils to make an application for a bespoke net debt to revenue ratio. However, it is possible that additional applications could be received in the future depending on changes in growth infrastructure requirements.

The five councils expected to apply are approximately 15% of the LGFA lending book. While their borrowing is expected to increase, the total loan book will also increase and be more diversified if water CCOs are established and borrow from LGFA.

As a council's borrowing grows, it is expected that their credit rating could be lowered. LGFA is comfortable with additional borrowing by a high growth council given the security that LGFA has over a council borrowing. Investment in growth infrastructure will generate additional development contributions, financial contributions and an increase in rating units which will support the increase in debt.

It is also proposed to remove the words "of A equivalent or higher". This will mean councils are required only to have a long-term credit rating to benefit from the Foundation policy covenant. An external credit rating is important, but a credit rating agency's methodology can change over time, and there can be differences in the rating outcomes for a rated entity depending upon which credit rating agency is used. The current term "of A equivalent or higher" is also open to ambiguity as to whether this means A+, A or A-. LGFA limits risk through both the financial covenants and its own due diligence on councils.

A tracked change version of the proposed amendments to the Foundation Policies is attached at Appendix Two to this notice of meeting. Following the meeting and assuming the amendments to the Foundation Policies are approved by Ordinary Resolution, LGFA intends to record the approved amendments in an amendment and restatement of the SHA.

APPENDIX ONE: DIRECTOR BIOGRAPHIES

ALAN ADCOCK – BIOGRAPHY

My working career has revolved around four broad areas (accounting, financial services, IT and local government) in both private and public sectors.

After a post-graduate spell in a Big 5 accounting firm, I joined the fledgling IT sector as personal computers gained a footing in the market. Following this I moved to the financial services sector at National Mutual, with my last role being Chief Manager Auckland before their merger with AXA. At that point I moved to the UK, providing strategic consulting services before joining Credit Suisse First Boston to provide accounting advice to their global IT divisions.

Returning to NZ in 2000, I joined BNZ, with my last role there heading the Corporate Management function, where my primary responsibilities were liaison with the BNZ Board, management of the MD's office and corporate affairs.

My last move was back to my hometown in 2006, when I joined Whangarei District Council. Virtually all of my time there has seen me leading the corporate functions; with core responsibilities including the roles of CFO and CIO.

My tertiary education provided a solid base for my career; with my first degree, a BCom from Auckland University having an emphasis on accounting, management studies and commercial law. While in the UK I completed an MBA (with Distinction) from the City University of London Business School focusing on corporate finance and strategy.

I offer a broad range of skills and experience that are relevant to a governance role with LGFA:

- My 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.
- I was an inaugural member of the Shareholders' Council.
- In 2014 I was elected to the Chair's role; being re-elected unopposed each year until my appointment to the Board in 2021.
- Specific governance experience including:
 - Board liaison at BNZ
 - Trustee for two Northland Cricket Trusts – Facilities and Player Development
 - Director of Northland Waste – a profitable CCTO run as a Public/Private partnership operating the largest landfill in Northland and a major transfer station/recycling facility
 - Seven years working closely with the LGFA Board as Chair of the Shareholder's Council
 - Three years as a Non-Independent Director of LGFA
- Recognised expertise in managing complex IT issues, being ranked #30 in the NZ CIO Awards in 2018 for my work leading the first NZ local government transition to a full cloud environment in 2017.
- Managing IT risks, particularly cyber-security, is an important part of my current role.
- Implementing a financial strategy that saw WDC move from an initial AA- credit rating to AA+ over 3 LTP cycles.
- Strong networks across the local government sector.
- Executive roles in large financial institutions, including membership of committees managing risk, credit and pricing.

I have demonstrated strong commitment and support for LGFA since its inception, attending every scheduled meeting of the Shareholders' Council or Board since the company was formed in 2011. Over this time, I have taken a proactive role to ensure LGFA has met its primary objective, to benefit local communities through delivering efficient financing for local government, while also safeguarding the interests of our wider stakeholders.

I would welcome your support to continue to serve our Shareholders through my re-election to the Board as we navigate the next stage of our evolution.

CRAIG STOBO – BIOGRAPHY

Education

Craig Stobo was educated in New Zealand at Waitaki Boys High School (Milner Prize); Otago University (BA Hons First Class in Economics); and at Wharton Business School, University of Pennsylvania (Advanced Management Programme).

Corporate Career

He has worked as a diplomat for the NZ and Australian Governments; as an economist for DFC/Zealcorp; as economist and an interest rates products manager for Bankers Trust NZ; and also as CEO and Executive Vice President for BT Funds Management NZ Ltd until 2004 after leading its establishment in 1992.

Independent Directorships

Craig is the Chair of the Financial Markets Authority, NZX-listed NZ Windfarms Ltd, and the Local Government Funding Agency. His prior company Chair roles include NZX- listed companies Precinct Properties Ltd and Fliway Group Ltd; and AIG Insurance New Zealand.

Private Company Equity Interests and Directorships

These currently include global equity investor Elevation Capital Management; national investment advisory firm Saturn Portfolio Management; fund administrator Appello Services Ltd; oyster farmer and exporter Biomarine Ltd; and specialist Bannockburn grape grower Legend Terrace.

Pro Bono Work

He is an Otago University Business School Taumata, leading the inception of its inaugural Tourism Policy School annual conference in Queenstown in March 2019 and its inaugural Assembly of Investment Chairs in Auckland in November 2019; chairs the Waitaki Boys High School Foundation which manages an endowment fund for the school; and is a committee member of the St Marys Bay Association.

Current Memberships

He is an Associate Member of CFA Society New Zealand; is an active member of the NZ Initiative; and is a Chartered Fellow of the NZ Institute of Directors.

KUMAREN PERUMAL – BIOGRAPHY

I am a senior finance professional with 24 years of experience in both the private and public sectors across New Zealand and South Africa.

Like many finance professionals my early career began in the audit profession in the private sector enabling me to gain exposure to a wide range of industries and sectors for small and large businesses. I then transitioned to public sector auditing and worked for the Office of the Auditor-General South Africa managing attest and information systems audits. On emigrating to New Zealand in 2006 I joined Audit New Zealand's team as an Audit Manager responsible for audit engagements across a variety of public sectors including Local Government.

I joined Local Government in 2010 and held key management roles across two district councils and a regional council advising Executive Management Teams and Councillors.

Currently the Chief Financial Officer at Bay of Plenty Regional Council, I have a proven track record in strategic financial management, governance, and treasury operations. I have successfully led the transition to digital financial reporting platforms and managed critical planning processes, including annual and long-term financial planning.

My previous roles required me to oversee a broad range of functions, including financial management, IT, risk management, procurement and business improvement. I led transformational projects in Local Government that have contributed to enhanced organisational efficiency and effectiveness. Throughout these roles I have developed robust client and stakeholder relationships which I believe are key to success in both operational and governance settings.

I hold qualifications as a Chartered Accountant (CA ANZ), a Certified Information Systems Auditor (CISA), member of the New Zealand Institute of Directors and am committed to professional development and mentoring.

I am known for my strategic acumen, diverse thinking, innovative mindset, and strong interpersonal skills. I am dedicated to fostering a culture of accountability and excellence. These qualities, in addition to my ability to navigate complex financial landscapes, make me a strong candidate for the Non-Independent Director role at the LGFA.

I seek the support of shareholders for appointment to this role.

ELENA TROUT - BIOGRAPHY

Elena Trout is a management consultant and experienced company director, board Chair, company executive and professional civil engineer, who has held a number of leadership positions in the transport, infrastructure and energy sectors.

She has more than 30 years of experience in the planning, development and implementation of large engineering and technical projects and has been involved in a number of high-profile and nationally significant socio-economic infrastructure projects.

Elena has a very good understanding of the governmental context and ethos, having acquired significant experience as an independent Chair and advisor to central and local government, reporting to Ministers and Councils, including reviewing the resilience of national, large-scale public infrastructure. This includes appointments relating to being an Independent Assessor of the Crown - Council financial agreements, Chair of an Independent Government Inquiry, member of External Governance Groups overseeing public investments, and Chair of Section 17A reviews, in accordance with the Local Government Act.

She is experienced in the governance of utilities and is a current director of Contact Energy, one of the largest, publicly listed, generating and electricity companies in New Zealand, with a mix of geothermal, hydro and thermal assets and also a gas supply business.

Her former directorships also include the Electricity Authority and Transpower New Zealand Ltd.

Elena would bring a diversity of background to the LGFA board, being a Distinguished Fellow and past President of Engineering New Zealand.

APPENDIX TWO: FORM OF AMENDED FOUNDATION POLICIES

Attached in separate document

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

PROXY FORM



I/We _____

of _____

being a Shareholder of New Zealand Local Government Funding Agency Limited ("**Company**") appoint _____

of _____ or failing him/her _____

of _____ as my/our proxy to vote for me/us at the annual meeting of the Company to be held on 19 November 2024 and at any adjournment thereof.

Except as noted below, if you wish to direct the proxy how to vote, please indicate with a ☒ in the appropriate box below. Unless otherwise instructed, the proxy will vote as he or she thinks fit.

In relation to the resolutions for the election of Directors at 1(a) – 1(d) below, if you do not wish direct the proxy to vote "for" the appointment of a candidate, you should either vote "against" or "abstain" in respect of that candidate. ***If you do not direct your proxy how to vote on any of resolutions 1(a) – 1(d) below, you will be deemed to have abstained from voting on that resolution (and your proxy will not be entitled to exercise his or her discretion).***

| | | For | Against | Abstain |
|-------|--|--------------------------|--------------------------|--------------------------|
| 1 (a) | To re-elect Alan Adcock as a non-Independent Director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 1 (b) | To re-elect Craig Stobo as an Independent Director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 1 (c) | To elect Kumaren Perumal as a non-Independent Director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 1 (d) | To elect Elena Trout as an Independent Director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 (a) | To re-elect Auckland Council as a Nominating Local Authority to the Shareholders' Council | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

2

| | | For | Against | Abstain |
|--------------|--|--------------------------|--------------------------|--------------------------|
| 2 (b) | To re-elect Wellington City Council as a Nominating Local Authority to the Shareholders' Council | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 | To approve the following increases in Director fees payable, in each case with effect from 1 July 2024: | For | Against | Abstain |
| (a) | In respect of the Director acting as chair of the Board of Directors, an increase of \$3,720 per annum, from \$124,000 per annum to \$127,720 per annum | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (b) | In respect of the Director acting as chair of the audit and risk committee, an increase of \$2,340 per annum, from \$78,000 per annum to \$80,340 per annum | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (c) | In respect of each of the other Directors acting as members of the audit and risk committee, an increase of \$2,190 per annum, from \$73,000 per annum to \$75,190 per annum | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (d) | In respect of each of the other Directors, an increase of \$2,100 per annum, from \$70,000 per annum to \$72,100 per annum | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 | To approve the changes to the Foundation Policies of the Company | For | Against | Abstain |
| | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

(Please refer to the notice of meeting for details of the resolutions)

Signature of Shareholder

Dated: 2024

Notes:

1. Voting on resolutions 1(a) to (d) will be undertaken by way of a poll.
2. If you wish you may appoint as your proxy the chairperson of the meeting.
3. If you are a body corporate, this proxy form must be signed on behalf of the body corporate by a person acting under the body corporate's express or implied authority.

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4. For this proxy form to be valid, you must complete it and provide it to the Company at least 48 hours before the time for holding the meeting. You can provide it to the Company by delivering it to **Level 11, City Chambers, 142 Featherston Street, Wellington 6145** or via email to jane.phelan@lgfa.co.nz. It must be received at least 48 hours before the time for holding the meeting.
5. If this proxy form has been signed under a power of attorney, a copy of the power of attorney (unless already deposited with the Company) and a signed certificate of non-revocation of the power of attorney must be provided to the Company with this proxy form.
6. If you return this form without directing the proxy how to vote on any particular resolution, you will be deemed to have given your proxy discretion and your proxy may vote how he or she thinks fit (except in relation to resolutions 1(a) to (d), where you will be deemed to have abstained from voting).
7. Capitalised terms in this proxy form have the meanings given to them in the Shareholders' Agreement in respect of New Zealand Local Government Funding Agency Limited dated 7 December 2011, as amended and restated on 23 November 2021, between the Company and its Shareholders.



ANNUAL REPORT 30 June 2024

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

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

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Govern photo: Peacocke Bridge, opened in August 2024. A girder bridge, it is part of the southern Links which will complete a ring road around Hamilton. Hamilton City Council, Photo Credit – Bloxam Burnett & Olliver

Contents photo: Sir Howard Morrison Centre is a performing arts hub in the heart of Rotorua. Closed in 2017 for earthquake strengthening and refurbishing it was officially re-opened in February 2023. Rotorua District Council, Photo Credit – Steven Parker & Media Masters

Message from the Chair and Chief Executive

He karere mai i te Toihau me te Tumuaki

2023-24 Financial and operational performance

Total interest income for the financial year of NZ\$1,213 million increased 59% over the 2022-23 result of NZ\$763.6 million. Net operating profit of NZ\$10.05 million increased 301% on the 2022-23 result of NZ\$2.5 million. The prior year result was negatively impacted by the sharp rise in interest rates.

Total operating income of NZ\$21.8 million was above the Statement of Intent (SOI) forecast of NZ\$19.2 million due to larger than expected council and CCO lending and higher interest rates than forecast.

Operating expenses at NZ\$11.8 million were NZ\$1.7 million above the SOI budget. Operating expenses were higher than forecast due to Approved Issuer Levy payments to central government for our offshore issuance, as well as higher NZX and legal fees related to increased levels of bond issuance and lending to members.

Over the year, LGFA operations processed over 16,000 transactions with total gross cash flows of NZ\$83 billion. 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. Independent consultants were engaged to review our cyber control environment for compliance against best practice cyber risk controls and were comfortable with our controls. There were no cyber issues.

We achieved fifteen out of our eighteen performance objectives, with the only objectives missed being operating expenses, driven by higher levels of issuance and onlending than forecast, and a lower number of new Green, Social and Sustainability (GSS) loans than forecast. Our objective for meeting Global Reporting Initiative reporting requirements was superseded by our inaugural climate-related disclosures under the Aotearoa New Zealand Climate Standards.

We continue to support the sector and promote best practice via sponsoring the LGFA Taituarā Local Government Excellence Awards and other Taituarā events. We also held quarterly business updates, the annual shareholder borrower day and economic updates for council and CCO members.

For the year ended 30 June 2024

The 2023-24 year was a standout year for LGFA.

- Annual lending to the sector increased by 56% to a record NZ\$6.1 billion and we provided 90% of council borrowing during the year.
- An increased number of councils utilised our sustainable lending products. Our sustainable loans comprised 27% of new lending during the year and were 15.3% of total outstanding loans as at 30 June 2024.
- Two new Council-Controlled Organisations (CCOs) were added as members which now provides a blueprint for future lending to Water CCOs.
- We diversified our sources of borrowing into offshore markets to meet the growing

financing requirements of the sector as we have outgrown the domestic bond market. Our NZ\$6.5 billion of Issuance was a record amount with an equivalent NZ\$2.9 billion sourced from offshore markets.

- LGFA worked closely with Central Government on a package for delivery of an expanded range of financing options for council water entities culminating in the post balance date announcement regarding Water CCO lending and lending to high growth councils.
- Our efforts and achievements were acknowledged through receiving multiple domestic and global awards.

Borrowing activity

LGFA issued an equivalent of NZ\$6.5 billion of bonds over the financial year (an increase of NZ\$3 billion over 2022-23). As at June 2024, our bonds on issue totalled NZ\$21.08 billion, comprising:

- NZ\$18.2 billion of NZD bonds across ten maturities between 2024 to 2037, and
- NZ\$2.9 billion of AUD bonds (A\$2.65 billion) across four maturities between 2027 and 2034.

The highlight for the year was the inaugural foreign currency issuance under our AUD Medium Term Note (MTN) and Euro Commercial Paper (ECP) Programmes. Issuing foreign currency securities assists our issuance strategy by diversifying our funding sources beyond the NZD market. As at 30 June, we had established a yield curve of four AUD bond maturities and issued US\$506 million under our ECP programme.

We would prefer to extend our yield curve beyond the existing 13 years (2037), but this remains difficult to implement until our council and CCO members borrow for longer tenors. The average term of our bond issuance during the year at 5.9 years was longer than the prior year of 5.5 years. This remains shorter than where we would like to be as a longer term of debt reduces our refinancing risk.

We continue to foster strong relationships with international investors. Offshore investors who have increased their holdings of our NZD bonds by \$500 million over the year, totalling \$6.7 billion at year end – an equivalent of 37% of NZD bonds on issue. Combined with the A\$2.65 billion of AUD bonds, our offshore investor base now holds 45% of total LGFA bonds on issue.

While there was significant volatility in yields, over the year the change was muted with 2027 LGFA bond yields falling 39 basis points (bps) over the year (after trading a 124 bps range) and 2037 LGFA bond yields falling a mere 4 bps over the year (after trading a 146 bps range).

Over the year, the interest rate spread at which LGFA bonds trade narrowed against New Zealand Government Bonds (NZGB) but widened over interest rate swaps. Our spreads to NZGB narrowed between 9 bps (2037 bond) and 23 bps (2029 bond) while spreads to swap moved between 'no change' (2026 bond) and 14 bps (2035 bond). This change was similar to the spread movements on other high-grade issuers where the additional supply of NZGBs has been the dominating influence on the domestic bond market.

Lending to members

Over the past year, we added two new CCO members, Whanganui District Council Holdings, and Infrastructure Holdings, bringing total CCO membership to five. Our seventy-seven council members represent all councils, except for Chatham Islands District Council.

Long-dated lending over the year totalled a record NZ\$6.15 billion as members refinanced their 2024 loans and increased borrowing to finance infrastructure projects. Our lending over the year represented an estimated 90% of all council borrowing, a pleasing increase compared to the long-term average of 77%.

