Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

21 SEPTEMBER 2017

Meeting Status: **Public**

Purpose of Report: For Information

LOCAL GOVERNMENT FUNDING AGENCY 2016/17 ANNUAL REPORT

PURPOSE OF REPORT

1 The purpose of this report is to update the Operations and Finance Committee on the Local Government Funding Agency (LGFA) 2016/17 Annual Report.

DELEGATION

2 While noting that this report is for information, the Operations and Finance Committee, with its role of *monitoring and decision-making on all broader financial management matters* has the delegation to consider this report.

BACKGROUND

3 On 30 November 2012, Council became a Principal Shareholding Local Authority in the LGFA. The LGFA was incorporated on 1 December 2011 with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. This includes providing savings in annual interest costs, making longer-term borrowings available and enhancing the certainty of access to debt markets.

4 The LGFA issues bonds to wholesale and retail investors and on-lends the funds raised to participating local authorities with borrowing needs. The quality of the LFGA’s credit rating, and the liquidity created by issuing homogenous local authority paper, ensures that participating councils can raise funds on better terms than if they were issuing in their own name.

5 The LGFA meets the Local Government Act (LGA) 2002 definition of a Council Controlled Organisation (CCO) as one or more local authorities have the right, directly or indirectly, to appoint 50% or more of the directors.

6 As a shareholder in a CCO, the Council must regularly undertake performance monitoring of that organisation to evaluate its contribution to the achievement of the Council’s desired outcomes.

ISSUES AND OPTIONS

LGFA performance for the 2016/17 year

7 The LGFA recorded a strong financial performance for the year ended 30 June 2017. Net interest income was $17.5 million, $2 million higher than the previous year and $0.9 million (5.7%) ahead of budget. The increase was due to a number of councils refinancing early instead of repaying their December 2017 loans early. In addition to this, operating costs were kept

below budget. Overall this resulted in a much higher than anticipated net profit of $11 million, comparing favourably with the 2016 result of $9.5 million and the budgeted $10 million.

8 The LGFA has a number of primary objectives including making longer-term borrowings available, offering flexible lending and enhancing the certainty of access to debt markets. It continues to achieve these objectives with 49% of all lending being bespoke and the commencement of issuance of a 16-year bond during the 2016/17 year.

9 However, the primary objective that is arguably the most important for its borrowers is providing annual interest costs to Participating Local Authorities (PALs) on a competitive basis to other sources of financing. While the LGFA undoubtedly provides savings, it continues to struggle to meet its primary performance targets in relation to this objective, as shown in the table below:

Current performance targets	**Target**	**Result for 12 months to 30 June 2017**	**Outcome**
Average cost of funds on debt issued relative to NZ Government Securities	Less than 0.50%	0.709%	Not achieved
Average margin above LGFA's cost of funds charged to highest rated PLA	No more than 0.10%	0.104%	Not achieved

10 The LGFA estimates that as at 30 June 2017, it was saving AA-rated councils between 12 basis points (bps) and 22 basis points (bps or 0.22%) depending upon the term of the maturity. The Kāpiti Coast District Council has a Standard and Poor's credit rating of A+, slightly lower than AA, suggesting a lower but comparable quantum of savings.

11 The LGFA continues to grow, both in terms of its balance sheet with total borrowings reaching $8.205 billion at 30 June 2017 (2016: $6.445 billion) and total membership growing from 50 to 53 Councils during the year.

12 From the perspective of the Kāpiti Coast District Council, the LGFA has provided borrowing with interest rates and lending terms that have enabled the Council to meet its financial objectives and to stay within its financial targets.

13 Auckland Council is the LGFA's largest borrower ($2.4 billion), followed by Christchurch City Council ($1.5 billion). As at 30 June 2017, Kāpiti Coast District Council ranked as the 7th largest borrower with $210 million, noting that this is gross borrowings and that net borrowings, taking account of $60 million pre-funding are $146 million.

14 The full LGFA 2016/17 Annual Report is attached as Appendix 1.

CONSIDERATIONS

Policy considerations

15 In accordance with the LGA 2002, the Council must provide information on all of its CCOs in its Long Term Plan (LTP). Accordingly the 2015/35 LTP contains information on the LGFA, including key performance targets and other performance metrics.

Legal considerations

16 There are no legal considerations arising from the matters in this report.

Financial considerations

17 Council is one of 31 Local Authority shareholders of the LGFA which has the objective of operating with a view to making sufficient profit to declare a dividend that provides an annual rate of return to its shareholders equal to LGFA cost of funds plus 2%.

18 On 31 August 2017 the directors declared a dividend for 2017 of $1.390 million ($0.0556 per share). As the holder of 100,000 paid up ordinary shares this will mean a dividend of $5,560 for the Council. The continuation of low interest rates has resulted in a lower cost of funds for the LGFA, and therefore lower borrowing costs for councils however this also means a lower dividend payment.

19 Council also has an obligation in respect of uncalled share capital of $100,000. At 30 June 2017, the LGFA had borrowings totalling $8.205 billion (2016: $6.445 billion).

20 Council officers consider the risk of the LGFA defaulting on repayment of interest or capital to be very low on the basis that:

a) The only circumstance where the LGFA would default on its debt is the event where a council defaulted on a loan obligation that exceeded the LGFA's available liquidity assets. As at 30 June 2017, this would need to be a single council default event that exceeded the sum of:

- cash and deposits of $199.8 million, and
- LGFA borrower notes of $131.6 million, and
- LGFA credit facility of $500 million, and
- uncalled share capital of $20 million from LGFA shareholders.

b) In the event of an LGFA default, the call on the guarantee is made on council's proportion of their share of the underlying rate base.

c) In the event of a default exceeding the LGFA's available liquid assets, the council would be called for 1.2% of the overall call (less than the council's 2.7% of LGFA's loan assets).

Tāngata whenua considerations

21 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

22 This matter has a low level degree of significance under Council policy, and it is not significant.

Consultation already undertaken

23 There is no need to consult on the matters discussed in this report.

Engagement planning

24 An engagement plan is not needed for this report to be considered.

Publicity

25 There are no publicity considerations.

RECOMMENDATIONS

26 That the Operations and Finance Committee notes the performance of the Local Government Funding Agency as set out in its 2016/17 Annual Report, attached as Appendix 1 to this report.

Report prepared by

Ian Clements
Corporate Advisor

Approved for submission by

Wayne Maxwell
Group Manager Corporate Services

Approved for submission by

Kevin Currie
Group Manager Regulatory Services

Appendix 1 – LGFA 2016/17 Annual Report

LGFA

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

ANNUAL REPORT

30 JUNE
2017


WANAKA

Contents

Cover: Wellington Harbour. Te Whanganui-a-Tara, the great harbour of Tara. Wellington City Council.

Left: Wanaka Recreation Centre, opened 7 July 2016. Queenstown Lakes District Council.

CHAIR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2017

"LGFA's stakeholder centric approach continues to add value to all stakeholders with bespoke lending, longer tenors and improved borrowing costs benefiting councils. A measured approach to primary issuance and greater secondary market liquidity and depth has led to increased offshore investor participation in LGFA bonds."

Craig Stobo, Chair LGFA Board

On the sixth anniversary of our first Annual Report, Directors are pleased to record another period of strong financial and non-financial performance to 30 June 2017 and to highlight the following developments over the past year.

Strong financial and operational performance

LGFA total interest income for the financial year of $320.7 million was a 15.3% increase over the 2015-16 financial year result of $278.2 million while net operating profit of $11.05 million for the financial year was a 15.7% increase on the 2015-16 financial year result of $9.55 million.