The average tenor of long-dated borrowing by members of 4.9 years over the year was shorter than last year's 5.2 years.

Short-dated lending for terms less than 12 months continues to be well supported by members. As at 30 June 2024, there was NZ\$597 million of short-term loans outstanding to thirty-seven members, a 9% increase over the prior year of NZ\$548 million to thirty-seven members.

Local Water Done Well Programme and Ratepayer Assistance Scheme

Central Government's Local Water Done Well Programme will have a significant impact on the local government sector. Over the year, LGFA worked with Central Government and our shareholders to help drive reforms and develop options for financing council and Water CCOs. Since the 30 June 2024 balance date, the Minister of Local Government and LGFA announced that LGFA will lend to Water CCOs and will contemplate providing more financing headroom to high growth councils.

In addition, LGFA continues to assist the local government sector-led initiative for developing a Ratepayer Assistance Scheme with the objective of providing financial relief options to ratepayers.

New products and initiatives

We have seen pleasing growth in the amount of sustainable lending over the past year.

We introduced the Climate Action Loan (CAL) lending product to members in December 2022. A CAL provides a discounted loan margin if a borrower has a greenhouse gas emission reduction plan in place and is meeting its reduction targets. Over the year we approved four new members for CALs and undertook NZ\$2.22 billion of CAL loans, taking the CAL loan total to NZ\$2.74 billion across seven eligible members at year end.

The GSS lending product, launched in October 2021, totalled NZ\$572 million of loans to six members as at 30 June 2024, a growth of NZ\$83 million, with one new borrower over the year.

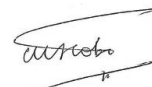
Over the year, the level of member standby facilities increased by NZ\$20 million to NZ\$747 million at year end, which is just below our cap of NZ\$750 million.

Acknowledgements

Over the past year, LGFA has received numerous awards and accolades from KangaNews, INFINZ, Treasury Management International, FinanceAsia and Environmental Finance. LGFA's work and success cannot be achieved without the support of the Minister of Local Government and Minister of Finance, The Treasury, Department of Internal Affairs, our Shareholders Council, fellow directors and our staff, all whose efforts and support we acknowledge.

We want to acknowledge Anthony Quirk who retired as an Independent Director at the November 2023 AGM. Anthony served on the LGFA Board for six years and made a valued contribution to the success of LGFA during his tenure.

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



Craig Stobo
Chair



Mark Butcher
Chief Executive

Taituarā LGFA Local Government Excellence Awards

This year we are delighted to announce that Hastings District Council won the 2024 LGFA Supreme Award for its Waiaroha – Loving Water, Heretaunga Water Discovery Centre, after winning the GHD Award for Environmental Leadership.

Heretaunga Water Discovery Centre (entered as Waiaroha) is a state-of-the-art water treatment plant and discovery centre built in the centre of Hastings. Waiaroha provides a hands-on learning experience that builds understanding that water is critical to survival and that the three waters are an integrated whole.

It is the final major element in Hastings District Council's Drinking Water Strategy, developed in the wake of the 2016 Havelock North drinking water crisis to fulfil Council's commitment to residents that it would make safe drinking water its number one priority.

Hastings District Council major projects director Graeme Hansen said it was very rewarding to have what was a large and challenging project recognised. "This was first and foremost a project focused on ensuring our community had access to clean, safe, resilient drinking water. What was achieved, with the support of Ngāti Kahungunu and

Government funding, is so much more. "It's also an educational facility that brings the treatment process out into the open to give people a real insight into what goes into providing safe drinking water, at the same time sharing the knowledge and creativity of Ngāti Kahungunu through on-site art and storytelling. Our thanks go to our project partner Ngāti Kahungunu, as well as our staff team, consultants and contractors who brought the project to life."

The judges commented "Waiaroha is a world first meld of education, community engagement, place-making, and state-of-the-art water management in a single project. The promotion of a mix of wellbeing outcomes, innovative thinking, and recognising an opportunity from what might have otherwise been seen as a challenge all go to the very purpose of local government and the values that Taituarā champions through these awards".



Performance highlights

Ko ngā tino hua

Bonds issued over the financial year

NZD **\$3,630** million
AUD **\$2,650** million

Interest income

\$1,213 million

▲ 59%
Increase over 2022-23 year

Lending to members over the financial year

\$6,095 gross lending, million

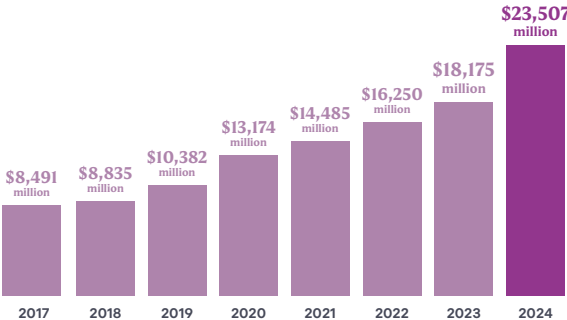
Net operating profit

\$10.05 million

▲ 301%
Increase over 2022-23 year

Total assets
at 30 June 2024

\$23,507 million



Liquidity
As 30 June 2024

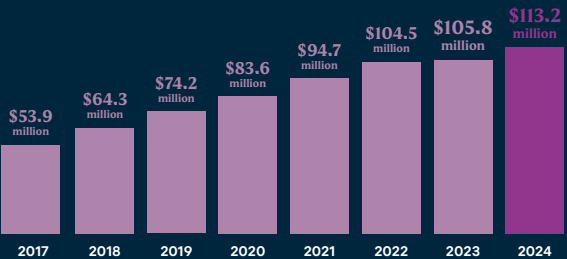
\$473 million Cash
\$1,397 million Marketable securities
\$718 million Deposits

\$1,000 million Treasury stock for repurchase
\$1,500 million Government committed liquidity facility

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

Shareholder funds
at 30 June 2024

\$113 million



Fully paid shares

\$25 million

Retained earnings

\$89 million

\$492 million

About us

Mō mātou

New Zealand Local Government Funding Agency Ltd (LGFA) specialises in financing the New Zealand local government sector, the primary objective being to optimise the terms and conditions of the debt funding it provides to participating borrowers.

LGFA was established to raise debt on behalf of councils on terms that are more favourable to them than if they raised the debt themselves. Since establishment, LGFA has expanded its

product suite to include short-dated lending, bespoke lending, standby facilities, sustainable financing alternatives and lending to CCOs. LGFA membership has grown to include 77 out of the 78 councils in New Zealand and has provided 90% of NZD council borrowing in the year to 30 June 2024.

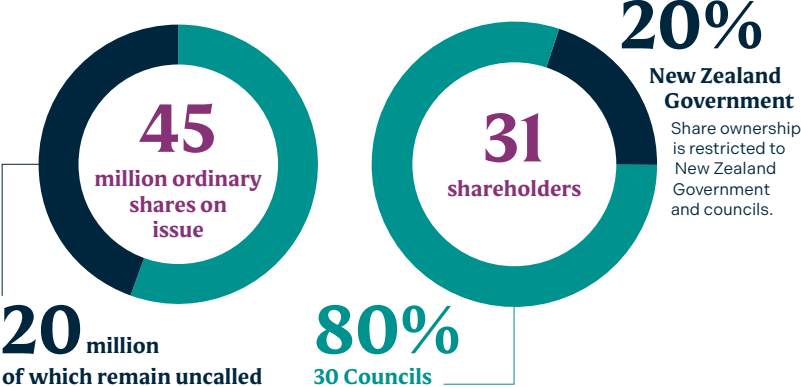
Please refer to our website lgfa.co.nz for more information on LGFA, including our Statement of Intent and Quarterly Reports.

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



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Credit rating at 30 June 2024

S&P Global Ratings

Domestic Currency
AAA Stable outlook
Foreign Currency **AA+**
Stable outlook

Fitch Ratings

Domestic Currency
AA+ Stable outlook
Foreign Currency **AA+**
Positive outlook

Guarantee structure

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

LGFA's securities obligations are guaranteed by council guarantors.

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

The New Zealand Government is not a guarantor.

Governance overview

The Shareholders' Council

The Shareholders' Council comprises ten appointees from shareholders. 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. Please refer to [page 28](#).

The Board

The Board comprises five independent directors and one non-independent director. The 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 Constitution;
- LGFA Shareholder Agreement;
- LGFA Annual Statement of Intent.

Please refer to [page 25](#).

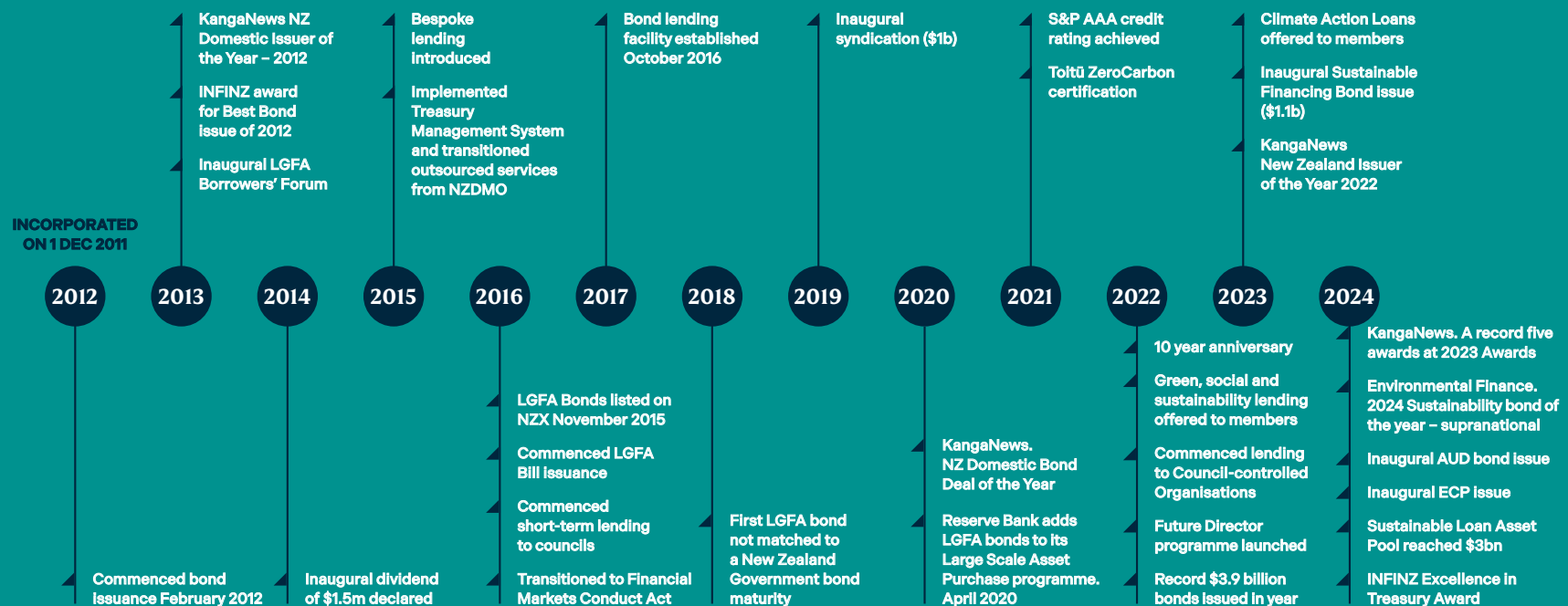
Bonds listed on NZX Debt Market

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

Supervised by independent trustee: Trustees Executors

Our history

by financial year ended



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About us LGFA Annual Report 2024 7

LGFA bonds on issue

Ko ngā pūtea taurewa pūmau kua tukuna e te LGFA

LGFA issues NZD and AUD denominated bonds

- For NZD issuance, LGFA typically issues a new bond maturity via an initial syndication and then through ongoing regular scheduled bond tenders.

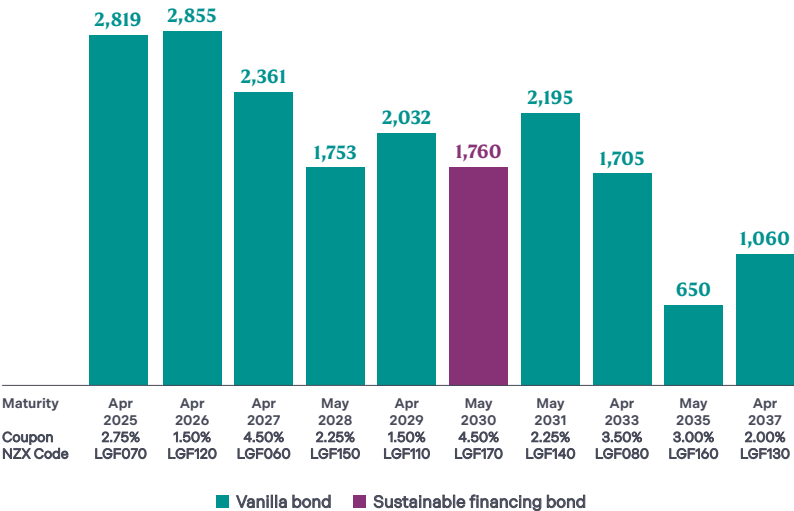
 - Preferred bond tender sizes are between NZD 150 million to NZD 200 million with at least three bond maturities offered at each tender.
 - Approved Issuer Levy is paid on behalf of offshore holders.
 - Target issuance of NZD 1 billion minimum per bond maturity over time with a cap of NZD 3 billion per NZD bond maturity.
 - All LGFA NZD retail bonds are listed on the NZX.
- LGFA undertakes AUD bond issuance to diversify its sources of financing and broaden our investor base.

For AUD issuance, LGFA typically issues a new bond maturity via an initial syndication and then increases the amount on issue via a further syndication.

 - Target issuance of AUD 1 billion per bond maturity.
 - AUD proceeds are swapped back into NZD to remove foreign currency and interest rate risk.

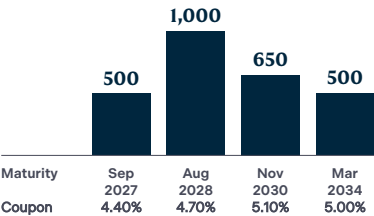
NZD bonds on issue

At 30 June 2024 : NZD 19,190 million
NZD million, face value
Includes NZD 1,000 million treasury stock (refer note 17, page 47)



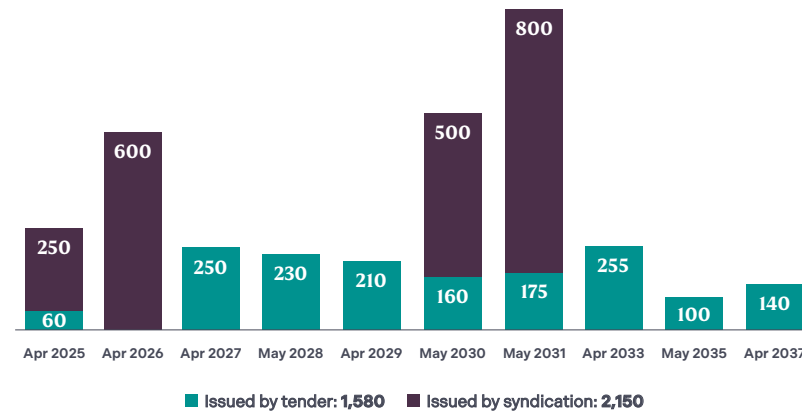
AUD bonds on issue

At 30 June 2024 : AUD 2,650 million
AUD million, face value



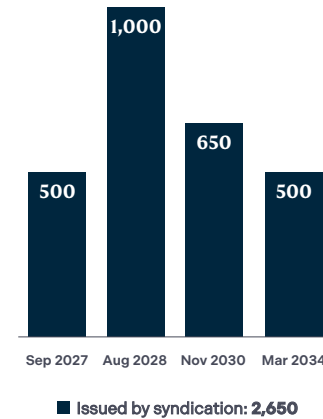
2023-24 NZD bond issuance by maturity

NZD million, face value



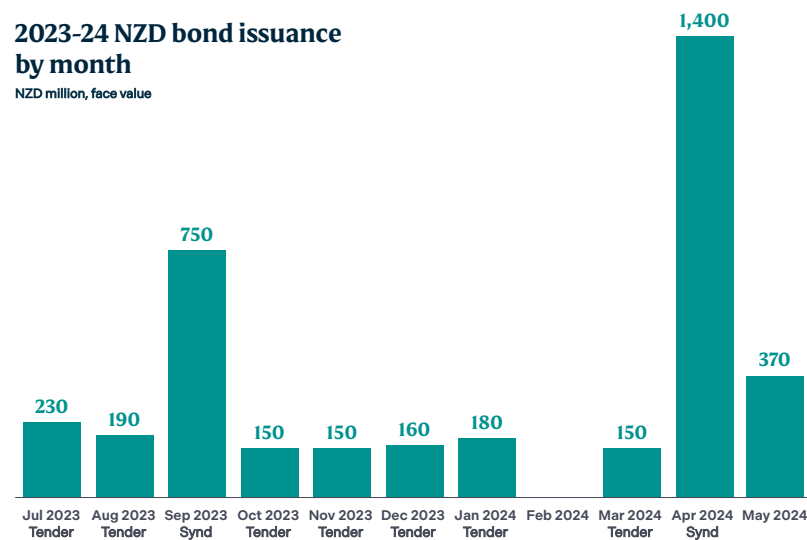
2023-24 AUD bond issuance by maturity

AUD million, face value



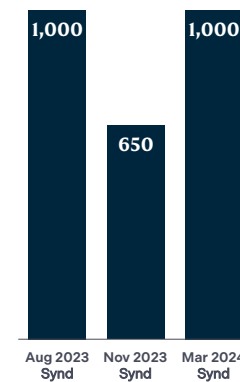
2023-24 NZD bond issuance by month

NZD million, face value



2023-24 AUD bond issuance by month

AUD million, face value



2023-24 issuance

NZD **3,730** million

AUD **2,650** million

LGFA is New Zealand's:

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

New bond maturities issued in the year to June 2024 :

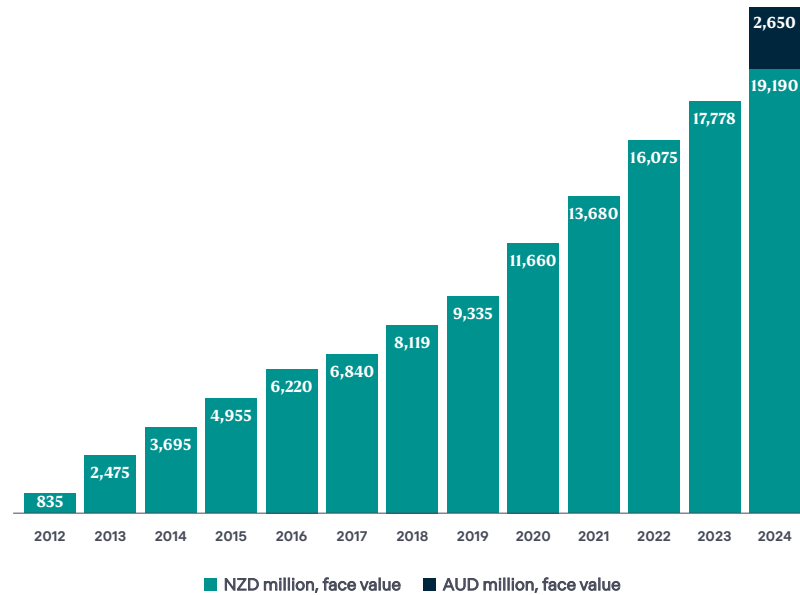
AUD Sep 2027
4.40%

AUD Aug 2028
4.70%

AUD Nov 2030
5.10%

AUD Mar 2034
5.00%

LGFA bonds outstanding at 30 June by year



Largest issuers of NZD bonds by outstandings

excluding the New Zealand Government, as at 30 June 2024 (NZD million)



LGFA estimate, based on aggregation of Bloomberg sourced data.

LGFA bond holders by investor group as at 30 June 2024



LGFA bond holders by country of residence as at 31 March 2024



Wairio Wetlands, Lake Wairarapa, Greater Wellington Regional Council

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LGFA bonds on issue LGFA Annual Report 2024 10

LGFA members

Ko ngā LGFA e noho mema ana

LGFA operates with the primary objective to optimise the terms and conditions of the debt funding it provides to participating borrowers.

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 councils.

To become a LGFA member, 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 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.

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

99%
of total loans
are to guarantor
councils

Loans to Auckland
Council are limited
to a maximum of

40%
of total loans

As at 30 June 2024

77
members were
eligible to borrow
from LGFA

30
member councils
are shareholders

72
member councils
were guarantors

5
member
CCOs

| TOP 10 MEMBER BORROWERS | AMOUNT BORROWED | % OF TOTAL BORROWINGS |
|-------------------------------------|--------------------|--------------------------|
| NZD MILLION | | |
| Auckland Council | 3,655 | 17.8% |
| Christchurch City Council | 2,512 | 12.2% |
| Wellington City Council | 1,596 | 7.8% |
| Tauranga City Council | 1,051 | 5.1% |
| Hamilton City Council | 951 | 4.6% |
| Greater Wellington Regional Council | 941 | 4.6% |
| Queenstown Lakes District Council | 651 | 3.2% |
| Hutt City Council | 516 | 2.5% |
| Rotorua District Council | 451 | 2.2% |
| Hastings District Council | 397 | 1.9% |
| | 12,721 | 61.9% |

Over the 12 months to 30 June 2024

\$6,095
million of long term loans

were issued to
74
members

across
486
individual term loans

with an average term of
4.87
years

At 30 June 2024

\$597
million of short term loans

were outstanding to
36
members

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

90%
LGFA's estimated market share
of local government debt

LGFA members by year of joining
North Island councils

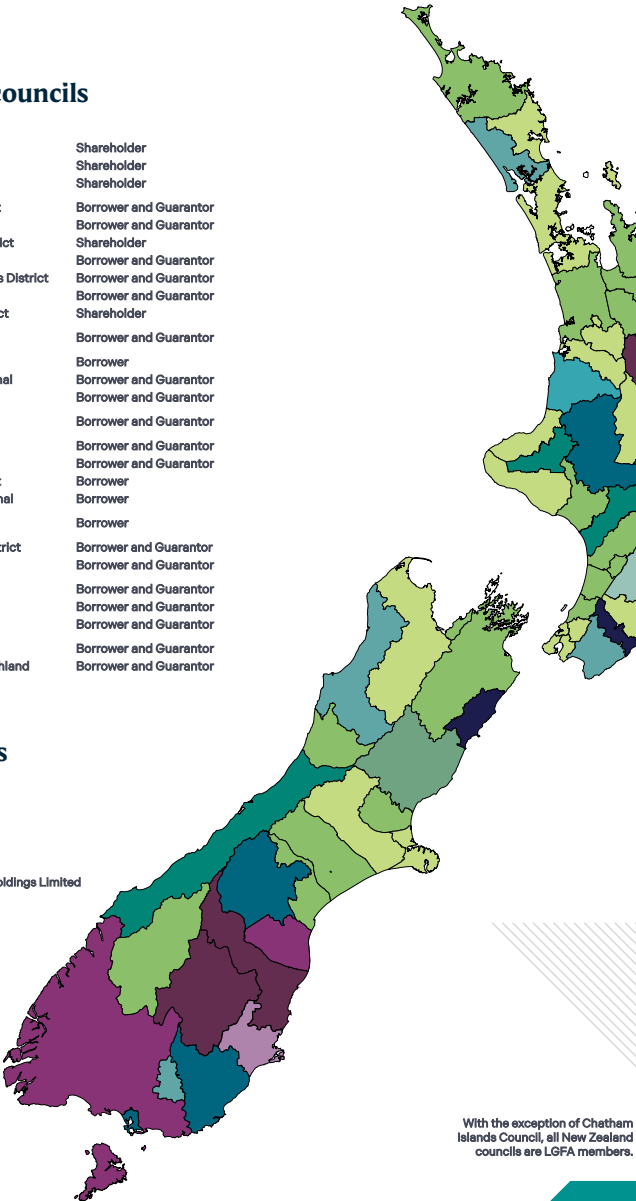
| | | |
|---------|------------------------------|------------------------|
| 2011-12 | Auckland | Shareholder |
| | Bay of Plenty Regional | Shareholder |
| | Greater Wellington Regional | Shareholder |
| | Hamilton City | Shareholder |
| | Hastings District | Shareholder |
| | Manukau City | Shareholder |
| | New Plymouth District | Shareholder |
| | Otago Region | Shareholder |
| | South Taranaki District | Shareholder |
| | Tairāwhiti District | Shareholder |
| | Tairāwhiti Regional | Shareholder |
| | Waikato Regional | Shareholder |
| 2012-13 | Far North District | Borrower and Guarantor |
| | Gisborne District | Shareholder |
| | Hawke's Bay District | Shareholder |
| | Horowhenua District | Shareholder |
| | Hutt City | Shareholder |
| | Kapiti Coast District | Shareholder |
| | Manawatu District | Shareholder |
| | Manawatu-Whanganui District | Borrower and Guarantor |
| | Palmerston North City | Shareholder |
| | Rotorua District | Borrower and Guarantor |
| | Thames-Coromandel District | Shareholder |
| | Waikato District | Borrower and Guarantor |
| 2013-14 | Horizons District | Borrower and Guarantor |
| | Upper Hutt City | Borrower and Guarantor |
| 2014-15 | Opotiki District | Borrower |
| | Porirua City | Borrower and Guarantor |
| 2015-16 | Tairāwhiti District | Borrower and Guarantor |
| | Kapiti Coast District | Borrower and Guarantor |
| 2016-17 | Central Hawke's Bay District | Borrower and Guarantor |
| | Northland Regional | Borrower and Guarantor |
| 2017-18 | Rangitikei District | Borrower |
| | Stratford District | Borrower and Guarantor |
| 2018-19 | Hawke's Bay Regional | Borrower and Guarantor |
| | Rangitikei Regional | Borrower and Guarantor |
| 2019-20 | Tairāwhiti Regional | Borrower and Guarantor |
| | Manukau City | Borrower |
| 2020-21 | Kapiti Coast District | Borrower and Guarantor |
| | Manukau City | Borrower and Guarantor |

South Island councils

| | | |
|---------|---------------------------|------------------------|
| 2011-12 | Christchurch City | Shareholder |
| | Selwyn District | Shareholder |
| | Tasman District | Shareholder |
| 2012-13 | Ashburton District | Borrower and Guarantor |
| | Grey District | Borrower and Guarantor |
| | Marlborough District | Shareholder |
| | Nelson City | Borrower and Guarantor |
| | Queenstown Lakes District | Borrower and Guarantor |
| 2013-14 | Timaru District | Borrower and Guarantor |
| | Waimakariri District | Shareholder |
| 2015-16 | Hurunui District | Borrower and Guarantor |
| | Buller District | Borrower |
| 2017-18 | Canterbury Regional | Borrower and Guarantor |
| | Gore District | Borrower and Guarantor |
| 2018-19 | Westland District | Borrower and Guarantor |
| | Clutha District | Borrower and Guarantor |
| 2019-20 | Invercargill City | Borrower and Guarantor |
| | Mackenzie District | Borrower |
| 2020-21 | West Coast Regional | Borrower |
| | Kaikoura District | Borrower |
| 2021-22 | Central Otago District | Borrower and Guarantor |
| | Wairarapa District | Borrower and Guarantor |
| 2022-23 | Otago Regional | Borrower and Guarantor |
| | Southland District | Borrower and Guarantor |
| 2023-24 | Waimate District | Borrower and Guarantor |
| | Dunedin City | Borrower and Guarantor |
| 2024-25 | Environment Southland | Borrower and Guarantor |
| | Regional | Borrower and Guarantor |

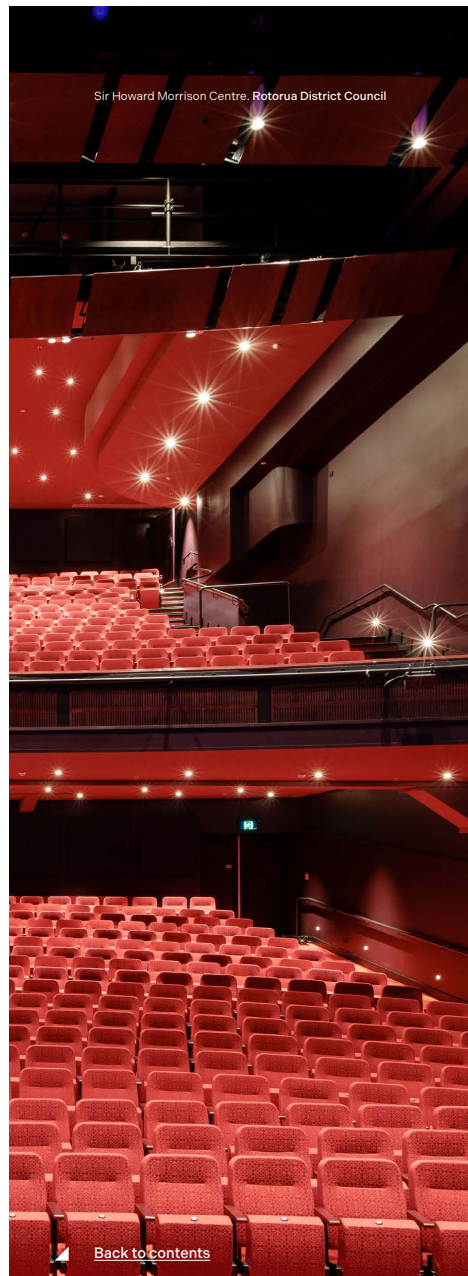
CCO members

Destination Westland
Dunedin City Treasury
Infrastructure Holdings Ltd
Invercargill City Holdings Ltd
Whanganui District Council Holdings Limited



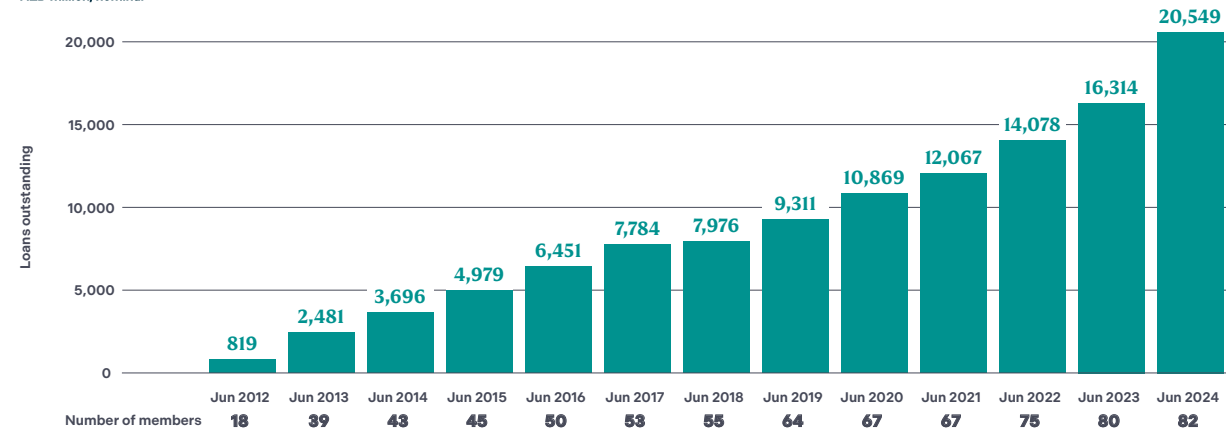
84%
loans to councils with
AA-
external rating or better
LGFA assign internal credit
ratings for all councils,
including all councils without
external credit ratings.

77 of New Zealand's
78 councils
are approved borrowers
as at 30 June 2024



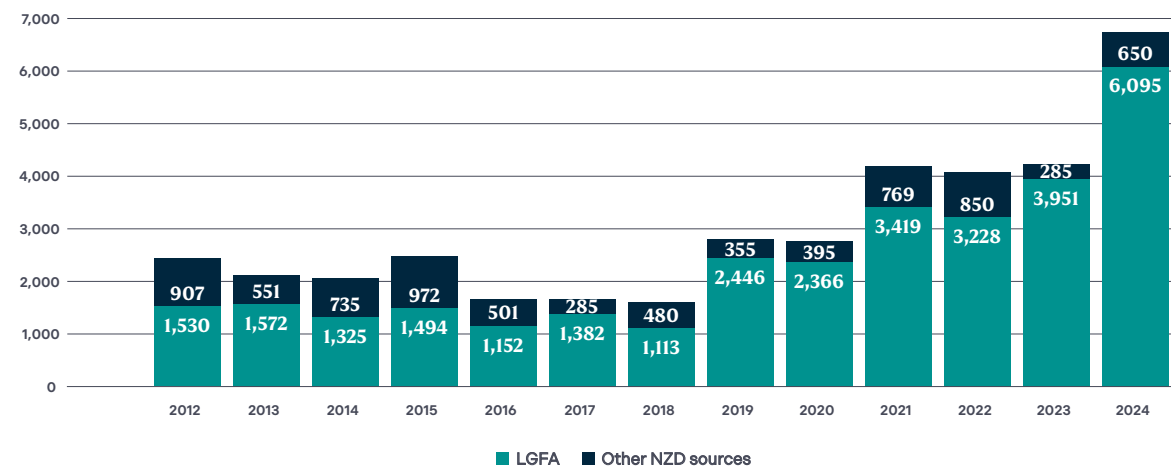
LGFA members and nominal loans outstanding

NZD million, nominal



Members' annual borrowing

NZD million, nominal



■ LGFA ■ Other NZD sources

Sustainability at LGFA

Te toitūtanga kei te LGFA

As at June 2024

| Sustainable Financing Bond | Green, social & sustainable loans | Climate action loans |
|----------------------------|-----------------------------------|----------------------|
| \$1.76 billion | \$377 million | \$2.77 billion |

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.

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 member councils and 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.

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 in the Aotearoa New Zealand Climate Standards issued by the External Reporting Board in December 2022.

LGFA is a designated Climate Reporting Entity as it is a listed issuer of quoted debt securities with a combined face value of quoted debt exceeding \$60 million.

Climate Reporting Entities are required to make annual disclosures covering governance arrangements, risk management, strategies and metrics and targets for mitigating and adapting to climate change impacts.

The mandatory reporting regime took effect for accounting periods that start on or after the 1 January 2023 and LGFA has completed our inaugural disclosures for the year ended 30 June 2024.

LGFA Climate-related disclosures for the year ended 30 June 2024

Sustainability Committee

The LGFA Sustainability Committee assists 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 As at 30 June 2024

- Alison Howard
- Erica Miles
- Chris Thurston
- David Woods





LGFA Sustainable financing bond framework

In March 2023, LGFA announced our Sustainable Financing Bond Framework.

The Framework outlines the process by which LGFA will issue and manage sustainable financing bonds that will be notionally allocated to a pool of Sustainable Loans that meet the eligibility criteria set out in the Framework.

Launching the Framework enables LGFA to:

- demonstrate its commitment to support council and CCO borrowers to fund sustainable assets and activities, and incentivise GHG emissions reductions;
- issue bonds that are notionally allocated to the Sustainable Loans on LGFA's balance sheet; and
- advance the market for sustainable finance by providing an innovative opportunity for investors to support council and CCO borrowers to achieve their sustainability aspirations.

The Framework follows the proceeds-based pillars of the general market standards for sustainable finance, namely the International Capital Markets Association's Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG). However, LGFA does not claim direct alignment of the Framework with these principles as the pool of Sustainable Loans comprises both GSS Loans and CALs together in the same asset pool.