Net interest income and operating profit exceeded both the previous year's result and the Statement of Intent (SOI) forecast due to the refinancing behaviour of councils relating to their loans from LGFA maturing in December 2017. Rather than repay their loans early, a significant number of councils have placed the proceeds from refinancing on term deposit with banks. This has resulted in LGFA having a larger loan book than expected and hence net interest income is higher.

Expenses have been managed under budget over the past year. While the introduction of the LGFA bond facility (and related issuance of $350 million of treasury stock) has added to some costs, this initiative has helped improve secondary market liquidity in LGFA bonds, making them more attractive to investors.

LGFA bonds continue to be an attractive investment for investors while LGFA has also delivered improvements in funding costs and extended the tenor of lending available to our council borrowers. This has been achieved through investment by the organisation in the previous year relating to the listing of LGFA bonds on the NZX, transition to Financial Markets Conduct Act, introduction of short-dated lending to councils and issuance of LGFA Bills.

The financial strength of LGFA was reaffirmed in late 2016 by credit rating agencies Standard & Poor's and Fitch who both maintained our credit rating at AA+, which very importantly is the same as the New Zealand Government.

Tairua Wharf project. Thames-Coromandel District Council.

Borrowing activity

LGFA issued $1.285 billion of bonds over the year and outstandings now total $7.855 billion (including $350 million of treasury stock) across eight maturities from 2017 to 2033. A highlight for the year was the debut issuance of an April 2033 bond, reinforcing the proven issuance strategy of replicating the New Zealand Government bond curve. LGFA is now the largest issuer of NZD securities after the New Zealand Government and our bonds are amongst the largest and most liquid New Zealand dollar debt instruments available for investors.

LGFA continues to issue short-dated LGFA Bills ranging in maturities from three months to 12 months through a combination of monthly tenders and private placements. Outstandings under the programme have reached $350 million. These instruments provide a source of funding for short-dated lending to our council borrowers and assist LGFA with liquidity management.

Lending to the sector

LGFA was established in December 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. The original 31 shareholders including the Crown remain as shareholders. Over the past year, we added three new members with Central Hawkes Bay District Council, Northland Regional Council and Waitomo District Council joining. Total membership is now 53 councils.

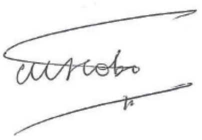
Bespoke long-dated lending continues to be popular for councils in that it provides flexibility as to maturity dates of borrowing and the date of drawdown. LGFA lent $707 million on a bespoke basis over the financial year. This was approximately 49% of our total long-dated lending over that period.

Short-dated lending for terms less than 12 months has been well received by councils and as at 30 June 2017, LGFA had $222 million of short-term loans outstanding to 18 councils.

The tenor of lending by LGFA to the sector continued to lengthen with the average term of borrowing by councils over the 12-month period of 8.0 years.

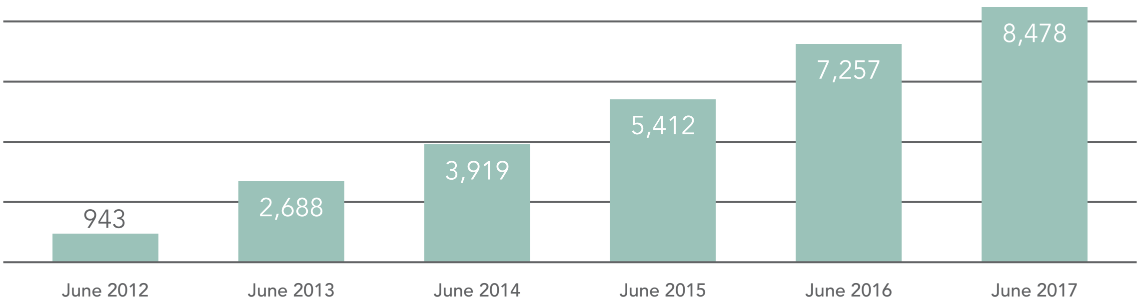
Acknowledgments

The Agency's work cannot be implemented without the support of our staff, fellow directors, Shareholders Council and the New Zealand Debt Management Office (NZDMO), all whose efforts should be acknowledged. I would like to also thank Mark Butcher, our Chief Executive for his leadership of the organisation over the past year. Directors believe the Agency's future remains positive and look forward to working with all stakeholders in the year ahead.

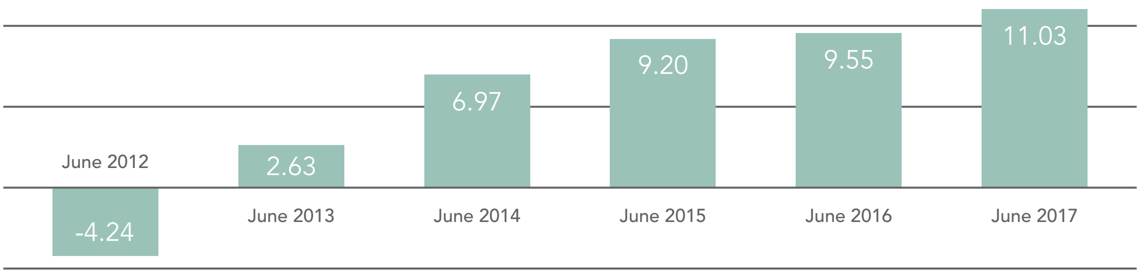


Craig Stobo
Chair, LGFA Board

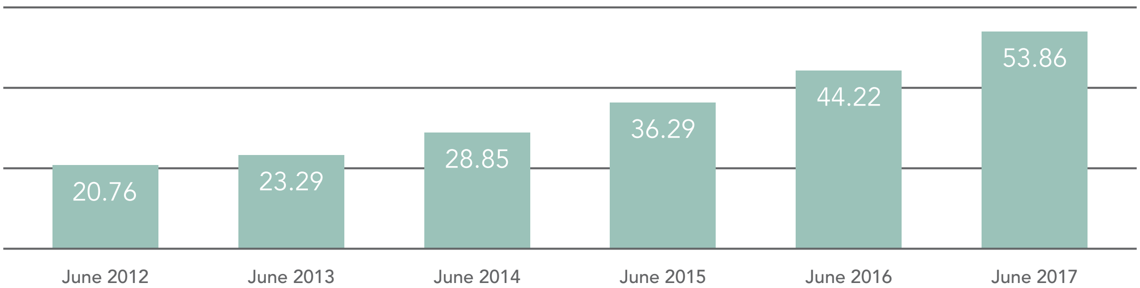
Total assets (NZ$m)



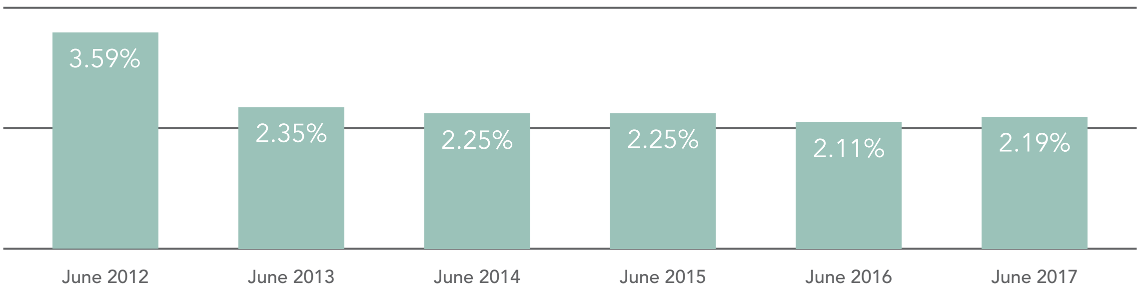
Profit and loss (NZ$m)



Shareholder equity (NZ$m)



Shareholder funds and borrower notes / total assets (%)



CORPORATE GOVERNANCE

NZX Corporate Governance Best Practice Code

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

LGFA is a listed issuer on the NZX Main Board and this section sets out the Company's compliance with the eight core principles underpinning the NZX Corporate Governance Best Practice Code 2017.