Sustainable loans are made by LGFA to member councils and CCOs under the Green, Social and Sustainability (GSS) Lending Programme and the Climate Action Loans (CALs) Programme.

The Framework is supported by a Second Party Opinion (SPO) provided by Sustainalytics.

In April 2023, LGFA completed the inaugural issue of \$1.1 billion of Sustainable Financing Bonds maturing 15th May 2030. This was increased by \$500 million in September 2023, and as at 30 June 2024, the amount outstanding in this issuance line was \$1.76 billion.

Global recognition of LGFA sustainable financing bond framework and issuance

LGFA has been recognised with the following three KangaNews Awards for 2023:

- New Zealand dollar rates bond deal of the year,
- New Zealand sustainability deal of the year, and
- New Zealand innovative debt deal of the year.

In April 2024, the LGFA \$1.1bn Sustainable Financing Bond was named **"Sustainability Bond of the Year – Supranational"** at Environmental Finance's Sustainable Debt Awards 2024. These awards celebrate the leading green, social, sustainable and sustainability-linked bond and loan deals and recognise market innovations. LGFA takes great pride in having been recognised by the market for their thought-leadership, best practice and innovation, amongst its illustrious global peer group.

One Sustainable Debt Awards judge described the structure as having "a significant positive impact for the underlying assets" and called it a "significant development for the APAC region".

Another praised "the combination of ambitious targets, alignment with the Green Bond Principles, the Social Bond Principles, and the Sustainability Bond Guidelines, high performance in terms of market turnover, and innovative setup."



Sustainable lending products

Offering members innovative sustainable lending products aligns to LGFA's commitment to display sector leadership on sustainable lending and incentivising member councils and CCOs to progress sustainability opportunities.

Our sustainable lending products comprise Green, Social and Sustainable lending and Climate Incentive Loans.

Green, social and sustainability lending

A commitment to assist our members to 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, and which fund eligible green and/or social projects.

Our green, social and/or sustainability (GSS) lending programme, launched in 2021, provides funding for our members across the following nine green project categories and three social project categories:

Green Project 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 and Use
- Climate Change Adaptation
- Terrestrial and Aquatic Biodiversity Conservation

Social Project Categories

- Affordable Basic Infrastructure-Clean Water, Sewer, Transport
- Access to Essential Services-Education, Healthcare
- Affordable Housing

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.

As at 30 June 2024, LGFA had approved six GSS loans, across three different green project categories and one social project category, totalling NZ\$572.3 million approved of which NZ\$377.2 million had been advanced.

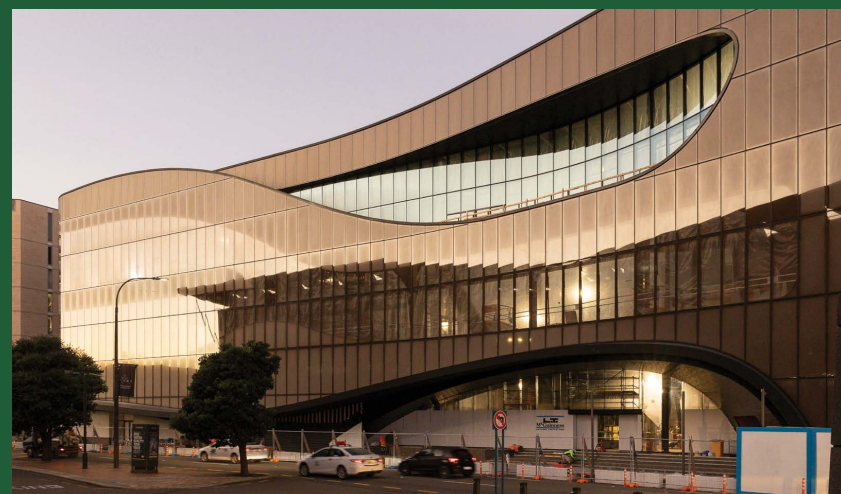
In December 2021 the Wellington City Council and the Greater Wellington Regional Council became the first local authorities in New Zealand to draw down under the programme. They have been followed by Hutt City Council in June 2022, Whangarei District Council in August 2022, Christchurch City Council in November 2022 and, most recently, Tauranga City Council in October 2023.

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Tākina Wellington Convention and Exhibition Centre Wellington City Council

Under Green Project Category: Green Buildings, Wellington City Council borrowed \$180 million for the construction of Tākina, the Wellington Convention and Exhibition Centre, the Capital's largest infrastructure investment since the Wellington Regional Stadium two decades ago. Tākina offers a powerful combination of facilities across three floors and 18,000 m² that is drawing visitors to Wellington to learn, meet and be inspired.

Opened in June 2023, Tākina has been awarded a 5-star certification by the New Zealand Green Building Council for a design that reduces energy use by 60% and carbon emissions by 66% when benchmarked against comparable new builds. The building's features include a rainwater harvesting system, smart air conditioning and enhanced thermal insulation.



Sustainability at LGFA LGFA Annual Report 2024 16



Te Wai Takamori o Te Awa Kairangi Greater Wellington Regional Council

Under Green Project Category: Climate Adaptation, Greater Wellington Regional Council (GWRC) will borrow up to \$227 million to fund the Council's flood protection work on Te Wai Takamori o Te Awa Kairangi. This project involves upgrading the stopbanks on either side of Te Awa Kairangi / Hutt River as well as deepening and widening the river channel to protect Te Awa Kairangi ki Tai – Lower Hutt city centre from a one in 440 year flood event (which has a 0.2% chance of occurring in any year), at the same time enhancing the ecological health of the river.

Te Wai Takamori o Te Awa Kairangi programme of works is being delivered through a partnership between Greater Wellington, 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.



Naenae Pool and Fitness Centre Hutt City Council

Under Green Project Category: Green Buildings, Hutt City Council (HCC) will borrow up to \$41 million for the rebuild of the Naenae Pool and Fitness Centre. The new swimming pool will be 65% bigger than the old pool and will be much more energy efficient with up to 53% reduction in energy use.

Due to open in July 2024, the Naenae Pool and Fitness Centre will have a 50m Olympic pool with 10 lanes and two moveable bulkheads so it can be used for different activities at the same time. A second leisure pool will have a shallow section for family fun, and a deep section with ramp access, seating and hydro jets for maximum accessibility.



Te Iwitahi – Whangarei Civic Centre Whangarei District Council

Under Green Project Category: Green Buildings, Whangarei District Council (WDC) borrowed \$59 million for Whangarei District's new civic building which has been designed to provide a welcoming, inclusive and easily accessible customer experience. The 8,000m² building opened in June 2023 and has been designed to be sustainable and to strongly reflect Whangarei's cultural identity and heritage.

Te Iwitahi is an extremely efficient, sustainability-focused, fully accessible building, designed for high functionality now and into the future, and earned the Supreme Award for projects costing over \$10 million at the New Zealand Commercial Project Awards 2024.



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Ōtautahi Community Housing Trust Christchurch City Council

Under Social Project Category: Affordable Housing, Christchurch City Council (CCC) will borrow up to \$55 million to provide finance to Ōtautahi Community Housing Trust (ŌCHT). ŌCHT was formed in 2016 out of CCC's objective for a financially sustainable model for its social housing portfolio.

ŌCHT provides low-cost community housing, supported by a government subsidy where possible. ŌCHT is the second largest Community Housing Provider in New Zealand and it manages approximately 2,300 units passed to it from CCC.

Part of ŌCHT's programme is to build at least 400 units to replace those lost due to the Canterbury earthquakes, and the GSS Loan is to finance the build of these properties. The Ministry of Housing and Urban Development supports the development and ŌCHT is contracted to provide homes for people on the Public Housing Register.

Kopurererua Valley Stream Realignment Tauranga City Council

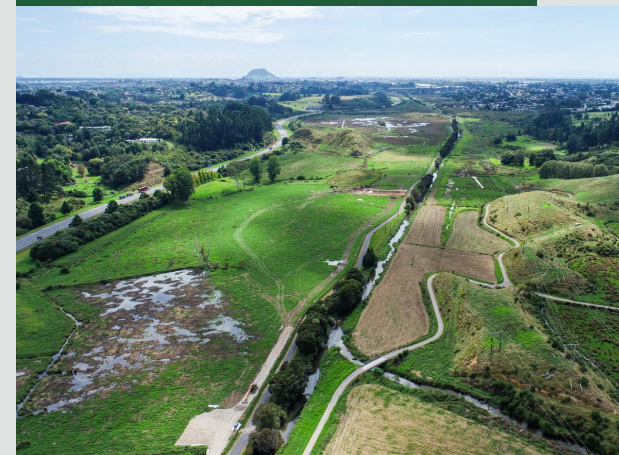
Under the Green Project Category: Terrestrial and Aquatic Biodiversity Conservation, Tauranga City Council (TCC) will borrow up to \$10.3 million to provide finance for the work to realign and restore the Kopurererua River, along with the creation of a new cycle path and a new wetland at the Kopurererua Valley Reserve, a 364 hectare inner city reserve in Tauranga.

In partnership with Ngāi Tamarāwaho and Bay of Plenty Regional Council, TCC will deliver the following benefits through this project:

The realignment of the river channel, and the subsequent creation of a wetland will slow the flow of the water, improving water quality, assisting in flood control, and ultimately providing climate change resilience. Approximately 200,000 plants will be planted to restore the valley and assist with this resilience.

The realignment of the river will recreate fish and bird habitats and help to restore the mauri that has been lost over time. It will restore the path followed by Taurikura as she swam out to Tauranga Moana, and finally landed at Karewa Island.

Community access and connection to the reserve will significantly increase.



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Climate Action Loans

A commitment to incentivise our members to act on climate change and reduce greenhouse gas emissions.

LGFA launched its Climate Action Loans (CALs) lending programme in December 2022. CALs are target-based lending structures designed to incentivise councils and CCOs to act on climate change and reduce greenhouse gas (GHG) emissions.

A CAL rewards a borrower through a lending margin discount if they have adopted an Emission Reduction Plan setting out specific Emissions Reduction Targets for their operational greenhouse gas emissions at member council or CCO level. CALs are available for all members, including those who may not have eligible projects to access GSS loans.

As at 30th June 2024, LGFA had advanced CAL loans totalling \$2,746.7 million across seven member councils.



Auckland Council. Approved for CALs in March 2023

In June 2019, Auckland Council declared a climate emergency, committing the Council to take the necessary action to manage and mitigate climate-related risks while taking advantage of the opportunities created by climate change.

Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan, adopted by Auckland Council in 2020, sets out a pathway to achieve a 50% reduction in regional greenhouse gas (GHG) emissions by 2030 and net zero by 2050 from a 2016/17 base year. Auckland Council's Long-Term Plan (LTP) sets similar targets for Auckland Council, halving direct GHG emissions (scope 1 & 2) from Auckland Council operations by 2030 and achieving net zero emissions by 2050.



Hutt City Council. Approved for CALs in March 2023

In 2018, Hutt City Council (HCC) commenced work on its first organisational carbon footprint, and later that year, set a carbon target of net zero by no later than 2050. This was followed by Council declaring a climate emergency in June 2019.

In July 2021 the HCC Interim Carbon and Climate Resilience Plan 2021-2031 (ICCRP) was approved as companion document to the LTP 2021-31. This plan built on earlier work in the energy space, ie the Energy and Carbon Reduction Plan 2020-2024, which set targets for improving energy efficiency and reducing carbon emissions with the use of energy at Council facilities. The ICCRP sets out 21 concrete and measurable actions which include:

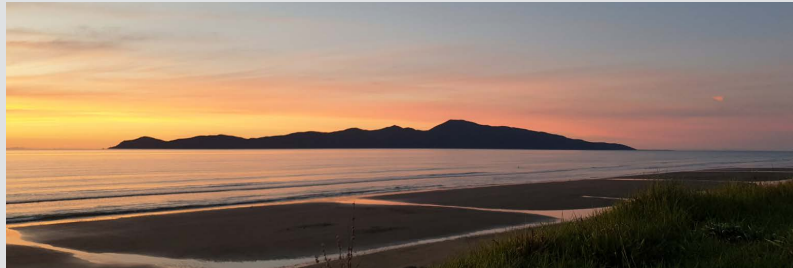
- Outline the journey to reduce HCC's corporate emissions to net-zero by 2050.
- Help reduce Lower Hutt's greenhouse gas emissions to net-zero by 2050 and halve emissions by 2030.

Dunedin City Treasury Limited. Approved for CALs in April 2023

In June 2019, Dunedin City Council (DCC) declared a climate and ecological emergency and set the ambitious goal for Dunedin city to be net carbon neutral by 2030, adopting a two-part 'Zero Carbon 2030' target, as follows:

- net zero emissions of all greenhouse gases other than biogenic methane by 2030; and
- 24% to 47% reduction below 2017 biogenic methane emissions by 2050, including 10% reduction below 2017 biogenic methane emissions by 2030.

In February 2022 DCC adopted an Emissions Management and Reduction Plan setting out the goal for DCC and Dunedin City to be net carbon zero by 2030 and to increase its resilience to the effects of climate change. With regards to climate change adaptation, DCC's focus to date has been its South Dunedin Future programme, as South Dunedin is the most climate-exposed part of the city.



Kapiti Coast District Council. Approved for CALs in August 2023

Kapiti Coast District Council (KCDC) has been measuring its emissions since the 2009/10 year under the Toitū CarbonReduce Programme and has won multiple awards for leadership in environmental sustainability. In May 2019, the council declared a climate emergency.

Recently KCDC set a new aspirational long-term target for its organisational emissions of net zero emissions by 2040. KCDC also set a mid-term reduction target for its category 1 and 2 emissions of 15.5% by 2032. This is on top of the 70% emissions reductions already achieved in categories 1 and 2 emissions since 2010.

Wellington City Council. Approved for CALs in February 2024

In June 2019, Wellington City Council (WCC) declared a climate and ecological emergency and Te Atakura – First to Zero (emissions) blueprint was adopted, setting Wellington's ambition to become a net zero carbon capital by 2050. WCC has been measuring its emissions since 2014 and, over the years, it has continued to improve the way it captures information. From mid-2021, WCC started measuring supply chain emissions.

In November 2023, WCC set a science-based target to reduce their Scope 1 & 2 emissions by 57% between 2021 and 2030, and a separate target that two-thirds of their supplier emissions will have adopted science-based targets by 2030. In November 2023, WCC adopted an Organisational Emissions Reduction Plan setting out the projects they need to deliver in order to meet those targets.

Tauranga City Council. Approved for CALs in March 2024

Tauranga City Council (TCC) has accelerated its efforts over the last few years to reduce its operational emissions. TCC started measuring its emissions in 2018 and has since then achieved a 27% reduction of Scope 1 and 2 emissions (including CCOs and wastewater treatment). In 2023, TCC committed to a goal to reach net zero by 2050 in its operational emissions and developed an Emissions Reduction Plan.

The Emissions Reduction Plan dated February 2024 includes targets aligned with a science-based pathway, supported by 15 projects to reduce Scope 1 and 2 emissions across council operations. A science-based target means that TCC will need to reduce its emissions by 46.2% by 2030 and 90% by 2040 from 2019 baseline. This covers emissions from electricity consumption and combustion of fossil fuels within council operations (Scope 1 and 2).

Greater Wellington Regional Council. Approved for CALs in June 2024

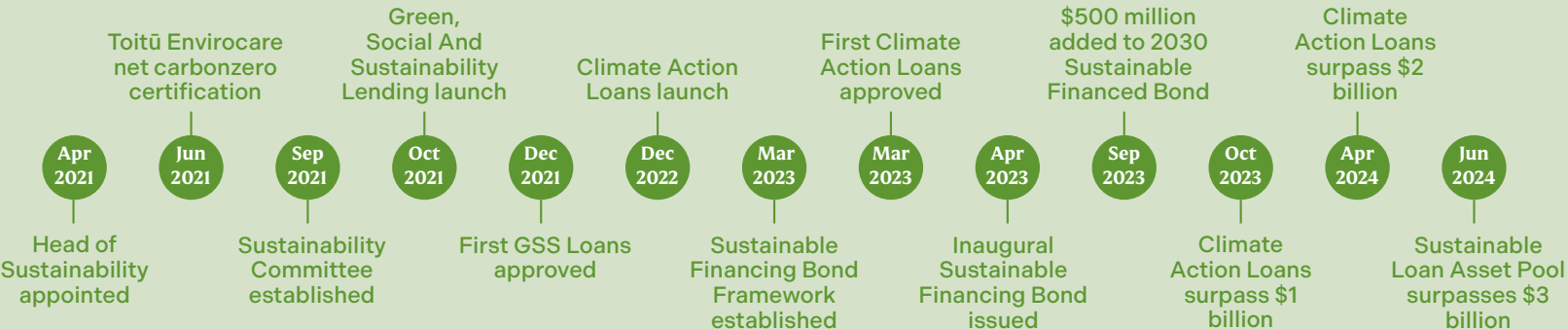
In August 2019, Greater Wellington Regional Council (GWRC) declared a climate emergency and has since developed a programme of climate action relating to corporate operations and regional outcomes.

GWRC's Executive Leadership Team signed off its Organisational Emissions Management and Reduction Plan in May 2024, which includes targets for its organisational GHG emissions, previously approved by Councillors. Each target is relative to the Council's base year period of FY18/19. These include:

- GWRC has committed to achieve a net reduction in its total emissions (all Scopes/Categories) of 40% in FY2024/25;
- To be 'carbon neutral' (net-zero total emissions) from FY2029/30;
- To be 'climate positive' (net emissions reduced by more than 100% from FY2034/35);
- Achieve a 25% reduction in gross Scope 1 & 2 (Category 1 & 2) GHG emissions in FY2024/25;
- Achieve a 50% reduction in gross Scope 1 & 2 (Category 1 & 2) GHG emissions in FY2029/30;
- Achieve a 65% reduction in gross Scope 1 & 2 (Category 1 & 2) GHG emissions in FY34/35.



Our Sustainability timeline



Toitū net carbonzero certification

As part of our carbon reduction process, LGFA has maintained a Toitū net carbonzero certification since 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.

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 2024, LGFA donated \$4,000.

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

- Audit and Risk Committee Charter

Board Charter

Code of Ethics

Diversity Policy

Internal Audit Charter

LGFA Constitution

LGFA Foundation Policies
- Remuneration Policy

Responsible Investment Policy

Risk Management Policy

Shareholders Agreement

Sustainability Policy

Treasury Policy

NZX Corporate Governance Code

LGFA is a listed issuer on the NZX Debt Market and complies with the eight core principles underpinning the NZX Corporate Governance Code (1 April 2023).

LGFA considers that its governance practices have not materially differed from the NZX Code for the year ended 30 June 2024. 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 27](#).
- An issuer should have a remuneration committee which operates under a written charter.

→

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Our values

Ō mātau uara

Our purpose

Benefiting local communities through delivering efficient financing for local government.



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 Board is committed to ensuring LGFA demonstrates ongoing commitment to strong and sound corporate governance, and that the conduct of both directors and staff always 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 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 adversely 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 expected standards for behaviour. In addition, the policy sets out our 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 Protected Disclosures and Whistle Blowing Policy outlines procedure, support and protection to persons who disclose information which they reasonably believe to be about serious wrongdoing in or by LGFA.

Financial Products Trading Policy

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

Audit and Risk Committee

The 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 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 they have access to assistance and treatment to meet 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.

The Future Director programme, launched in 2021 by the Board and Shareholder Council, aims to give talented people 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 actively participates at Board meetings, but they have no voting rights. Sarah Matthews was appointed as our second Future Director in January 2024 for an 18 month term.

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

| | 2024 | | 2023 | |
|-------|--------|------|--------|------|
| | Female | Male | Female | Male |
| Board | 2 | 4 | 2 | 4 |
| Staff | 3 | 7 | 3 | 6 |

| | 2024 | | | 2023 | | |
|-------|----------------|-------------|---------------|----------------|-------------|---------------|
| | Under 30 years | 30-50 years | Over 50 years | Under 30 years | 30-50 years | Over 50 years |
| Board | - | - | 100% | - | - | 100% |
| Staff | - | 30% | 70% | 12% | 22% | 60% |



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Our Board

The LGFA Board Charter sets out the roles and responsibilities of the Board. The Charter states that the 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 Statement of Intent and monitoring performance against those expectations, in particular LGFA's primary objective to optimise the debt funding terms and conditions for participating borrowers;
- 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;
- 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 goal and engaging and communicating with Shareholders Council; and
- engaging and communicating with shareholders.

Board composition

The 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.



Craig Stobo
Independent Chair

BA (Hons) Economics First Class, Otago; C.F.Inst.D
Advanced Management Programme, The Wharton School,
Philadelphia

Associate Member CFA Society New Zealand

Craig has worked as a diplomat, economist, investment banker, Chief Investment Officer, and CEO. He has 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. Craig is a Taumata of the University of Otago Business School.

Chair

Financial Markets Authority
NZ Windfarms Ltd
Saturn Portfolio Management Ltd Investment
Committee (Shareholder)
Desert Holdings Ltd
Sahara Ltd
Cancer Society Finance Risk and Audit
Committee (Auckland and Northern)
Waitaki Boys High School Foundation

Managing Director and shareholder
Stobo Group

Director and shareholder
Blomarine Group Ltd
Legend Terrace Ltd

Director
Appello Services Ltd

Advisor
AMP Financial Services Investment Committee



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 Whangārei 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
Whangārei District Council

Director
Whangārei Waste Ltd



Philip Cory-Wright
Independent Director
Member Audit and Risk Committee

LLB (Hons), BCA Business Management
INFENZ (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. 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.

Chair
Papa Rerangi i Puketapu (New Plymouth
Airport)

South Port New Zealand Ltd

Director
Matariki Forest Group
NZ Windfarms Ltd
Powerco Ltd
Te Rere Hau Holdings Ltd
Te Rere Hau Ltd



Staff

Mark Butcher

Chair

Waikato-Tainui Group Investment Committee

Member

New Zealand Superannuation Fund,
Nominating Committee
NZ Financial Markets Association Board



David Rae Independent Director Member Audit and Risk Committee

M.Sc (distinction) in Economics, London School of Economics, C.M.Inst.D

David is a co-owner of an investment consulting firm, MyFiduciary Ltd, which provides portfolio advice and implementation for institutional investors including charitable trusts and iwi. His background is in economic policy and investing, having worked for the NZ Superannuation Fund and the OECD.

He has held current and past roles as an investment trustee and as a director of regulated utilities in the gas and transport sectors both in New Zealand and overseas.

David has an M.Sc in Economics from the London School of Economics, and a B.Soc. Sci (Hons) in Economics and Physics from the University of Waikato.

Chair

New Zealand International Commercial Pilot Academy

Director and shareholder

MyFiduciary Ltd

Director

Gallileo Green Energy GmbH

New Zealand Refining Nominees Ltd



Linda Robertson Independent Director Chair Audit and Risk Committee

B.Com; Dip.Bank; C.F.InstD; CGP; D.F.INFINZ; GCB.D; GAICD

Linda is a professional company director with over 25 years governance experience, combined with 30 years senior financial management experience having worked in both the banking and energy sectors in New Zealand.

Linda has been a full-time company director since 2015. Linda's governance experience spans many industries such as banking, funds management, electricity generation, retail and distribution; broadcasting services, co-operatives, local authority owned and state-owned entities and charities. Linda has a Bachelor of Commerce Degree and a Diploma in Banking. She also holds a Sustainability and ESG Designation; a Climate and Biodiversity Certificate and is a member of Chapter Zero New Zealand. Linda is a Distinguished Fellow of the Institute of Finance Professionals New Zealand (INFINZ), a Graduate Member of the Australian Institute of Company Directors, a Chartered Governance Professional and a Chartered Fellow of the Institute of Directors in New Zealand.

Chair

Central Lakes Trust and associated subsidiary
Crown Irrigation Investments Ltd

Director

Kordia Group Ltd
Invercargill City Holdings Ltd and associated subsidiary
Horizon Energy Distribution Ltd and associated subsidiaries
Southland Building Society (SBS Bank) and associated subsidiary

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



Helen Robinson ONZM Independent Director Member Audit and Risk Committee

Helen is an experienced business leader locally and internationally mostly in the technology and sustainability sectors. Helen was Managing Director of Microsoft New Zealand, VP of Pivotal Corporation Asia Pacific and Managing Director, Markit Group (co-founding its Environmental Registry; now part of S&P Global).

Helen has decades of governance experience acting as Director or Chair for numerous public, private and public sector organisations.

She is a member of Global Women, a Chartered Member of the NZ Institute of Directors, and has been recognised in numerous awards for business and innovation including the NZ Women of Influence Supreme Award and as an Officer of Merit in the Queens Honours.

Chair

Kara Technologies Ltd
Astrix Astronautics Ltd
NZTE NZ Beachhead Advisors

Director and Shareholder

Organic Initiative Ltd
Penguin Consulting Ltd

Director

NZTech
Generate Kiwisaver

Director tenure and meetings of the Board

Anthony Quirk, Independent Director, retired from the Board on 23 November 2023. Anthony was appointed to the Board on 21 November 2017 and served as a Director for 6 years.

David Rae, Independent Director, joined the Board on 23 November 2023.

There were 8 Board meetings and 5 Audit and Risk Committee meetings over the year.

All directors are considered by the LGFA Board to be independent pursuant to the New Zealand Stock Exchange (NZX) Listing Rule 2.6, except for Alan Adcock who is the General Manager Corporate at Whangarei District Council.

| Director | Date commenced in office | Board meetings attended/held | Audit and Risk Committee attended/held |
|---------------------|--------------------------|------------------------------|--|
| Craig Stobo (Chair) | 1 December 2011 | 8/8 | - |
| Alan Adcock | 23 November 2021 | 8/8 | 5/5 |
| Philip Cory-Wright | 1 December 2011 | 8/8 | 4/5 |
| Anthony Quirk | 21 November 2017 | 4/4 | 2/2 |
| David Rae | 23 November 2023 | 4/4 | 3/3 |
| Linda Robertson | 24 November 2015 | 8/8 | 4/5 |
| Helen Robinson | 23 November 2022 | 8/8 | 5/5 |

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, no 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 2023.

Director annual fee breakdown

| Position | Fees per annum | 2024 | 2023 |
|--------------------------------|----------------|-----------|-----------|
| Board Chair | | \$124,000 | \$108,000 |
| Audit and Risk Committee Chair | | \$78,000 | \$67,000 |
| Director / ARC Member | | \$73,000 | \$63,000 |
| Director | | \$70,000 | \$60,000 |

| Director | 2024 |
|---------------------|-----------|
| Craig Stobo (Chair) | \$124,000 |
| Alan Adcock | \$73,000 |
| Philip Cory-Wright | \$73,000 |
| Anthony Quirk | \$30,420 |
| David Rae | \$43,140 |
| Linda Robertson | \$78,000 |
| Helen Robinson | \$73,000 |

Chief Executive remuneration

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 \$804,518 per annum as at 30 June 2024 (\$754,000, 2023) 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 financial year.

| Per annum | 2024 | 2023 |
|---------------------------------|-----------|-----------|
| Salary | \$804,518 | \$754,000 |
| Taxable benefits | - | - |
| Subtotal | \$804,518 | \$754,000 |
| Pay for Performance STI | \$120,678 | \$113,100 |
| Kiwisaver Employer Contribution | \$37,008 | \$34,684 |
| Total remuneration | \$962,204 | \$901,784 |

Staff remuneration

The following table shows the number of staff who received more than \$100,000 in total remuneration, in \$10,000 bands.

| Total remuneration | 2024 |
|------------------------|------|
| \$100,000 to \$110,000 | 1 |
| \$170,000 to \$180,000 | 1 |
| \$200,000 to \$210,000 | 1 |
| \$230,000 to \$240,000 | 1 |
| \$290,000 to \$300,000 | 1 |
| \$370,000 to \$380,000 | 1 |
| \$390,000 to \$400,000 | 1 |
| \$960,000 to \$970,000 | 1 |



Sir Howard Morrison Centre, Rotorua District Council

Shareholders

Foundation documents

The Constitution and the Shareholders Agreement are foundation documents.

The Constitution defines the rights and 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.

Members of the Shareholders Council as at 30 June 2024

Kathryn Sharplin (Chair)
Tauranga City Council

Sarah Houston-Eastergaard (Deputy Chair)
Wellington City Council

Kumaren Perumal
Bay of Plenty Regional Council

Mike Drummond
Tasman District Council

Andrew John
Auckland Council

David Bryant
Hamilton City Council

Steve Ballard
Christchurch City Council

Adele Henderson
Western Bay of Plenty District Council

James Stratford
New Zealand Government – DIA

Nylka Gwanoya/Phoebe Slee
New Zealand Government – The Treasury

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 operations of raising and on-lending funds to local councils and approved council-controlled organisations.

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 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 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.

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 by applying best practice risk management principles and processes.

LGFA has treasury exposures arising from its normal business activities that principally relate to the raising and on-lending of funds. Specific treasury exposures relate to liquidity, interest rate, foreign exchange, counterparty credit, operational and lending risks. 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.

| | | | |
|---------------------------------|---|--|--|
| 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 holdings of cash and liquid investments, and a Crown liquidity facility) to support six months of funding commitments. | |
| Interest rate 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. | <p>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.</p> <ul style="list-style-type: none"> 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. <p>VaR is measured over a daily time horizon with a 95% confidence interval. A daily 95% VaR exposure of \$1</p> | <p>million means that there is a 5% chance that the portfolio could potentially lose more than \$1 million over the next business day.</p> <ul style="list-style-type: none"> 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. <p>In addition, LGFA also undertakes scenario analysis to model the potential effect of changing market environments on the balance sheet.</p> |
| 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). | <p>All derivative contracts are subject to formal collateral arrangements to mitigate counterparty risk.</p> <p>Investment is restricted to approved financial instruments listed in the Treasury Policy.</p> |
| 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. | <p>Exposure to foreign currency risk arises when LGFA accesses foreign capital markets for funding purposes.</p> <p>Foreign exchange risk is managed by fully hedging back to floating rate New Zealand dollar and term of all foreign</p> | <p>currency funding and cash flows.</p> <p>Any residual foreign currency risk arising from a timing mismatch of foreign currency cash flows is not material and is managed within a Board approved risk limit.</p> |
| 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 or 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 | <p>cornerstone internal control principle.</p> <p>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.</p> |

Lending risk

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

The LGFA Board has 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% | <285% |
| Net interest / total revenue | <20% | <20% |
| Net interest / annual rates income | <25% | <30% |
| Liquidity | >110% | >110% |

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.



Te Kete Aronui Rotorua Library is the newest hub library in the northern suburbs of Kirikiriroa. Hamilton City Council

Performance against objectives Ko ngā whakatutukinga ki ngā whāinga

The statement of service performance provides a summary of LGFA's performance against the objectives and performance targets set out in the LGFA Statement of Intent 2023-26 (SOI).

2023-24 Objectives and performance targets

LGFA objectives and performance targets for 2023-24 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 four quarters ended June 2024 are available on the LGFA website.

Governance, capability and business practice

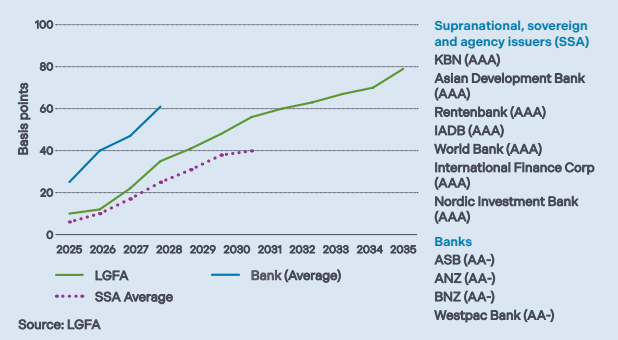
LGFA is committed to best practice corporate governance to ensure its long-term sustainability and success.

| OBJECTIVES | OUR PERFORMANCE TO 30 JUNE 2024 |
|--|---|
| Demonstrate best practice corporate governance. | 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 Code. This 2024 Annual Report is the most recent report with commentary on our compliance with the NZX Code. |
| Set and model high standards of ethical behaviour. | 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. |
| Achieve the shareholder-agreed objectives and performance targets specified in the Statement of Intent. | Our performance against shareholder-agreed objectives and performance targets, as specified in the Statement of Intent, is reported quarterly to shareholders and annually in this section of our Annual Report. |
| Ensure products and services offered to participating borrowers are delivered in a cost-effective manner. | LGFA prepares annual operating budgets and monitors progress against these monthly. Our performance against our financial performance targets for the year-ended 30 June 2024 is summarised in this section against our performance targets. |
| Be a good employer by providing safe working conditions, training and development and equal opportunities for staff. | We report on our employment practices in the Governance and Culture section of this Annual Report, including compliance with the Health and Safety Act, diversity and inclusion, and capability and development. |

| PERFORMANCE TARGETS | 2023-2024 TARGET | OUR PERFORMANCE TO 30 JUNE 2024 |
|---|---|--|
| Comply with the Shareholder Foundation Policies 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. | ✓ Our ratings remain equivalent to the New Zealand Government for both S&P Global Ratings and Fitch Ratings. Fitch Ratings affirmed our long-term domestic and foreign currency credit rating as AA+ in October 2023. S&P Global Ratings (S&P) affirmed our domestic currency credit rating at AAA and foreign currency rating at AA+ in February 2024. |
| LGFA's total operating income for the period to 30 June 2024. | >\$20.6 million. | ✓ \$20.9 million at June 2024, excluding unrealised gains/losses on hedged foreign currency issuance. |
| LGFA's total operating expenses for the period to 30 June 2024. | <\$10.0 million. | ✗ Operating expenses \$11.8 million at June 2024. The significant contributor was Approved Issuer Levy (AIL) payments totalling \$1.98 million (2023: \$0.56 million). The significant increase in AIL is due to our issuance of AUD bonds and USD Euro Commercial Paper (ECP). |

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. | <p>Comparison to other high-grade issuers – secondary market spread to swap (bps)</p> <p>LGFA's borrowing margins compare favourably to other high-grade issuers in the New Zealand capital markets.</p>  <p>Source: LGFA</p> |
| Offer flexible short and long-term lending products that meet the borrowing requirements for borrowers. | <p>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 Sustainability Loans, Climate Access Loans and standby facilities.</p> <ul style="list-style-type: none"> Over the year-ended June 2024, our members borrowed \$6.095 billion in 486 long term loans with an average term of 4.9 years. As at June 2024 there was \$597 million short-term loans outstanding to 36 members. As at June 2024, standby facilities totalled \$747 million across 15 members. |
| Deliver operational best practice and efficiency for lending services. | <p>Over the year-ended 30 June 2024, LGFA operations staff successfully:</p> <ul style="list-style-type: none"> settled 2,388 new trades with a gross value of \$32 billion, processed 16,040 cash flows with a gross value of \$83 billion, and rate set 11,783 existing trades. |
| Ensure certainty of access to debt markets, subject always to operating in accordance with sound business practice. | <p>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 year-ended 30 June 2024, we issued NZD 3.630 billion of NZD retail bonds and AUD 2.650 billion of Medium-Term Notes and secondary market turnover in our NZD retail bonds totalled \$12.4 billion.</p> |

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| PERFORMANCE TARGETS | 2023-2024 TARGET | OUR PERFORMANCE TO JUNE 2024 |
|---|---------------------------|---|
| Share of aggregate long-term debt funding to the Local Government sector. | > 80% | ✓ 90% as at June 2024. |
| Total lending to Participating Borrowers. | > \$17,870 million. | ✓ \$20,549 million as at June 2024. |
| 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. | ✓ 93% satisfaction score in August 2023 Stakeholder Survey. |
| Successfully refinance existing loans to councils and LGFA bond maturities as they fall due. | 100% | ✓ |
| Meet all lending requests from Participating Borrowers, where those requests meet LGFA operational and covenant requirements. | 100% | ✓ |