The Company considers that its governance practices have not materially differed from the NZX Code for the year ended 30 June 2017. Areas where the Company 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 below.
An Issuer should establish a remuneration committee to recommend remuneration packages for Directors to shareholders.	

The following governance documents referred to in this section are available on the LGFA website: http://www.lgfa.co.nz/about-lgfa/governance:

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

PRINCIPLE 1 – Code of ethical behaviour

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

Code of Ethics

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

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

The Code of Conduct Policy requires employees and directors to carry out their roles while maintaining high standards of integrity and conduct by clearly setting out our standards for expected behaviour. In addition, the policy sets out the Company's commitment to behave in a fair and reasonable manner to employees, while providing a fair and safe working environment.

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

Financial Products Trading Policy

LGFA has formally adopted a Financial Products Trading Policy, which applies to all directors, employees and contractors, and details LGFA's policy on, and rules for dealing in, listed debt securities issued by LGFA and any other quoted financial products of LGFA.

PRINCIPLE 2 – Board composition & performance

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

LGFA Board Charter

The LGFA Board has adopted a Board Charter which describes the Board's role and responsibilities and regulates the Board's procedures. The Board Charter states that the role of the Board is to ensure the Company achieves the Company goals. Having regard to its role the Board will direct, and supervise the management of, the business and affairs of the Company, including:

- ensuring that the Company goals are clearly established, and that strategies are in place for achieving them (such strategies being expected to originate, in the first instance, from management);
- establishing policies for strengthening the performance of the Company;
- ensuring strategies are in place for meeting expectations set out in the current Statement of Intent and monitoring performance against those expectations, in particular the Company's primary objective of optimising the debt funding terms and conditions for participating local authorities;
- monitoring the performance of management;
- appointing the CEO, setting the terms of the CEO's employment contract and, where necessary, terminating the CEO's employment with the Company;
- deciding on whatever steps are necessary to protect the Company'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 the Company's financial statements are true and fair and otherwise conform with law;
- ensuring that the Company adheres to high standards of ethics and corporate behaviour; and
- ensuring that the Company has appropriate risk management/regulatory compliance policies in place. In the normal course of events, day-to-day management of the Company will be in the hands of management. The Board will satisfy itself that the Company is achieving the Company goals; and engaging and communicating with Shareholders Council.

Board composition

The LGFA Board must comprise between four and seven directors, the majority of which are required to be independent. An independent director is a director who, within five years prior to appointment, was not an employee of any shareholder, employee of a CCO owned by a shareholder, or a councillor of any local authority which is a shareholder.

The directors of LGFA as at the date of this Annual Report are:

Craig Stobo. Independent Chair

BA (Hons) Economics. First Class, Otago

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

John Avery. Independent Director

LLB, C.F.Inst.D

John was managing partner, then Chairman of Hesketh Henry. He was a director of The Warehouse Group Limited, Signify Limited, several start-up businesses and an industry cooperative “ITM.” He is currently an independent director of Fund Managers Auckland Limited, Regional Facilities Auckland Limited, Spider Tracks Limited and Strategic Pay Limited, and a trustee of the New Zealand School of Dance.

Philip Cory-Wright. Independent Director

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

Philip is a solicitor of the High Court of New Zealand and Victoria. He has worked as a corporate finance adviser in New Zealand to the corporate sector on debt and equity matters for more than 25 years. He is currently a director of South Port New Zealand Limited, Papa Rererangi i Puketapu (New Plymouth Airport) and Matariki Forests Limited and 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.

Abby Foote. Independent Director and Chair, Audit and Risk Committee

LLB (Hons), BCA, INFINZ (Cert), C.M.Inst.D

Abby is an experienced director of both publicly listed and Crown companies. Based in Christchurch, she has worked in a range of corporate, treasury and legal roles over the last 20 years. Abby is a director of a number of companies including Z Energy Limited, Livestock Improvement Corporation Limited, The Museum of New Zealand Te Papa Tongarewa and Television New Zealand Limited.

Linda Robertson. Independent Director

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

Linda is a professional director with over 30 years’ experience in executive finance roles, having worked in the banking and energy sector in New Zealand. She is currently a director of Auckland Council Investments Limited, Dunedin City Holdings Limited, Dunedin City Treasury Limited, NZ Registry Services Limited, NZPM Group Limited, Crown Irrigation Investments Limited and King Country Energy Limited. Linda is also a member of the Audit & Risk Committee for the Ministry of Social Development, a member of the Treasury Advisory Committee of the New Zealand Export Credit Office and Chair of the Audit and Risk Committee for Central Otago District Council. Her previous directorship roles include New Zealand Post Limited, Kiwibank Limited, the Earthquake Commission, Catalyst Risk Management Limited and Speirs Group Limited.

Mike Timmer. Non-independent Director

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

Mike has worked for Citibank in its financial market section and held accountancy and treasury roles in the health sector and is presently Treasurer at the Greater Wellington Regional Council. He is Chairman of the Finance Committee of Physiotherapy New Zealand Incorporated and past Deputy Chair of the LGFA Shareholders' Council.

Nomination of Directors

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

Retirement and re-election of Directors

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

Director tenure

Director	Originally appointed	Last reappointed/elected	Tenure
Craig Stobo (Chair)	1 December 2011	19 November 2013	5 years, 7 months
John Avery	1 December 2011	24 November 2015	5 years, 7 months
Philip Cory-Wright	1 December 2011	24 November 2016	5 years, 7 months
Abby Foote	1 December 2011	25 November 2014	5 years, 7 months
Linda Robertson	24 November 2015	24 November 2015	2 years, 7 months
Mike Timmer	24 November 2015	24 November 2016	2 years, 7 months

Meetings of the Board

The table below shows attendances at Board, committee and strategy meetings by directors during the year ended 30 June 2017. In addition to the scheduled meetings, additional meetings are convened as necessary to consider specific issues.

Director	Board	Audit & Risk Committee
Craig Stobo (Chair)	6/6	--
John Avery	5/6	--
Philip Cory-Wright	6/6	3/4
Abby Foote	6/6	4/4
Linda Robertson	6/6	4/4
Mike Timmer	6/6	4/4

Board performance review

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

Director training

As part of LGFA's commitment to ongoing director education, LGFA regularly invites directors to attend relevant industry conferences and training events, as well as organising for industry experts to attend and present to directors at Board meetings.

Diversity

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

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

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

As at 30 June 2017, the gender diversity of directors is as follows:

	Female	Male
As at June 2017	2	4
As at June 2016	2	4

As at 30 June 2017, the gender diversity of staff is as follows:

	Female	Male
As at June 2017	2	4
As at June 2016	2	4

Indemnities and insurance

Under the Company's constitution, LGFA has indemnified 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 the Company. The types of acts that are not covered are dishonest, fraudulent, malicious acts, omissions, wilful breach of statute or regulation, or duty to the Company, improper use of information to the detriment of the Company, or breach of professional duty.