Performance against objectives LGFA Annual Report 2024 33

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 | OUR PERFORMANCE TO JUNE 2024 | PERFORMANCE TARGETS | 2023-2024 TARGET | OUR PERFORMANCE TO JUNE 2024 |
|---|---|--|--|---|
| Assist the local government sector in achieving their sustainability and climate change objectives. | <p>Over the year to June 2024, we approved one new GSS loan to Tauranga City Council for the Kopurerua Valley Stream project. As at June 2024, we have approved six Green, Social and Sustainability Loans (GSS) with a combined approved value of \$572.3 million of which \$377.2 million has been advanced.</p> <p>Over the year to June 2024, we approved Climate Action Loans (CAL) status to the following four councils: Kapiti Coast District Council, Wellington City Council, Tauranga City Council, and Greater Wellington Regional Council.</p> <p>At June 2024, we have approved CAL loans to seven councils, with combined CAL-qualifying loans totalling \$2.747 billion.</p> <p>On 30 September 2023, LGFA published our first <u>Annual Impact Report – Green, Social and Sustainability Loans and Climate Action Loans financed with Sustainable Financing Bonds</u>. This report provides information about the allocation of proceeds from LGFA's Sustainable Financing Bond issuance as at June 2023. The second Annual Impact Report will be published on 30 September 2024, covering the allocation of proceeds as at June 2024.</p> | <p>Comply with the Health and Safety at Work Act 2015.</p> <p>Maintain Toitū Carbon Zero certification.</p> <p>Meet reduction targets outlined in our carbon reduction management plan.</p> | <p>No breaches.</p> <p>Carbon-zero certification maintained.</p> <p>Reduction targets met.</p> | <p>✓ No breaches.</p> <p>✓ Toitū Net Carbon-zero recertification approved in August 2024.</p> <p>✓ GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emission factors and the values needed to combine emissions from different gases. GHG emissions against targets are reported in the 2024 LGFA Climate-Related Disclosures, which are available on the LGFA website.</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 continue to monitor our organisational emissions and remain within target, as well as developing processes to comply with the XRB Climate-reporting disclosures, including a methodology for calculating and reporting our financed emissions. | <p>Increase our GSS lending book and Climate Action Loans.</p> <p>Ensure Annual Report is prepared in compliance with applicable GRI Standards.</p> <p>Meet all mandatory climate reporting standards.</p> | <p>Two new GSS loans undertaken. Three new borrowers approved for CAL.</p> <p>100%</p> <p>100%</p> | <p>✗ One new GSS loan undertaken. ✓ Four new borrowers approved for CAL.</p> <p>— Target superseded. Commencing with the 2024 Annual Report, LGFA is required to meet the requirements of the XRB Climate-Related Disclosure (CRD) standards. Given the significance of the CRD standards, we have replaced reporting under the GRI standards with compliance with the CRD standards.</p> <p>✓</p> |

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 | | OUR PERFORMANCE TO JUNE 2024 | |
|--|------------------|---|--|
| Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies. | | Over the 12 months, we reviewed council annual plans, agendas and management reports on an ongoing basis for all members on the LGFA borrower watch-list. | |
| Analyse finances at the Council group level where appropriate and report to shareholders. | | We received compliance certificates in respect of the LGFA financial covenants from all of our members with debt outstanding at June 2023. No council has requested that they be measured on a group basis. A small number of certificates were provided based upon unaudited financial statements given a delay in providing final audit signoff. These have subsequently been verified following the eventual publication of the council's annual report. | |
| Endeavour to meet each participating borrower annually, including meeting with elected officials as required, or if requested | | Met. LGFA held meetings with 83 council and CCO members in the 12 months ended June 2024. | |
| Ensure a smooth transition of water-related loans if the Affordable Water Reforms progresses over forecast period. | | The transition of water loans to new water entities has not occurred following the change in government and the repeal of the previous legislation relating to Affordable Water Reforms. | |
| PERFORMANCE TARGETS | 2023-2024 TARGET | OUR PERFORMANCE TO JUNE 2024 | |
| Review each Participating Borrower's financial position. | 100% | ✓ | |
| Arrange to meet each Participating Borrower over a 15-month period, including meeting with elected officials as required, or if requested. | 100% | ✓ | |

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 | OUR PERFORMANCE TO JUNE 2024 |
|---|---|
| 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 held quarterly update webinars, as well as hosting Economic and Financial Market Updates webinars by BNZ, both of which were well attended by members. LGFA has provided input into the Ratepayer Assistance Scheme (RAS) project managed by a group of councils with advice from Cameron Partners. If successful, the RAS 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. These initiatives relate to a universal stock security certificate to cover borrowings and delegation of a CEO certificate for borrowing. |
| Maintain productive relationships with central government representatives and assist the local government sector with significant matters such as the Local Water Done Well Water Reforms. | Over the 12 months we met with the Minister of Local Government, Treasury, and the Department of Internal Affairs (and their advisers) regarding Water Reforms, working actively on issues relating how water debt can be most effectively financed. In February 2024, the Government introduced and passed legislation to repeal all legislation relating to water services entities. This restored continued council ownership and control of water services. In May 2024 the Government introduced the first part of the legislation for the Local Water Done Well framework. |
| Support councils and CCOs in the development of reporting disclosures of the impacts of sector activity on climate change. | At present, there are no disclosure requirements on the local government sector for reporting impacts of sector activity on climate change. Climate Action Loans (CAL) provide opportunity for LGFA to work with members on developing appropriate Emission Reduction Plans which set out specific emissions reduction targets for operational greenhouse gas emissions, including regular reporting on progress against targets. |

Financial statements

Nga tauki pūtea

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Income statement

For the year ended 30 June 2024 in \$000s

| | Note | 2024 | 2023 |
|---|------|---------------|---------------|
| Interest income | | 1,213,259 | 763,600 |
| Interest expense | | 1,193,809 | 753,308 |
| Net interest income | 4 | 19,450 | 10,293 |
| Other operating income | 5 | 1,494 | 1,349 |
| Gains / (losses) on financial instruments | | 859 | - |
| Total operating income | | 21,803 | 11,642 |
| Operating expenses | 6 | 11,753 | 9,138 |
| Net operating profit | | 10,050 | 2,505 |

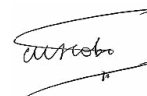
Statement of comprehensive income

For the year ended 30 June 2024 in \$000s

| | Note | 2024 | 2023 |
|---|------|---------------|--------------|
| Net operating profit | | 10,050 | 2,505 |
| Items that may be re-classified subsequently to the Income Statement | | | |
| Net change in cash flow hedge reserve | 9 | 5,536 | - |
| Cost of hedging | 9 | (6,531) | - |
| Total comprehensive income | | 9,056 | 2,505 |

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

The Board of Directors of the New Zealand Local Government Funding Agency Limited authorised these statements for issue on 29 August 2024.



Craig Stobo, Director
Board Chair



Linda Robertson, Director
Chair, Audit and Risk Committee

Statement of changes in equity

For the year ended 30 June 2024 in \$000s

| | Note | Share capital | Cash flow hedge reserve | Cost of hedging reserve | Retained earnings | Total equity |
|--|------|---------------|-------------------------|-------------------------|-------------------|--------------|
| Balance at beginning of year | | 25,000 | - | - | 80,847 | 105,847 |
| Net operating profit | | | | | 10,050 | 10,050 |
| Other comprehensive income / (expense) | | | 5,536 | (6,531) | | (995) |
| Total comprehensive income for the year | | | 5,536 | (6,531) | 10,050 | 9,056 |
| Transactions with owners | | | | | - | - |
| Dividend paid on 1 September 2023 | | | | | (1,713) | (1,713) |
| Equity as at 30 June 2024 | 28 | 25,000 | 5,536 | (6,531) | 89,185 | 113,190 |

For the year ended 30 June 2023 in \$000s

| | | | | | | |
|--|--|--------|---|---|---------|---------|
| Balance at beginning of year | | 25,000 | - | - | 79,560 | 104,560 |
| Net operating profit | | | | | 2,505 | 2,505 |
| Other comprehensive income / (expense) | | | - | - | | - |
| Total comprehensive income for the year | | | - | - | 2,505 | 2,505 |
| Transactions with owners | | | | | - | - |
| Dividend paid on 2 September 2022 | | | | | (1,218) | (1,218) |
| Equity as at 30 June 2023 | | 25,000 | | | 80,847 | 105,847 |

Statement of financial position

As at 30 June 2024 in \$000s

| | Note | 2024 | 2023 |
|--|------|-------------------|-------------------|
| Assets | | | |
| Financial assets | | | |
| Receivables | 11 | 378 | 492 |
| Cash and cash equivalents | | 473,609 | 226,222 |
| Cash pledged as collateral | | 251,605 | 93,175 |
| Marketable securities | | 1,397,045 | 1,127,879 |
| Deposits | | 718,493 | 348,492 |
| Derivatives in gain | 10 | 116,090 | 63,845 |
| Loans to members | 12 | 20,549,350 | 16,313,562 |
| Other financial assets | | - | - |
| Non-financial assets | | | |
| Other assets | 13 | 1,245 | 978 |
| Total assets | | 23,507,816 | 18,174,645 |
| Equity | | | |
| Share capital | 27 | 25,000 | 25,000 |
| Reserves | | (995) | - |
| Retained earnings | | 89,185 | 80,847 |
| Total equity | | 113,190 | 105,847 |
| Liabilities | | | |
| Financial liabilities | | | |
| Payables and provisions | 14 | 9,609 | 6,132 |
| Bond repurchases | 17 | 58,302 | 130,043 |
| Derivatives in loss | 10 | 1,526,526 | 1,628,316 |
| Debt securities issued: | | | |
| At amortised cost | 15 | 20,490,507 | 15,943,062 |
| At fair value through income statement | 16 | 815,175 | - |
| Borrower notes | 18 | 492,614 | 360,348 |
| Non financial liabilities | | | |
| Other liabilities | 19 | 1,891 | 896 |
| Total liabilities | | 23,394,625 | 18,068,797 |
| Total equity and liabilities | | 23,507,816 | 18,174,645 |

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 2024 in \$000s

| | Note | 2024 | 2023 |
|--|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Cash applied to loans | 12 | (4,174,912) | (2,222,368) |
| Interest paid on bonds issued | | (596,886) | (496,597) |
| Interest paid on bills issued | | (52,087) | (25,942) |
| Interest paid on borrower notes | | (4,220) | (4,886) |
| Interest paid on bond repurchases | | (10,436) | (5,140) |
| Interest received from loans | | 1,031,054 | 600,415 |
| Interest received from cash & cash equivalents | | 24,285 | 7,102 |
| Interest received from marketable securities | | 43,866 | 31,190 |
| Interest received from deposits | | 47,860 | 23,192 |
| Net interest on derivatives | | (474,182) | (134,734) |
| Cash proceeds from provision of standby facilities | | 1,496 | 1,349 |
| Payments to suppliers and employees | | (10,877) | (8,965) |
| Net cash flows from operating activities | 32 | (4,175,038) | (2,235,383) |
| Cash flows from investing activities | | | |
| (Purchase)/maturity marketable securities | | (233,720) | 370,217 |
| (Purchase)/maturity of deposits | | (525,977) | 22,664 |
| Purchase of plant and equipment | | - | - |
| Net cash flows from investing activities | | (759,698) | 392,881 |
| Cash flows from financing activities | | | |
| Cash proceeds from bonds issued | 15,16 | 3,958,755 | 1,327,354 |
| Cash proceeds (outflows) from bills issued | 15,16 | 623,761 | 219,827 |
| Cash proceeds (outflows) from bond repurchases | | (71,584) | 98,180 |
| Cash proceeds from borrower notes | | 114,288 | 68,750 |
| Dividends paid | | (1,713) | (1,218) |
| Cash applied to derivatives | | 558,616 | 197,795 |
| Net cash flows from financing activities | | 5,182,124 | 1,910,690 |
| Net increase / (decrease) in cash | | 247,388 | 68,188 |
| Cash, cash equivalents at beginning of year | | 226,222 | 158,033 |
| Cash, cash equivalents at end of year | | 473,609 | 226,222 |

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 11, City Chambers, 142 Featherston Street, Wellington Central, Wellington 6011.

The financial statements are as at and for the year ended 30 June 2024.

These financial statements were authorised for issue by the Directors on 29 August 2024.

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

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 either:

- Amortised cost and subsequently measured at amortised cost using the effective interest rate method; or
- Fair value through income statement (FVTIS).

Financial liabilities are classified as FVTIS if they are derivative financial liabilities or if LGFA chooses to classify financial liabilities as FVTIS if the use of the classification removes or significantly reduces an accounting mismatch. This classification includes debt issues that are designated at FVTIS where LGFA has economically hedged the foreign exchange and interest rate risk using derivatives, but hedge account is not applied. Any such classification is made on the date of initial recognition and is irrevocable.

Purchases and sales of all financial liabilities are accounted for at trade date.

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.

Approved issuer levy

Approved Issuer Levy is a function of securities held by offshore holders of certain LGFA bond maturities.

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.

Revenue and expenditure

4. Net interest income

| For the year ended 30 June 2024 in \$000s | 2024 | 2023 |
|---|------------------|----------------|
| Interest income | | |
| Cash and cash equivalents | 24,314 | 10,280 |
| Cash pledged as collateral | 9,189 | - |
| Marketable securities | 62,356 | 41,661 |
| Lease liability | - | 13 |
| Deposits | 41,124 | 21,392 |
| Derivatives | - | - |
| Loans | 1,076,276 | 690,256 |
| Total interest income | 1,213,259 | 763,600 |
| Interest expense | | |
| Bills | 55,627 | 25,942 |
| Bond repurchase transactions | 10,279 | 5,331 |
| Lease liability | 17 | - |
| Derivatives | 445,499 | 240,445 |
| Bonds | 660,065 | 468,411 |
| Borrower notes | 22,323 | 13,179 |
| Total interest expense | 1,193,809 | 753,308 |
| Net interest income | 19,450 | 10,293 |

5. Other operating income

As at 30 June 2024, LGFA had provided standby facilities totalling \$747 million (2023: \$727 million) to selected councils. As at balance date, there were no drawdowns outstanding under the facilities.

| For the year ended 30 June 2024 in \$000s | 2024 | 2023 |
|---|--------------|--------------|
| Standby facilities fee income | 1,494 | 1,349 |
| Total other operating income | 1,494 | 1,349 |

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 2024 in \$000s | 2024 | 2023 |
|---|---------------|--------------|
| Issuance & onlending expenses | | |
| Approved issuer levy ¹ | 1,982 | 561 |
| Rating agency fees | 697 | 672 |
| NZDM facility fee | 1,500 | 1,385 |
| Legal fees - issuance | 824 | 397 |
| NZX | 800 | 782 |
| Trustee fees | 116 | 110 |
| Regulatory, registry, other fees | 365 | 246 |
| | 6,284 | 4,154 |
| Other operating expenses | | |
| Information technology | 739 | 656 |
| Consultants | 322 | 303 |
| Directors fees | 496 | 427 |
| Insurance | 103 | 96 |
| Legal fees | 108 | 287 |
| Other expenses | 496 | 448 |
| Auditors' remuneration | | |
| Statutory audit | 131 | 110 |
| Advisory services | - | - |
| Personnel | 3,074 | 2,658 |
| | 5,469 | 4,984 |
| Total operating expenses | 11,753 | 9,138 |

1. The amount of Approved Issuer Levy is a function of securities held by 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 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 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 2024 in \$000s | Financial liabilities at amortised cost | Financial liabilities at fair value through income statement | Financial assets at amortised cost | Financial assets measured at fair value in accordance with NZ IFRS 9 | Fair value |
|------------------------------|---|--|------------------------------------|--|-------------------|
| Financial assets | | | | | |
| Receivables | - | - | 378 | - | 378 |
| Cash and bank balances | - | - | 473,609 | - | 473,609 |
| Cash pledged as collateral | - | - | 251,605 | - | 251,605 |
| Marketable securities | - | - | 1,397,045 | - | 1,407,237 |
| Deposits | - | - | 718,493 | - | 719,223 |
| Derivatives | - | - | - | 116,090 | 116,090 |
| Loans | - | - | 20,549,350 | - | 20,915,910 |
| | - | - | 23,390,480 | 116,090 | 23,884,052 |
| Financial liabilities | | | | | |
| Payables and provisions | 9,609 | - | - | - | 9,609 |
| Bills | 911,386 | - | - | - | 911,396 |
| ECP | - | 815,175 | - | - | 815,175 |
| Bond repurchases | 58,302 | - | - | - | 58,302 |
| Derivatives | - | - | - | 1,526,526 | 1,526,526 |
| Bonds | 19,579,121 | - | - | - | 19,909,342 |
| Borrower notes | 492,614 | - | - | - | 480,434 |
| | 21,051,032 | 815,175 | - | 1,526,526 | 23,710,784 |

| As at 30 June 2023 in \$000s | Financial liabilities at amortised cost | Financial liabilities at fair value through income statement | Financial assets at amortised cost | Financial assets measured at fair value in accordance with NZ IFRS 9 | Fair value |
|------------------------------|---|--|------------------------------------|--|-------------------|
| Financial assets | | | | | |
| Receivables | - | - | 492 | - | 492 |
| Cash and bank balances | - | - | 226,222 | - | 226,222 |
| Cash pledged as collateral | - | - | 93,175 | - | 93,175 |
| Marketable securities | - | - | 1,127,879 | - | 1,140,099 |
| Deposits | - | - | 348,492 | - | 348,551 |
| Derivatives | - | - | - | 63,845 | 63,845 |
| Loans | - | - | 16,313,562 | - | 16,512,334 |
| | - | - | 18,109,822 | 63,845 | 18,384,718 |
| Financial liabilities | | | | | |
| Payables and provisions | 6,132 | - | - | - | 6,132 |
| Bills | 782,630 | - | - | - | 782,566 |
| Bond repurchases | 130,043 | - | - | - | 130,044 |
| Derivatives | - | - | - | 1,628,316 | 1,628,316 |
| Bonds | 15,160,432 | - | - | - | 15,022,449 |
| Borrower notes | 360,348 | - | - | - | 347,825 |
| | 16,439,585 | - | - | 1,628,316 | 17,917,332 |

8. Derivative financial instruments

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

Derivatives are categorised as following:

- Derivatives designated into hedge accounting relationships to minimise profit or loss volatility by matching movements in underlying positions relating to hedges of the LGFA's exposures to interest rate risk and currency risk.
- Derivatives designated to manage risks that are not in a designated hedge accounting relationship. LGFA use three different types of derivatives financial instruments: interest rate swaps, cross currency interest rate swaps and foreign exchange transactions (spot and forward).