PRINCIPLE 3 – Board committees

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

Audit and Risk Committee

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

The Audit and Risk Committee is governed by an Audit and Risk Committee Charter, which states that the purpose of the Audit and Risk 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. It assists the Board to fulfil its duties by considering, reviewing, and monitoring:

- Risk management framework and processes;
- Internal control environment and mechanisms;
- Processes relating to the preparation and audit of financial statements of LGFA;
- The integrity of performance information, including financial reporting;
- The 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 composition

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

- Abby Foote (Chair)
- Philip Cory-Wright
- Linda Robertson
- Mike Timmer

PRINCIPLE 4 – Reporting & disclosure

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

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

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

The Company has adopted a formal Continuous Disclosure Policy, the requirements of which ensure that LGFA meets the continuous disclosure requirements of the NZX Listing Rules.

PRINCIPLE 5 – Remuneration

The remuneration of directors and the CEO should be transparent, fair and reasonable.

The remuneration of the Board takes into account the size and complexity of the Company and the responsibilities, skills, performance and experience of the directors. A specialist independent adviser may be used 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 24 November 2015.

The remuneration of the CEO is determined by the Board and is reviewed on an annual basis taking into consideration the scope and complexity of the position with reference to the remuneration of CEOs of similar organisations. A specialist independent adviser may be used to ensure the remuneration is appropriate.

The CEO remuneration package comprises a fixed cash component of $480,000 per annum as at 30 June 2017 ($450,000, 2016) and an at-risk short-term incentive of up to 15% of the fixed cash component. The short-term incentive payment is made annually at the Board's discretion subject to the CEO and the Company meeting a range of specific performance objectives for the respective financial year.

PRINCIPLE 6 – Risk management

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

LGFA recognises that an effective risk management framework is a critical part of its business structure. LGFA is exposed to both business and treasury related risks as a result of its normal business activities that relate to raising and on-lending funds to local councils.

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

- The first line of defence relates to the operational risk and control within the business. Managers within the business are responsible for identifying controls, maintaining effective controls, assessing the controls and mitigating risks. The first line of defence establishes risk ownership within the business.
- The second line of defence relates to establishing risk control within the organisation. The second line of defence involves reviewing risk reports, checking compliance against the risk management framework and ensuring that risks are actively and appropriately managed.
- The third line of defence establishes risk assurance using both internal and external audit functions to highlight control weaknesses and inefficiencies to management. The audit functions provide independent assurance on the risk governance framework.

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

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

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

- Effectively manage balance sheet and interest rate risk within the interest rate risk control limits to protect LGFA's capital position and Net Interest Margin over time.
- Fund participating local authorities in the most cost-effective manner and in accordance with the operating principles, values and objectives of LGFA.
- Protect LGFA's assets and prevent unauthorised transactions.
- Promote a professional image 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 LGFA Board with meaningful and accurate reporting of interest rate exposures, liquidity, asset and liability maturity, funding, counterparty credit, performance and Policy compliance.

A more detailed description of LGFA's risk management processes for treasury exposures is available on the LGFA website: www.lgfa.co.nz/for-investors/risk-management

Internal audit

LGFA has established an internal audit function to provide assurance that LGFA's 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;
- Reviewing and 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 believes should be discussed privately.

Health and safety

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

PRINCIPLE 7 – Auditors

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

External audit

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

The Audit and Risk Committee has responsibility for all processes relating to the audit of financial statements, including the setting of audit fees and ensuring the independence and objectivity of the auditors.

The external audit of LGFA is conducted in accordance with a formal external audit plan which is reviewed and approved by the Audit and Risk Committee on an annual basis.

The external auditor attends the Company's Annual General Meeting.

PRINCIPLE 8 – Shareholder rights & relations

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

LGFA shareholders

LGFA has 31 shareholders, comprising the New Zealand Government (20%) and 30 councils (80%).

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

Foundation documents

The LGFA Constitution and the Shareholders' Agreement are foundation documents of the Company.

The LGFA Constitution defines the rights and the exercise of powers of shareholders, the acquisition and redemption of Company shares, proceedings of shareholder meetings, voting at meetings and the right to demand polls, shareholder proposals and review of management.

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

LGFA Shareholders' Council

The LGFA Shareholders' Council comprises five to ten appointees from the Council Shareholders and the Crown. The role of the Shareholders' Council comprises the following:

- Review and report performance of LGFA and the Board;
- Recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors;

- Recommendations to Shareholders as to any changes to policies, or the Statement of Intent (SOI), requiring their approval;
- Update Shareholders on LGFA matters and to coordinate Shareholders on governance decisions.

As at the date of this Annual Report, the members of the LGFA Shareholders' Council are:

- Alan Adcock, Whangarei District Council, Chair
- Carol Bellette, Christchurch City Council
- John Bishop, Auckland Council, Deputy Chair
- David Bryant, Hamilton City Council
- Mohan De Mel, Tauranga City Council
- Mike Drummond, Tasman District Council
- Brian McMillan, New Zealand Government
- Matt Potton, Western Bay of Plenty District Council
- Martin Read, Wellington City Council
- Mat Taylor, Bay of Plenty Regional Council

STATEMENT OF SERVICE PERFORMANCE

Te Kuiti Wastewater Treatment Plant.
Waitomo District Council.

Statement of service performance

The statement of service performance details LGFA's performance against the objectives and targets set out in the LGFA Statement of Intent 2016-17.

1 2016-17 PERFORMANCE OBJECTIVES

The Statement of Intent 2016-17 (SOI) sets out two primary performance objectives and nine complementary performance objectives for LGFA for the year ended 30 June 2017:

Primary objectives

1. LGFA will operate with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:
   - i. Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing;
   - ii. Making longer-term borrowings available to Participating Local Authorities;
   - iii. Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice; and
   - iv. Offering more flexible lending terms to Participating Local Authorities.
2. LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each Participating Local Authority's financial position and the general issues confronting the Local Government sector. This includes:
   - i. LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and visit each Participating Local Authority on an annual basis;
   - ii. LGFA will analyse finances at the Council group level where appropriate;
   - iii. LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues.

Additional objectives

1. Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6;
2. Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities;
3. Issue a new long-dated LGFA bond;
4. Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4;
5. Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015;
6. Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency;
7. Achieve the Financial Forecasts (excluding the impact of AIL) set out in section 4;
8. Meet or exceed the Performance Targets outlined in section 5; and
9. Comply with its Treasury Policy, as approved by the Board.

1 PERFORMANCE AGAINST PRIMARY OBJECTIVES

This section sets out LGFA's performance for the year ended 30 June 2017 against the two primary objectives set out in the 2016-17 Statement of Intent.

1.1 LGFA will operate with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:

(i) **Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing;**

LGFA aims to minimise its issuance margin over swap rates to provide cost-effective funding to councils. The LGFA margin to swap will depend upon a number of factors including the relative demand and supply of high grade bonds, general credit market conditions, performance of New Zealand Government bonds and swap rates, investor perceptions of LGFA and the issuance volume and tenor of LGFA bonds.

Given that LGFA tends to match fund its on-lending to councils, i.e. tends to issue bonds in the same tenor and volume as its on-lending, then LGFA only has influence over investor perception amongst the above factors that determine LGFA spreads to swap.

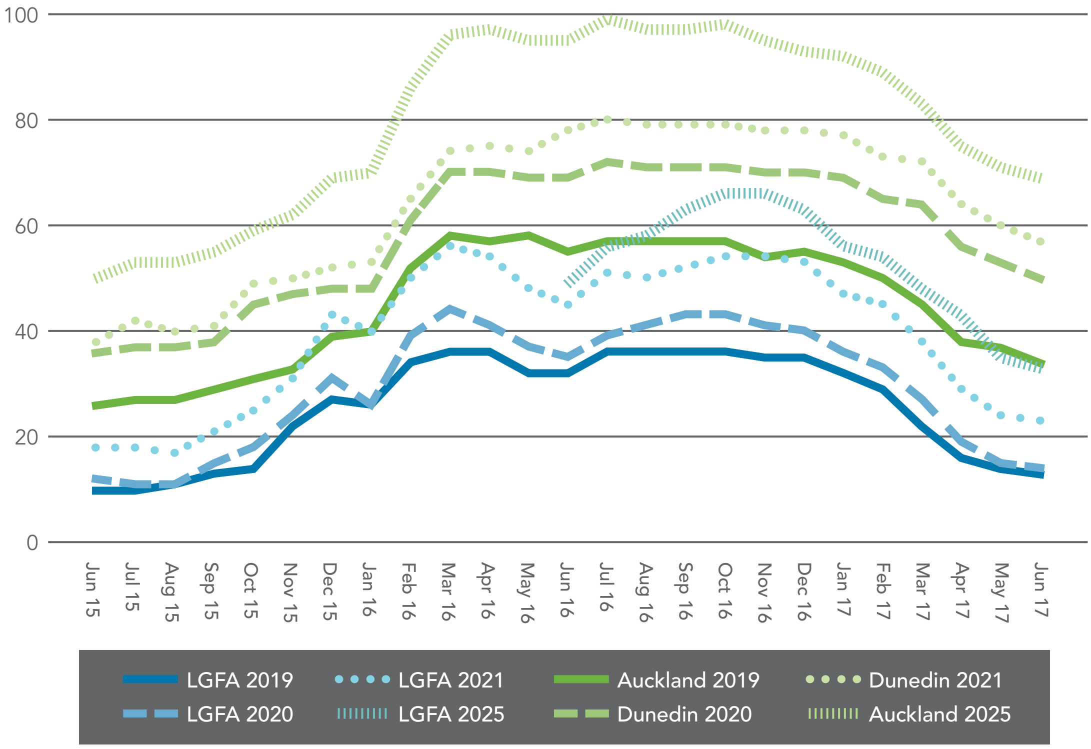
There will be periods within the interest rate and credit market cycles when LGFA bonds will outperform its benchmarks (spread narrowing) and there will be periods of time when LGFA bonds underperform (spreads widening).

LGFA spreads to swap have consistently narrowed since it first began issuing bonds in February 2012 and over the past year, spreads to swap as measured by secondary market levels have narrowed between 12 bps and 27 bps.

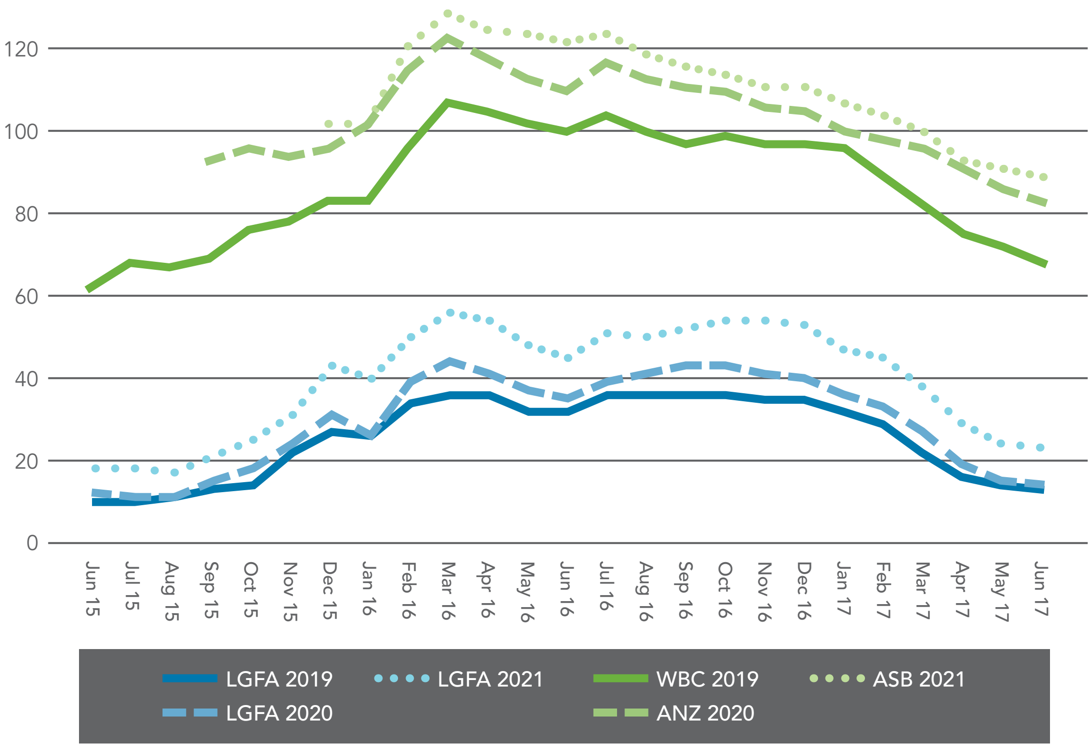
LGFA bond margin to swap	As at 30 June 2017 (bps)	As at 30 June 2016 (bps)	Pricing movement (bps)
15 Dec 17	9	21	-12
15 Mar 19	12	33	-21
15 Apr 20	15	38	-23
15 May 21	20	43	-23
15 Apr 23	27	50	-23
15 Apr 25	38	57	-19
15 Apr 27	43	70	-27
14 Apr 33	72	n/a	n/a

LGFA continues to provide savings in borrowing cost for councils relative to other sources of borrowing. We compare our secondary market spreads on LGFA bonds to those of Auckland Council and Dunedin City Treasury (as a proxy for councils borrowing in their own name) and a mix of banks (as a proxy for general market conditions).

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



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



From the table below, we estimate that based upon secondary market spread data as at 30 June 2017, LGFA was saving AA-rated councils between 12 bps and 22 bps depending upon the term of maturity.

30 June 2017	Auckland 2019	Dunedin 2020	Dunedin 2021	Auckland 2022	Auckland 2025
AA-rated councils margin to swap (bps)	33	47	50	54	66
Less LGFA margin to swap (bps)	-12	-15	-20	-24	-38
LGFA gross funding advantage (bps)	21	32	30	30	28
Less LGFA base margin (bps)	-9	-10	-10	-10.5	-11
Total saving (bps)*	12	22	20	19.5	17

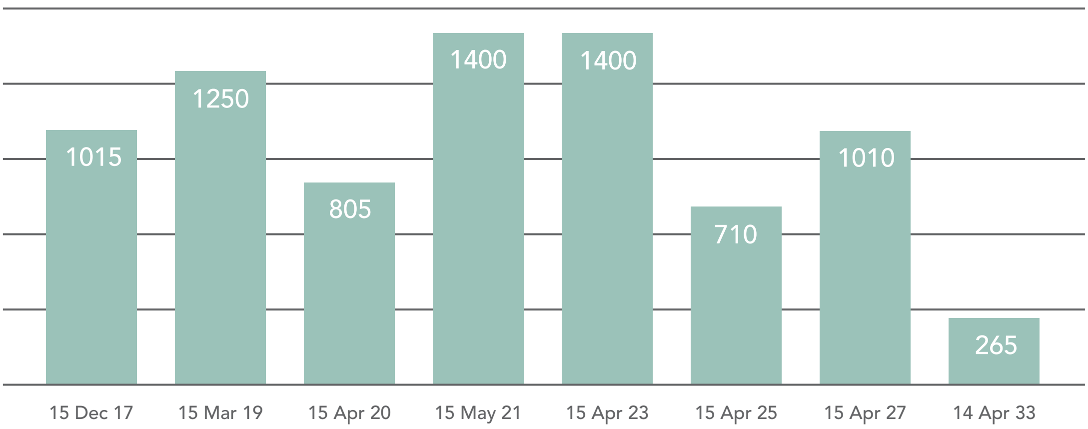
* Note that from this year we have excluded from the estimated savings any positive impact from the 'LGFA effect' that was equivalent to 10 bps of savings evident when LGFA first commenced lending in February 2012.