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.

Treatment of any fair value gains or losses depends on whether the derivative is designated as a hedging instrument. If the derivative is not designated as a hedging instrument, the remeasurement gain or loss is recognised immediately in the Consolidated income statement.

Credit risk associated with derivative financial instruments is managed by ensuring that transactions are executed with counterparties with high quality credit ratings along with credit exposure limits for different credit classes. The counterparty credit risk is monitored and reviewed by the Board on a regular basis.

9. Hedge accounting

LGFA uses derivatives to establish economic hedges to manage its interest rate and foreign exchange risk. LGFA's risk management strategy with respect to hedge accounting is to minimise income statement volatility.

Hedge accounting is implemented to manage the following risks:

- Interest rate risk due to a mismatch between fixed and floating interest rates on assets and liabilities; and
- Combined risk on assets or liabilities with interest rate risk that are denominated in currencies other than New Zealand dollars.

LGFA enters into cross-currency interest rate swaps to hedge the foreign currency and foreign interest rate risks on the AUD bonds. Using the cross-currency interest rate swaps, LGFA will pay New Zealand Dollar floating interest rates and receive AUD fixed interest with coupon payments matching the underlying notes.

LGFA designated the AUD bonds and cross-currency interest rate swaps into three-part hedging relationships for each issue:

- a fair value hedge of AUD benchmark interest rates,
- a cash flow hedge of margin, and
- a cash flow hedge of the principal exchange.

FAIR VALUE HEDGE

Under a fair value hedge, the hedged item is revalued at fair value in respect of the hedged risk. This revaluation is recognised in the Consolidated income statement to offset the mark-to-market revaluation of the hedging derivative, except for any adjustment on the hedging derivative relating to credit risk.

CASH FLOW HEDGE

Under a cash flow hedge, the effective portion of gains or losses from remeasuring the fair value of the hedging instrument is recognised in Other comprehensive income and accumulated in the cash flow hedge reserve. Accumulated gains or losses are subsequently transferred to the Consolidated income statement when the hedged item affects the income statement, or when the hedged item is a forecast transaction that is no longer expected to occur.

Any future gains or losses will be processed through the hedge equity reserves as long as the existing cash flow hedge relationships remain effective.

A reconciliation of the cash flow reserve is shown in the following table:

| | 2024 | 2023 |
|-----------------------------|---------|------|
| Opening balance at 1 July | - | - |
| Changes in cash flow hedges | (6,531) | - |
| Closing balance at 30 June | (6,531) | - |

COST OF HEDGING

The cost of hedging reserve captures changes in the fair value of the cost to convert foreign currency to NZD of LGFA's cross currency interest rate swaps on the AUD bonds.

A reconciliation of movements in the cost of hedging reserve is shown in the table below:

| | 2024 | 2023 |
|----------------------------------|-------|------|
| Opening balance at 1 July | - | - |
| Change in currency basis spreads | 5,536 | - |
| Closing balance at 30 June | 5,536 | - |

HEDGING INSTRUMENTS

| \$000s | Life to date values as at 30 June 2024 | | | | Year to date values recognised during the year ended 30 June 2024 | | | |
|---|---|---------------------|---|-------------------------|---|--|---|--------------------------------|
| | Carrying amount of the hedging instrument | | | | Hedge effectiveness in reserves | | Hedge effectiveness | Hedge ineffectiveness |
| | Nominal amount of hedging instrument | Asset / (liability) | Change in value for hedge ineffectiveness | Cost of hedging reserve | Cash flow hedge (OCI) | Cash flow hedge reclassified to income statement | Fair value hedge recognised in income statement | Recognised in income statement |
| Fair value hedges | | | | | | | | |
| Interest rate swaps – domestic bonds hedge | 15,228,000 | (1,007,019) | (1,007,019) | - | - | - | 333,352 | - |
| Interest rate swaps – loans hedge | 700,200 | 25,510 | 25,510 | - | - | - | (12,340) | - |
| Interest rate swaps – marketable securities hedge | 611,480 | 5,917 | 5,917 | - | - | - | (16,956) | - |
| Fair value and cash flow hedges | | | | | | | | |
| Fair value hedges – foreign currency | AUD 2,650,000 | (6,381) | (6,381) | - | - | - | 6,381 | - |
| Cash flow hedges – foreign currency | NZD 2,861,000 | 35,271 | 35,271 | 6,531 | (5,536) | (34,497) | - | (859) |

| \$000s | Life to date values as at 30 June 2023 | | | | Year to date values recognised during the year ended 30 June 2023 | | | |
|---|---|---------------------|---|-------------------------|---|--|---|--------------------------------|
| | Carrying amount of the hedging instrument | | | | Hedge effectiveness in reserves | | Hedge effectiveness | Hedge ineffectiveness |
| | Nominal amount of hedging instrument | Asset / (liability) | Change in value for hedge ineffectiveness | Cost of hedging reserve | Cash flow hedge (OCI) | Cash flow hedge reclassified to income statement | Fair value hedge recognised in income statement | Recognised in income statement |
| Fair value hedges | | | | | | | | |
| Interest rate swaps – domestic bonds hedge | 14,326,000 | (1,329,489) | (1,329,489) | - | - | - | (154,598) | - |
| Interest rate swaps – loans hedge | 457,700 | 25,510 | 25,510 | - | - | - | 1,519 | - |
| Interest rate swaps – marketable securities hedge | 334,600 | 22,872 | 22,872 | - | - | - | 3,521 | - |
| Fair value and cash flow hedges | | | | | | | | |
| Fair value hedges – foreign currency | - | - | - | - | - | - | - | - |
| Cash flow hedges – foreign currency | - | - | - | - | - | - | - | - |

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 2024 in \$000s | Derivative assets | Derivative liabilities |
|---|-------------------|------------------------|
| Gross amounts | 116,090 | 1,526,526 |
| Amounts offset | - | - |
| Carrying amounts | 116,090 | (116,090) |
| Amounts that don't qualify for offsetting | - | - |
| Financial assets & liabilities | (116,090) | (116,090) |
| Collateral | - | (251,605) |
| Net amount | - | 1,158,831 |

| As at 30 June 2023 in \$000s | Derivative assets | Derivative liabilities |
|---|-------------------|------------------------|
| Gross amounts | 63,845 | 1,628,316 |
| Amounts offset | - | - |
| Carrying amounts | 63,845 | (63,845) |
| Amounts that don't qualify for offsetting | - | - |
| Financial assets & liabilities | (63,845) | (63,845) |
| Collateral | - | (93,175) |
| Net amount | - | 1,471,295 |

11. Receivables

| As at 30 June 2024 in \$000s | 2024 | 2023 |
|------------------------------|------------|------------|
| Trade debtors | 378 | 492 |
| Total receivables | 378 | 492 |

12. Loans

| As at 30 June 2024 in \$000s | 2024 | | 2023 | |
|-------------------------------------|------------------|-----------|------------------|-----------|
| | Short-term loans | Loans | Short-term loans | Loans |
| Ashburton District Council | 12,062 | 119,743 | 12,110 | 74,243 |
| Auckland Council | - | 3,655,028 | - | 3,225,659 |
| Bay of Plenty Regional Council | 50,506 | 219,044 | 57,428 | 161,353 |
| Buller District Council | - | 20,037 | - | 20,030 |
| Canterbury Regional Council | 5,085 | 92,416 | 10,116 | 65,272 |
| Carterton District Council | - | 24,839 | - | 17,523 |
| Central Hawkes Bay District Council | 5,132 | 39,401 | 4,072 | 38,314 |
| Central Otago District Council | 5,019 | 30,450 | 20,117 | 5,072 |
| Christchurch City Council | - | 2,511,678 | - | 2,200,409 |
| Clutha District Council | 11,585 | 108,398 | 7,554 | 62,905 |
| Dunedin City Treasury | - | 293,104 | - | 126,119 |
| Far North District Council | 32,703 | 90,518 | - | 91,984 |
| Gisborne District Council | - | 174,991 | - | 126,028 |
| Gore District Council | 8,554 | 46,998 | 8,556 | 41,915 |
| Greater Wellington Regional Council | - | 941,217 | - | 678,358 |
| Grey District Council | 3,972 | 28,807 | 3,990 | 26,799 |
| Hamilton City Council | - | 950,852 | - | 803,843 |
| Hastings District Council | - | 397,160 | - | 294,992 |
| Hauraki District Council | - | 101,092 | - | 62,620 |
| Hawkes Bay Regional Council | - | 110,708 | 25,313 | 55,262 |
| Horizons Regional Council | 9,906 | 62,026 | 9,936 | 51,871 |
| Horowhenua District Council | 21,199 | 182,674 | 15,175 | 151,192 |
| Hurunui District Council | 10,067 | 57,666 | 8,092 | 38,435 |
| Hutt City Council | - | 515,520 | - | 373,239 |
| Infrastructure Holdings Ltd | 9,989 | 104,463 | - | - |
| Invercargill City Council | 47,502 | 104,262 | 55,448 | 68,788 |
| Invercargill City Holdings Ltd | 48,252 | 48,403 | 12,323 | 78,514 |
| Kaikoura District Council | - | 7,374 | - | 5,346 |
| Kaipara District Council | - | 54,639 | - | 44,545 |
| Kapiti Coast District Council | - | 323,722 | - | 277,935 |
| Kawerau District Council | - | 4,051 | - | 2,024 |

| As at 30 June 2024 in \$000s | 2024 | | 2023 | |
|------------------------------------|------------------|-----------|------------------|---------|
| | Short-term loans | Loans | Short-term loans | Loans |
| Mackenzie District Council | 4,040 | 16,257 | 3,001 | 8,086 |
| Manawatu District Council | 13,014 | 83,139 | 15,136 | 79,502 |
| Marlborough District Council | 14,694 | 190,067 | 21,241 | 131,594 |
| Masteron District Council | - | 63,357 | - | 52,336 |
| Matamata-Piako District Council | - | 66,201 | - | 45,520 |
| Napier City Council | - | 20,191 | - | 10,014 |
| Nelson City Council | - | 262,320 | - | 186,666 |
| New Plymouth District Council | 10,117 | 293,577 | 10,114 | 221,668 |
| Northland Regional Council | - | 24,741 | - | 18,565 |
| Opotiki District Council | - | 12,595 | - | 9,557 |
| Otago Regional Council | 35,739 | 104,122 | 46,665 | 104,177 |
| Otorohanga District Council | 9,110 | - | 6,052 | - |
| Palmerston North City Council | - | 273,466 | - | 214,483 |
| Porirua City Council | - | 269,807 | - | 198,906 |
| Queenstown Lakes District Council | 76,334 | 575,080 | 56,007 | 454,003 |
| Rangitikei District Council | - | 44,358 | - | 31,207 |
| Rotorua District Council | 1,889 | 448,948 | 1,889 | 351,358 |
| Ruaapehu District Council | 8,050 | 50,214 | 8,050 | 42,130 |
| Selwyn District Council | 20,035 | 166,778 | - | 116,198 |
| South Taranaki District Council | - | 140,634 | - | 117,428 |
| South Waikato District Council | - | 44,469 | - | 44,457 |
| Southland District Council | - | 36,153 | - | 21,960 |
| South Wairarapa District Council | 8,190 | 27,166 | - | 29,148 |
| Stratford District Council | - | 36,908 | 2,030 | 31,858 |
| Taranaki Regional Council | - | 31,780 | - | 19,652 |
| Tararua District Council | - | 69,986 | 4,047 | 53,778 |
| Tasman District Council | 25,379 | 325,787 | 25,515 | 246,751 |
| Taupo District Council | - | 165,543 | - | 146,271 |
| Tauranga City Council | - | 1,050,800 | - | 823,933 |
| Thames-Coromandel District Council | - | 84,003 | - | 67,813 |
| Timaru District Council | 19,340 | 202,822 | 19,456 | 187,561 |

| As at 30 June 2024 in \$000s | 2024 | | 2023 | |
|--|------------------|-------------------|------------------|-------------------|
| | Short-term loans | Loans | Short-term loans | Loans |
| Upper Hutt City Council | - | 180,900 | - | 113,212 |
| Waikato District Council | - | 207,254 | 9,975 | 111,225 |
| Waikato Regional Council | - | 32,384 | 5,120 | 25,276 |
| Waimakariri District Council | - | 202,169 | - | 181,960 |
| Waimate District Council | - | 3,541 | - | 3,540 |
| Waipa District Council | 15,009 | 313,011 | 20,010 | 207,374 |
| Wairoa District Council | - | 11,100 | 8,015 | 11,109 |
| Waitaki District Council | 7,483 | 64,158 | 8,978 | 33,280 |
| Waitomo District Council | 6,103 | 27,246 | 4,071 | 24,204 |
| Wellington City Council | - | 1,595,914 | - | 1,178,503 |
| West Coast Regional Council | 2,986 | 14,715 | 3,243 | 9,991 |
| Western Bay Of Plenty District Council | 10,009 | 106,249 | - | 80,992 |
| Westland District Council | 4,713 | 32,666 | - | 27,078 |
| Westland Holdings Ltd | - | - | 1,618 | 5,456 |
| Whakatane District Council | 6,011 | 149,114 | - | 114,768 |
| Whanganui District Council | 7,560 | 176,878 | 7,557 | 110,179 |
| Whangarei District Council | 9,922 | 257,756 | 9,927 | 228,151 |
| Fair value hedge adjustment | - | (25,510) | - | (37,850) |
| | 597,257 | 19,952,093 | 547,944 | 15,765,618 |

As at 30 June 2024, \$3,043 million of loans are due to mature within 12 months. This comprises all short-term loans and \$2,446 million of loans.

13. Other assets

| As at 30 June 2024 in \$000s | 2024 | 2023 |
|------------------------------|--------------|------------|
| Prepayments | 987 | 919 |
| Right-of-use lease asset | 258 | 58 |
| Total other assets | 1,245 | 977 |

14. Payables and provisions

| As at 30 June 2024 in \$000s | 2024 | 2023 |
|--------------------------------|--------------|--------------|
| Loans/purchases to be advanced | 8,190 | 5,000 |
| Trade creditors | 1,038 | 804 |
| Credit provision | 249 | 123 |
| Other provisions | 132 | 205 |
| Total payables | 9,609 | 6,132 |

15. Debt securities issued at amortised cost

| As at 30 June 2024 in \$000s | Face Value | Unamortised premium | Accrued interest | Fair value hedge adjustment | Total |
|---|-------------------|---------------------|------------------|-----------------------------|-------------------|
| NZD Fixed Interest bonds | | | | | |
| 15 April 2025 | 2,719,000 | (23,467) | 15,731 | | 2,711,264 |
| 15 April 2026 | 2,755,000 | (73,596) | 8,694 | | 2,690,098 |
| 15 April 2027 | 2,261,000 | 46,176 | 21,405 | | 2,328,581 |
| 15 May 2028 | 1,653,000 | (72,604) | 4,750 | | 1,585,146 |
| 20 April 2029 | 1,932,000 | (103,640) | 5,701 | | 1,834,061 |
| 15 May 2030 | 1,660,000 | (45,881) | 9,321 | | 1,623,439 |
| 15 May 2031 | 2,095,000 | (222,442) | 6,020 | | 1,878,578 |
| 14 April 2033 | 1,605,000 | (6,347) | 11,972 | | 1,610,625 |
| 15 May 2035 | 550,000 | (27,458) | 2,107 | | 524,649 |
| 15 April 2037 | 960,000 | (84,540) | 4,039 | | 879,499 |
| Fair value hedge adjustment | | | | (1,007,019) | (1,007,019) |
| | 18,190,000 | (613,800) | 89,741 | (1,007,019) | 16,658,921 |
| AUD Fixed Interest bonds | | | | | |
| 8 September 2027 | 546,456 | (1,140) | 7,514 | | 552,830 |
| 1 August 2028 | 1,092,912 | (3,193) | 21,309 | | 1,111,028 |
| 28 November 2030 | 710,393 | (1,560) | 3,347 | | 712,180 |
| 8 March 2034 | 546,456 | (4,451) | 8,538 | | 550,543 |
| Fair value hedge adjustment | | | | (6,381) | (6,381) |
| | 2,896,217 | (10,344) | 40,708 | (6,381) | 2,920,200 |
| Total Fixed Interest bonds | 21,086,217 | (624,144) | 130,449 | (1,013,400) | 19,579,121 |
| NZD Bills | | | | | |
| 5 July 2024 | 25,000 | (15) | - | | 24,985 |
| 12 July 2024 | 130,000 | (171) | - | | 129,829 |
| 19 July 2024 | 190,000 | (489) | - | | 189,511 |
| 1 August 2024 | 55,000 | (252) | - | | 54,748 |
| 7 August 2024 | 40,000 | (225) | - | | 39,775 |
| 16 August 2024 | 50,000 | (338) | - | | 49,662 |
| 29 August 2024 | 20,000 | (181) | - | | 19,819 |
| 6 September 2024 | 75,000 | (749) | - | | 74,251 |
| 18 September 2024 | 55,000 | (659) | - | | 54,341 |
| 26 September 2024 | 50,000 | (666) | - | | 49,334 |
| 2 October 2024 | 25,000 | (348) | - | | 24,652 |
| 7 October 2024 | 40,000 | (587) | - | | 39,413 |
| 6 November 2024 | 25,000 | (481) | - | | 24,519 |
| 4 December 2024 | 55,000 | (1,292) | - | | 53,708 |
| 19 December 2024 | 85,000 | (2,158) | - | | 82,842 |
| Total NZD Bills | 920,000 | (8,614) | - | | 911,386 |
| Total debt securities issued at amortised cost | 22,006,217 | (632,758) | 130,449 | (1,013,400) | 20,490,508 |