(ii) **Making longer-term borrowings available to Participating Local Authorities;**

In April 2017, LGFA commenced issuance of a 16-year bond (April 2033). Because of this issuance, LGFA now offers councils the ability to extend their longest dated LGFA borrowing out to April 2033 from the previous maximum maturity date of April 2027.

The following chart shows the total LGFA bond outstandings, including treasury stock, by maturity as at 30 June 2017.

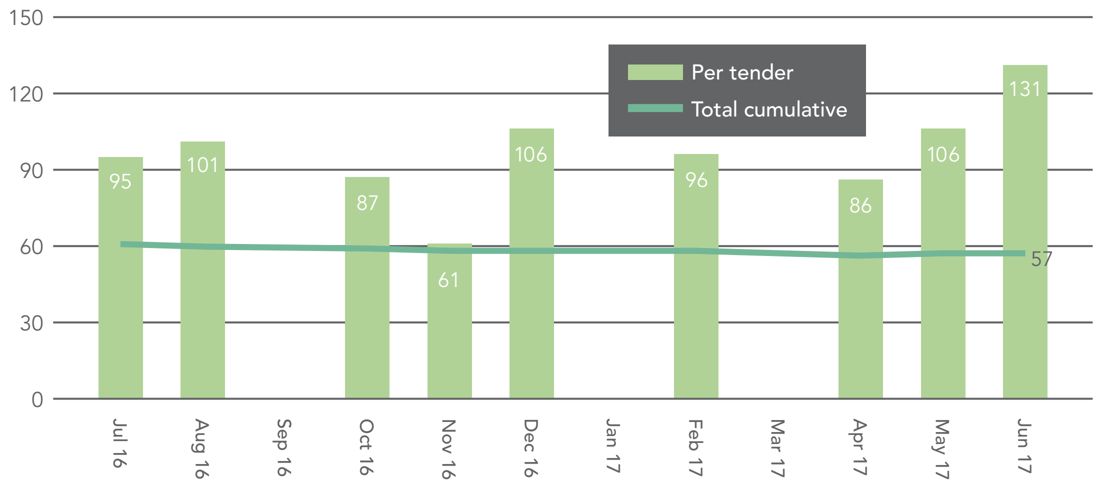
LGFA bonds on issue ($ million)



The average term of borrowing by councils over the 12-month period to 30 June 2017 was 96 months compared to the average borrowing term over the previous 12-month period to June 2016 of 94 months.

The following chart shows the average months to maturity for on-lending to councils at each tender, and the average months to maturity for all LGFA on-lending to councils as at each tender for the past 12 months.

Average total months to maturity – on-lending to councils



(iii) **Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practices;**

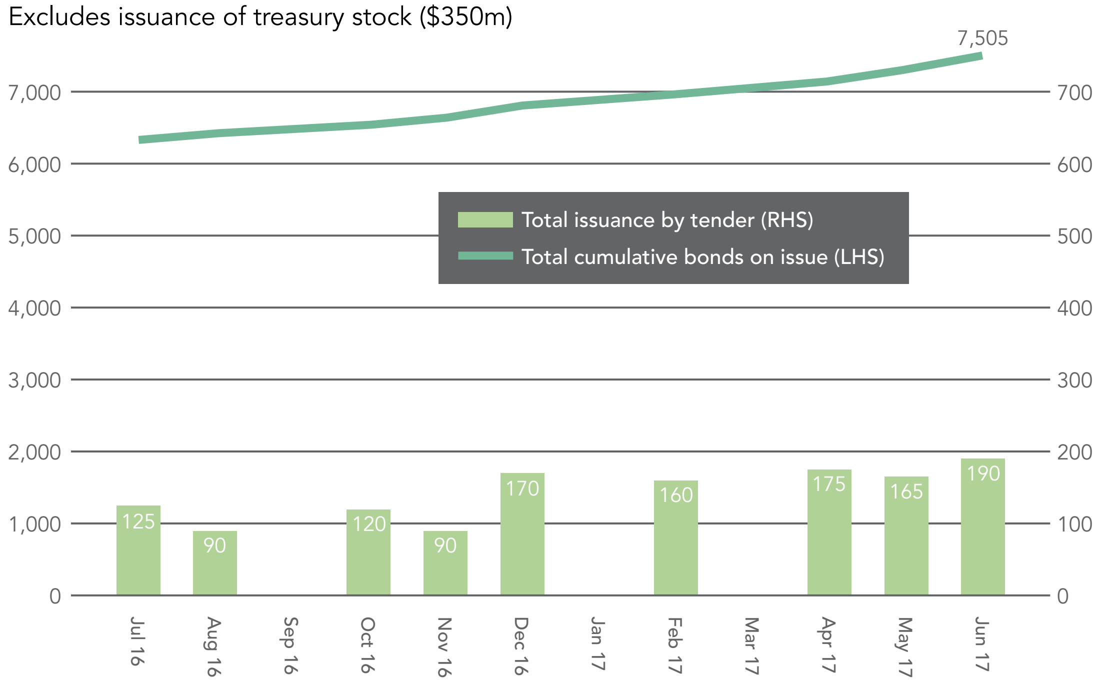
LGFA listed its bonds on the NZX Debt Market in November 2015 and this has led to greater awareness and participation in LGFA bonds by domestic retail and offshore investors. Average turnover on the NZX Debt Market since listing has been $16 million per month or 10% of the total turnover of the NZX Debt Market.

LGFA commenced the issuance of LGFA Bills for terms of three months and six months in late 2015. Because of this issuance, LGFA can now offer short-term loans of less than one year to councils. As at 30 June 2017, LGFA has short-term loans outstanding to 18 councils of $222 million.

LGFA held nine bond tenders during the 12-month period to 30 June 2017, with an average tender volume of $143 million and a range of $90 million to $190 million in size.

LGFA bond issuance by tender ($ million)

Excludes issuance of treasury stock ($350m)



All tenders were successful and fully subscribed. The average bid-coverage ratio across the nine bond tenders was 2.96 times and this compared to the average of 3.30 times for all 47 bond tenders held since LGFA first commenced issuance in February 2012.

LGFA bond tender results by maturity	2016-17 annual issuance amount	LGFA tender average bid coverage ratio	LGFA tender average successful bid range
15 Dec 17	Nil	n/a	n/a
15 Mar 19	$20 m	3.38 x	0 bps
15 Apr 20	$190 m	4.42 x	2 bps
15 May 21	$30 m	2.80 x	4 bps
15 Apr 23	$65 m	3.20 x	3 bps
15 Apr 25	$560 m	2.50 x	6 bps
15 Apr 27	$205 m	3.30 x	2 bps
14 Apr 33	$215 m	2.40 x	7 bps
Across all LGFA maturities	$1,285 m	2.96 x	3.7 bps

The average successful bid range (difference between the highest and lowest successful bid yield) at each tender was 3.7 basis points, with the largest ranges being on the new 2025 and 2033 LGFA maturities.

(iv) **Offering more flexible lending terms to Participating Local Authorities.**

Councils can access flexible lending conditions by using the short-term lending and bespoke lending products. Councils can borrow for terms ranging from 30 days to 16 years at any time they wish to drawdown.

Bespoke lending for council members has continued to grow in popularity over the past year. Since we introduced the ability for councils to have greater flexibility regarding borrowing maturity and date of loan drawdown in February 2015, we have lent $1.193 billion in bespoke transactions to 36 councils. During the 12-month period to 30 June 2017 we lent $707 million on a bespoke basis to 29 councils. This was 49% of total term lending to our council members over that period.

Short-term borrowing by councils as at 30 June 2017 was $222 million comprising borrowing from 18 councils for terms between one and 12 months.

1.2 **LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each Participating Local Authority's financial position and the general issues confronting the Local Government sector. This includes:**

(i) **LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and visit each Participating Local Authority on an annual basis;**

LGFA undertakes a detailed financial assessment on each of its borrowers and meets with all member councils on an annual basis while monitoring council performance throughout the year. LGFA reviews the annual and long-term plans for each council and the annual financial statements. LGFA assigns an internal credit rating to each of its council members as part of the review exercise. All council members were compliant with LGFA lending covenants.

(ii) **LGFA will analyse finances at the Council group level where appropriate;**

LGFA reviews the financial position of each council on a parent basis except for Auckland Council where LGFA analyses the financial statements at both parent and group level. This is because Auckland Council is the only council to deliver a wide range of its essential services on a group basis.

(iii) **LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues.**

LGFA staff and directors have met with DIA, OAG, LGNZ, Ministry of Business Innovation and Employment (MBIE), Treasury and the Local Government Commission during the 2016-17 year to discuss sector issues. LGFA presented at each of the quarterly media briefings organised by LGNZ.

2 PERFORMANCE AGAINST ADDITIONAL OBJECTIVES

In addition to the two primary performance objectives, LGFA has nine additional performance objectives which complement the primary objectives. This section sets out LGFA's performance for the year ended 30 June 2017 against the additional objectives set out in the 2016-17 Statement of Intent.

2.1 **Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6 of the SOI.**

LGFA policy is to pay a dividend that provides an annual rate of return to shareholders equal to LGFA cost of funds plus 2%.

On 31 August 2017, the directors of LGFA declared a dividend for the year to 30 June 2017 of $1,390,000 ($0.0556 per share). This is calculated on LGFA's cost of funds for the 2016-17 year of 3.56% plus a 2% margin. This is similar to the previous year dividend of $0.0557 per share.

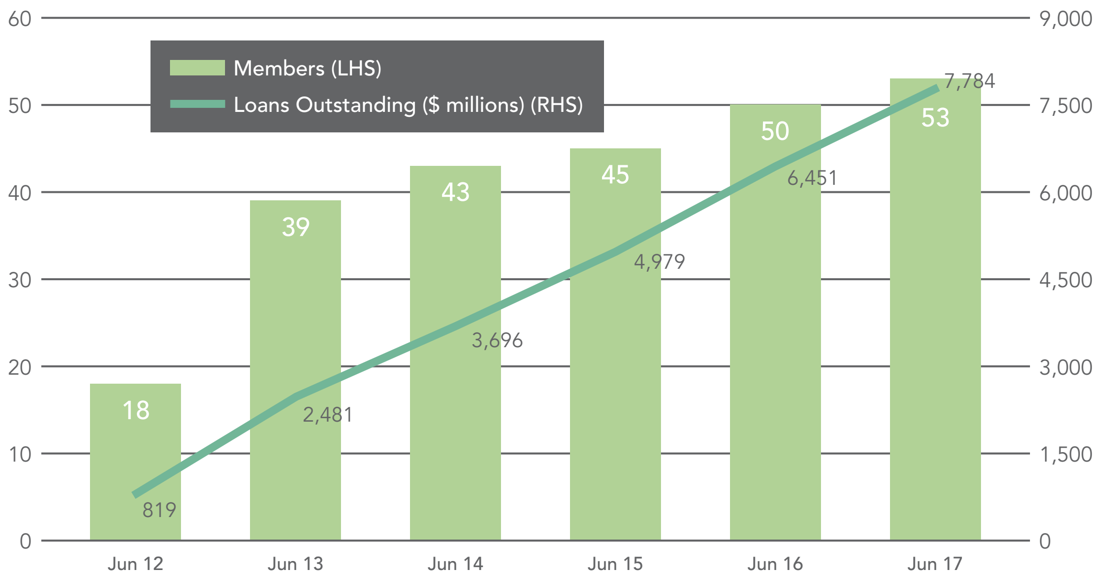
The impact from the current low interest rate is that LGFA has a lower cost of funds. While council borrowers benefit from lower borrowing costs, the dividend payment calculated on the above guidance is lower than it would otherwise be in an environment of higher interest rates.

2.2 **Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities.**

Three councils joined LGFA in the 12-month period to June 2017, bringing the total number of council members to 53. Waitomo District Council joined as a borrower and guarantor while Central Hawkes Bay District Council and Northland Regional Council both joined as a borrower.

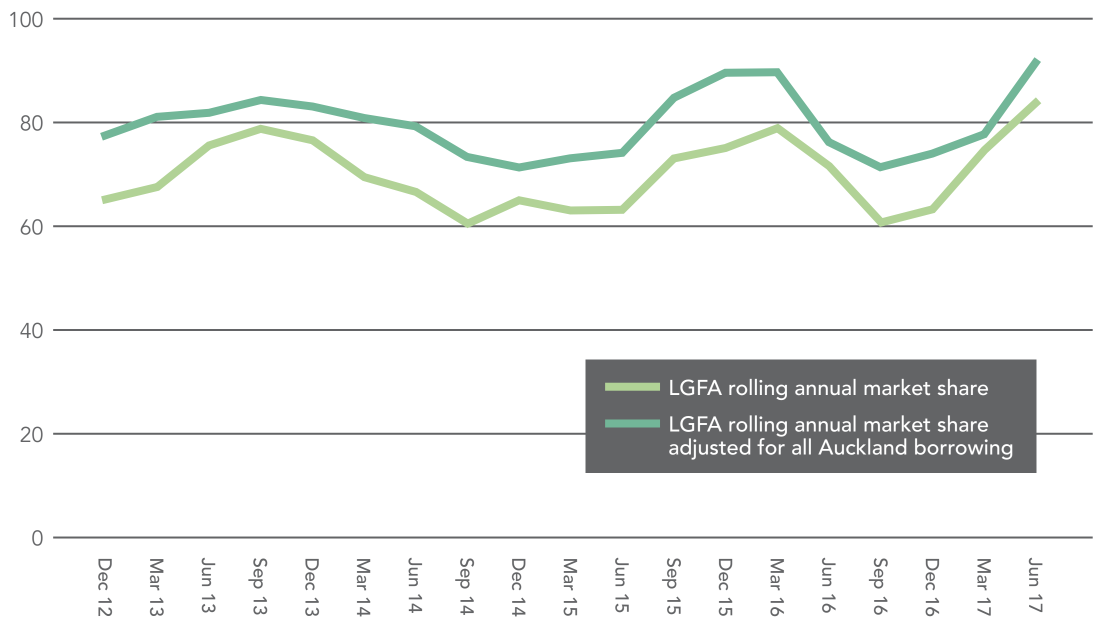
Councils have strongly supported LGFA by joining as members and borrowing from LGFA. As at 30 June 2017, 50 participating councils have so far borrowed from LGFA.