| As at 30 June 2023 in \$000s | Face Value | Unamortised premium | Accrued interest | Fair value hedge adjustment | Total |
|---|-------------------|---------------------|------------------|-----------------------------|-------------------|
| NZD Fixed interest bonds | | | | | |
| 15 April 2024 | 2,218,000 | (2,151) | 10,499 | | 2,226,348 |
| 15 April 2025 | 2,409,000 | (36,176) | 13,937 | | 2,386,761 |
| 15 April 2026 | 2,155,000 | (54,361) | 6,801 | | 2,107,440 |
| 15 April 2027 | 2,011,000 | 68,977 | 19,039 | | 2,099,016 |
| 15 May 2028 | 1,423,000 | (60,216) | 4,089 | | 1,366,873 |
| 20 April 2029 | 1,722,000 | (83,580) | 5,081 | | 1,643,501 |
| 15 May 2030 | 1,000,000 | (17,002) | 5,747 | | 988,745 |
| 15 May 2031 | 1,120,000 | (60,338) | 3,218 | | 1,062,880 |
| 14 April 2033 | 1,350,000 | 33,003 | 10,070 | | 1,393,073 |
| 15 May 2035 | 450,000 | (7,728) | 1,724 | | 443,997 |
| 15 April 2037 | 820,000 | (41,281) | 3,450 | | 782,170 |
| Fair value hedge adjustment | | | | (1,340,372) | (1,340,372) |
| Total Fixed interest bonds | 16,678,000 | (260,853) | 83,656 | (1,340,372) | 15,160,432 |
| NZD Bills | | | | | |
| 7 July 2023 | 45,000 | (32) | - | | 44,968 |
| 12 July 2023 | 100,000 | (142) | - | | 99,858 |
| 19 July 2023 | 35,000 | (87) | - | | 34,913 |
| 2 August 2023 | 25,000 | (112) | - | | 24,888 |
| 11 August 2023 | 75,000 | (442) | - | | 74,558 |
| 17 August 2023 | 20,000 | (144) | - | | 19,856 |
| 8 September 2023 | 70,000 | (713) | - | | 69,287 |
| 15 September 2023 | 55,000 | (630) | - | | 54,370 |
| 22 September 2023 | 102,000 | (1,277) | - | | 100,723 |
| 28 September 2023 | 40,000 | (549) | - | | 39,451 |
| 11 October 2023 | 25,000 | (381) | - | | 24,619 |
| 17 October 2023 | 5,000 | (81) | - | | 4,919 |
| 8 November 2023 | 20,000 | (397) | - | | 19,603 |
| 28 November 2023 | 50,000 | (1,166) | - | | 48,834 |
| 6 December 2023 | 25,000 | (609) | - | | 24,391 |
| 14 December 2023 | 50,000 | (1,282) | - | | 48,718 |
| 20 December 2023 | 50,000 | (1,325) | - | | 48,675 |
| Total NZD Bills | 792,000 | (9,370) | - | - | 782,630 |
| Total debt securities issued at amortised cost | 17,470,000 | (270,223) | 83,656 | (1,340,372) | 15,943,062 |

16. Debt securities issued at fair value through income statement

| As at 30 June 2024 in \$000s | Face Value | Unamortised premium | Accrued interest | Fair value adjustment | Total |
|----------------------------------|------------|---------------------|------------------|-----------------------|----------------|
| USD Euro Commercial Paper | 835,052 | - | (14,303) | (5,574) | 815,175 |

| As at 30 June 2023 in \$000s | Face Value | Unamortised premium | Accrued interest | Fair value adjustment | Total |
|----------------------------------|------------|---------------------|------------------|-----------------------|-------|
| USD Euro Commercial Paper | - | - | - | - | - |

17. 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 2024, \$1,000 million of LGFA bonds had been subscribed as treasury stock (2023: \$1,100 million).

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 2024 in \$000s | 2024 | 2023 |
|------------------------------|---------------|----------------|
| 15 April 2024 | - | 16,619 |
| 15 April 2025 | - | 1,920 |
| 15 April 2027 | - | 52,513 |
| 20 April 2029 | - | 19,437 |
| 15 May 2030 | 58,302 | - |
| 15 May 2031 | - | 3,287 |
| 14 April 2033 | - | 1,750 |
| 15 May 2035 | - | 34,518 |
| | 58,302 | 130,043 |

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 2024 in \$000s | 2024 | 2023 |
|--------------------------------|--------------|------------|
| Lease liability | 258 | 58 |
| Accruals | 1,633 | 838 |
| Total other liabilities | 1,891 | 896 |

20. Operating leases

| As at 30 June 2024 in \$000s | 2024 | 2023 |
|---|------------|-----------|
| Less than one year | 127 | 58 |
| Between one and five years | 131 | - |
| Total non-cancellable operating leases | 258 | 58 |

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 unhedged exposure to foreign exchange risk and a 10% increase or decrease in the exchange rate, with all other variables held constant, would have minimal impact on profit and equity reserves of LGFA.

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

| As at 30 June 2024 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 | 473,609 | 473,609 | - | - | - | - |
| Marketable securities | 1,426,042 | 708,426 | 38,930 | 195,742 | 422,944 | 60,000 |
| Deposits | 718,493 | 618,493 | 100,000 | - | - | - |
| Loans | 20,380,577 | 16,130,830 | 395,029 | 512,967 | 2,318,894 | 1,022,858 |
| Financial liabilities | | | | | | |
| Bills | (920,000) | (920,000) | - | - | - | - |
| ECP | (835,052) | (835,052) | - | - | - | - |
| Bond repurchases | (58,249) | (58,249) | - | - | - | - |
| Derivatives | - | (16,842,390) | 2,361,000 | 2,103,500 | 5,454,770 | 6,923,120 |
| Bonds | (20,840,000) | - | (2,719,000) | (2,755,000) | (7,346,000) | (8,020,000) |
| Borrower notes | (453,103) | (353,829) | (7,716) | (11,938) | (55,175) | (24,446) |
| Total | (107,863) | (1,078,162) | 168,243 | 45,271 | 795,433 | (38,468) |

| As at 30 June 2023 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 | 226,222 | 226,222 | - | - | - | - |
| Marketable securities | 1,150,805 | 540,532 | 154,418 | 104,273 | 351,582 | - |
| Deposits | 348,492 | 348,492 | - | - | - | - |
| Loans | 16,201,725 | 13,382,721 | 363,171 | 370,400 | 1,418,820 | 666,614 |
| Financial liabilities | | | | | | |
| Bills | (792,000) | (792,000) | - | - | - | - |
| Bond repurchases | (129,833) | (129,833) | - | - | - | - |
| Derivatives | - | (13,758,700) | 1,843,500 | 2,031,200 | 4,145,000 | 5,739,000 |
| Bonds | (16,678,000) | - | (2,218,000) | (2,409,000) | (5,589,000) | (6,462,000) |
| Borrower notes | (338,809) | (277,881) | (6,110) | (7,492) | (32,191) | (15,135) |
| Total | (11,398) | (460,447) | 136,979 | 89,381 | 294,211 | (71,521) |

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 year ended 30 June 2024 in \$000s | 2024 | | 2023 | |
|---|----------|----------|---------|---------|
| | P&L | Equity | P&L | Equity |
| Fair value sensitivity analysis | | | | |
| 100bps increase | 376 | (1,351) | (132) | (132) |
| 100bps decrease | (372) | 1,355 | 140 | 140 |
| Cash flow sensitivity analysis | | | | |
| 100bps increase | (14,291) | (14,291) | (8,219) | (8,219) |
| 100bps decrease | 14,291 | 14,291 | 8,219 | 8,219 |

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 2024 in \$000s | NZ government agencies | NZ local authorities | NZ registered banks | Other counter-parties | FV hedge adjustment | Total carrying value |
|------------------------------|------------------------|----------------------|---------------------|-----------------------|---------------------|----------------------|
| Financial assets | | | | | | |
| Receivables | - | - | - | 378 | - | 378 |
| Cash and bank balances | 470,054 | - | 3,556 | - | - | 473,609 |
| Cash pledged as collateral | - | - | 251,605 | - | - | 251,605 |
| Marketable securities | 90,557 | 4,973 | 310,218 | 997,212 | (5,917) | 1,397,043 |
| Deposits | - | - | 701,894 | 16,599 | - | 718,493 |
| Derivatives | (1,151,829) | - | (258,607) | - | - | (1,410,436) |
| Loans | - | 20,574,861 | - | - | (25,510) | 20,549,350 |
| | (591,218) | 20,579,834 | 1,008,666 | 1,014,189 | (31,427) | 21,980,043 |

| As at 30 June 2023 in \$000s | NZ government agencies | NZ local authorities | NZ registered banks | Other counter-parties | FV hedge adjustment | Total carrying value |
|------------------------------|------------------------|----------------------|---------------------|-----------------------|---------------------|----------------------|
| Financial assets | | | | | | |
| Receivables | - | - | - | 492 | - | 492 |
| Cash and bank balances | 223,783 | - | 2,439 | - | - | 226,222 |
| Cash pledged as collateral | - | - | 93,175 | - | - | 93,175 |
| Marketable securities | 79,082 | 16,950 | 347,933 | 706,787 | (22,873) | 1,127,879 |
| Deposits | - | - | 343,564 | 4,929 | - | 348,492 |
| Derivatives | (1,468,363) | - | (96,108) | - | - | (1,564,470) |
| Loans | - | 16,351,411 | - | - | (37,850) | 16,313,562 |
| | (1,165,498) | 16,368,361 | 691,002 | 712,208 | (60,722) | 16,545,351 |

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 2024, the undrawn committed liquidity facility was \$1,500 million (2023: \$1,500 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 2024 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 | 378 | - | - | - | - | 378 | 378 |
| Cash and bank balances | 473,609 | - | - | - | - | 473,609 | 473,609 |
| Cash pledged as collateral | 251,605 | - | - | - | - | 251,605 | 251,605 |
| Marketable securities | - | 240,165 | 291,490 | 955,751 | 61,800 | 1,549,207 | 1,397,045 |
| Deposits | - | 208,790 | 526,414 | - | - | 735,204 | 718,493 |
| Loans | - | 900,617 | 3,289,336 | 14,976,059 | 5,956,294 | 25,122,306 | 20,549,350 |
| Financial liabilities | | | | | | | |
| Payables and provisions | (9,609) | - | - | - | - | (9,609) | (9,609) |
| Bills | - | (690,000) | (230,000) | - | - | (920,000) | (911,386) |
| ECP | - | (331,870) | (483,306) | - | - | (815,175) | (815,175) |
| Bond repurchases | - | (58,362) | - | - | - | (58,362) | (58,302) |
| Bonds | - | (36,694) | (3,361,528) | (11,966,381) | (8,848,775) | (24,213,377) | (19,579,121) |
| Borrower notes | - | (4,741) | (52,232) | (350,211) | (188,464) | (595,648) | (492,614) |
| Derivatives | - | (214,117) | (290,108) | (1,317,951) | (745,798) | (2,567,974) | (1,410,436) |
| | 715,983 | 13,788 | (309,933) | 2,297,267 | (3,764,943) | (1,047,838) | 113,836 |

| As at 30 June 2023 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 | 492 | - | - | - | - | 492 | 492 |
| Cash and bank balances | 226,222 | - | - | - | - | 226,222 | 226,222 |
| Cash pledged as collateral | 93,175 | - | - | - | - | 93,175 | 93,175 |
| Marketable securities | - | 168,607 | 350,627 | 709,893 | - | 1,229,127 | 1,127,879 |
| Deposits | - | 209,258 | 145,558 | - | - | 354,816 | 348,492 |
| Loans | - | 676,189 | 2,722,811 | 10,726,760 | 6,001,820 | 20,127,580 | 16,313,562 |
| Financial liabilities | | | | | | | |
| Payables and provisions | (6,132) | - | - | - | - | (6,132) | (6,132) |
| Bills | - | (567,000) | (225,000) | - | - | (792,000) | (782,630) |
| Bond repurchases | - | (130,215) | - | - | - | (130,215) | (130,043) |
| Bonds | - | - | (2,662,170) | (9,221,173) | (7,131,780) | (19,015,123) | (15,160,432) |
| Borrower notes | - | (1,549) | (40,931) | (220,864) | (178,502) | (441,846) | (360,348) |
| Derivatives | - | (210,678) | (254,986) | (1,243,521) | (807,012) | (2,516,197) | (1,564,470) |
| | 313,757 | 144,611 | 35,909 | 751,096 | (2,115,474) | (870,101) | 105,766 |

Capital and dividends

27. Share capital

As at 30 June 2024, 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 2024 | | As at 30 June 2023 | |
|---|--------------------|-------------|--------------------|-------------|
| 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% |
| | 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 \$1,712,500 on 1 September 2023, being \$0.0685 per paid up share (2023: \$1,217,500 on 2 September 2022, being \$0.0487 per paid up share).

31. Capital commitments

As at 30 June 2024, 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 2024 in \$000s | 2024 | 2023 |
|--|-------------|-------------|
| Net profit/(loss) for the period | 10,050 | 2,505 |
| Cash applied to loans | (4,174,912) | (2,222,368) |
| Non-cash adjustments | | |
| Financial instrument amortisation and depreciation | (11,053) | (15,692) |
| Working capital movements | 876 | 172 |
| Net Cash from operating activities | (4,175,038) | (2,235,383) |

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

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

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

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL:

Salaries \$1,151,293 (2023: \$1,016,801)

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

35. Subsequent events

On 28 August 2024, the Directors of LGFA declared a dividend of \$1,842,500 (\$0.0737 per paid up share).

Subsequent to balance date, LGFA has issued bonds of NZD 350 million and AUD 800 million.

Independent Auditors Report
To the readers of New Zealand Local Government Funding Agency
Limited's financial statements and performance information for
the year ended 30 June 2024



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 36 to 53, that comprise the statement of financial position as at 30 June 2024, the income statement, 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 32 to 35.

In our opinion:

- the financial statements of the company on pages 36 to 53:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2024 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 32 to 35 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 2024.

Our audit was completed on 29 August 2024. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the inherent uncertainties in the measurement of greenhouse gas emissions. 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.

Emphasis of Matter – Inherent uncertainties in the measurement of greenhouse gas emissions

The company has chosen to include a measure of its greenhouse gas (GHG) emissions in its performance information. Without modifying our opinion and considering the public interest in climate change related information, we draw attention to page 34 of the annual report, which outlines the uncertainty in the reported GHG emissions. Quantifying GHG emissions is subject to inherent uncertainty because the scientific knowledge and methodologies to determine the emissions factors and processes to calculate or estimate quantities of GHG sources are still evolving, as are GHG reporting and assurance standards.

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 \$160 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 87% 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: <ul style="list-style-type: none">performing a walkthrough to understand the processes and controls LGFA has in place to assess borrowers and to record loan transactions.agreeing the 30 June 2024 loan balances to external confirmations received from NZ Clear.assessing the borrowers' compliance with financial covenants. We did not identify material differences in relation to the existence or impairment of loans. |



Application of hedge accounting

Refer to Notes 8 and 9 of the Financial Statements.

LGFA enters into derivatives (interest rate swaps and, beginning in FY24, cross currency interest rate swaps) to manage interest rate risk and foreign exchange risk related to issuing fixed rate borrowings (NZD and AUD), fixed rate loans and investing in fixed rate securities.

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.
 - ensuring the hedge documentation supporting the application of hedge accounting was in accordance with NZ IFRS 9.
 - using our treasury valuation specialists we:
 - independently recalculated the fair value of all of the derivatives recorded by LGFA; and
 - evaluated the hedge effectiveness of the derivatives including independently modelling the future changes in value of these instruments to assess whether the underlying derivatives were effective.
 - ensuring the disclosures made in the financial statements were appropriate.
- We did not identify 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 1 to 31 and page 57 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 2024 and subsequently, the Chair of the company's Audit and Risk Committee is a member of the Office of the Auditor-General's Audit and Risk Committee. The Office of 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 Office 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 Office of 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 2024.

Net Tangible Assets

Net tangible assets per \$1,000 of listed bonds as at 30 June 2024 is \$5.12 (2023: \$6.35).

Earnings per security

Earnings per \$1,000 of bonds on issue as at 30 June 2024 is \$0.46 (2023: \$0.15).

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 | 481 | 45 | \$11,500,000 | 0.06 |
| 50,000 to 99,999 | 201 | 19 | \$13,639,000 | 0.07 |
| 100,000 to 499,999 | 250 | 23 | \$47,061,000 | 0.25 |
| 500,000 to 999,999 | 30 | 3 | \$20,626,000 | 0.11 |
| 1,000,000 and above | 113 | 10 | \$19,097,174,000 | 99.52 |
| Total | 1,075 | 100 | \$19,190,000,000 | 100.00 |

Directory

Rārangi tauwaea

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Monday – Friday, 9am to 5pm
Except Public Holidays

General enquiries

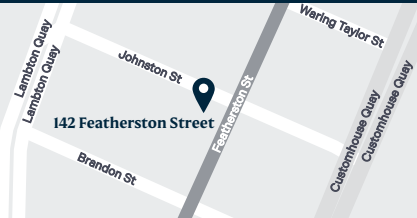
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