LGFA Council Members and LGFA loans outstanding



The following chart shows LGFA's share of new local government long-term debt issuance and is derived from data provided by PwC. Our share of long-term borrowing by the sector including non-members of LGFA was 82.9% for the 12-month period to 30 June 2017. The market share is influenced by the amount of debt issued by the sector's largest borrower, Auckland Council in its own name in the domestic market. Auckland Council is required to issue debt under their own name as LGFA is restricted by its foundation policies to a maximum of 40% of total loans outstanding to Auckland. If Auckland Council's external borrowing is excluded from the data, then LGFA estimated market share for the 12-month period to 30 June 2017 was 91.3%.

LGFA market share – rolling one year average



Source PwC

2.3 **Issue a new long-dated LGFA bond.**

On 5 April 2017, LGFA commenced the issuance of the 14 April 2033 bond (Tender 44). As at 30 June 2017, there was NZD 265 million on issue (including NZD 50 million of treasury stock).

2.4 **Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4 of the SOI.**

Issuance and operating expenses for the 12-month period to 30 June 2017 were $6.468 million which is $112k below SOI forecast. This variance is the consequence of:

Issuance and on-lending costs (excluding AIL) at $1.845 million were $106k below budget due to lower fees relating to the NZDMO facility and credit rating agencies, offset by higher NZX and legal costs from the additional bond issuance associated with the introduction of the bond lending facility.

Operating costs at $2.828 million were $22k below budget and reflected lower overheads and travel costs than forecast, offset by higher personnel costs.

Approved Issuer Levy payments of $1.795 million were in line with our forecast of $1.783 million.

2.5 **Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015.**

LGFA has a Health and Safety Staff Committee and reporting on health and safety issues are made to the LGFA board on a regular basis by the Risk and Compliance Manager. There were no health and safety incidents during the 2016-17 year.

The Kaikoura earthquake in November 2016 impacted on Wellington CBD buildings. As a result, staff are currently working from the Local Government New Zealand offices until it is safe to return to LGFA's offices.

2.6 **Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency.**

LGFA met with both Standard & Poor's (S&P) and Fitch rating agencies in September 2016 as part of their annual review process. S&P subsequently affirmed the long-term rating of LGFA at AA+ (stable outlook) on 10 October 2016 and Fitch affirmed the long-term rating as AA+ (stable outlook) on 14 November 2016.

Both the S&P and Fitch ratings reports are available on our website (www.lgfa.co.nz/for-investors/ratings).

Both the S&P and Fitch ratings are the same as, and are capped by, New Zealand's sovereign credit ratings. Fitch has defined LGFA as a credit linked Public Sector Entity and our credit rating is explicitly linked to the New Zealand Sovereign credit rating.

2.7 **Achieve the Financial Forecasts (excluding the impact of AIL) set out in section 4 of the SOI.**

LGFA's financial results for key items set out in Section 4 of the SOI for the 12-month period to 30 June 2017 are

In $ million	30 June 2017 actual	30 June 2017 SOI forecast
Net interest revenue	17.51	16.58
Issuance and operating expenses excluding Approved Issuer Levy (AIL)	4.67	4.80
Approved Issuer Levy (AIL)	1.80	1.78
Net Profit	11.05	10.0

LGFA net interest revenue was greater than forecast and expenses were less than forecast.

2.8 **Meet or exceed the Performance Targets outlined in section 5 of the SOI.**

LGFA achieved three out of its five performance targets in the 12-month period to 30 June 2017

Current performance targets	Target	Result for 12-month period to 30 June 2017	Outcome
LGFA's average cost of funds on debt issued relative to the average cost of funds for New Zealand Government Securities for the 12-month period	Less than 0.50%	0.709%	Not achieved (i)
The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period	No more than 0.10%	0.104%	Not achieved (ii)
LGFA's annual issuance and operating expenses (excluding AIL)	Less than $4.80m	$4.67m	Achieved
Total lending to Participating Local Authorities	More than $7,341m	$7,736m	Achieved
Savings on borrowing costs for council borrowers relative to other sources of financing and compared to previous years	Demonstrate savings to council borrowers on a relative basis to other sources of financing	LGFA issuance spreads improved relative to standalone council issuers and NZ registered banks	Achieved

(i) The outcome is dependent upon the term of borrowing by councils as longer terms of council borrowing require longer issuance by LGFA at wider issuance spreads than for shorter dated issuance. What is more relevant for borrowing councils is the average margin to swap.

(ii) The outcome is dependent upon the term of borrowing by councils as LGFA on-lending margin reflects a term structure premium for longer borrowing.

2.9 **Comply with its Treasury Policy, as approved by the Board.**

LGFA was compliant at all times with the Treasury Policy for the 12-month period ending 30 June 2017.

FINANCIAL STATEMENTS

Coutts Island. Environment Canterbury.

Contents

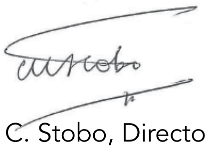
Directors’ declaration

In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 34 to 58:

- Comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 30 June 2017, and
- Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.
- The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial positon of the Company and facilitates the compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Directors



C. Stobo, Director
31 August 2017

A. Foote, Director
31 August 2017

Statement of comprehensive income

For the year ended 30 June 2017 in $000s

	Note	Year ended 2017	Year ended 2016
Interest income from			
Cash and cash equivalents		598	1,153
Loans to local government		219,852	212,438
Marketable securities		2,518	3,333
Deposits		3,782	3,991
Derivatives		93,950	57,237
Fair value hedge ineffectiveness	2c	-	-
Total interest income		**320,700**	**278,152**
Interest expense on			
Bills		6,029	3,224
Bonds		293,749	256,247
Borrower notes		3,159	3,150
Bond repurchase transactions		249	-
Total interest expense		**303,186**	**262,621**
Net interest income		**17,514**	**15,531**
Operating expenses			
Issuance and on-lending expenses	3	3,640	3,166
Operating expenses	4	2,828	2,820
Total expenses		**6,468**	**5,986**
Net operating profit		**11,046**	**9,545**
Total comprehensive income for the year		**11,046**	**9,545**

For the year ended 30 June 2017 in $000s

	Note	Share capital	Retained earnings	Total equity
Equity as at 30 June 2015		25,000	11,287	36,287
Net operating profit		-	9,545	9,545
Total comprehensive income for the year		-	9,545	9,545
Transactions with owners				
Dividend paid on 15 October 2015		-	(1,608)	(1,608)
Equity as at 30 June 2016		**25,000**	**19,224**	**44,224**
Net operating profit			11,046	11,046
Total comprehensive income for the year			11,046	11,046
Transactions with owners				
Dividend paid on 14 October 2016			(1,392)	(1,392)
Equity as at 30 June 2017	**11**	**25,000**	**28,878**	**53,878**

Statement of financial position

As at 30 June 2017 in $000s

	Note	2017	2016
Assets			
Financial assets			
Cash and bank balances		49,919	37,084
Receivable unsettled bond repurchases		13,723	
Borrower notes receivable		-	800
Loans to local government	5	7,783,932	6,451,332
Marketable securities		127,641	139,339
Deposits		149,949	89,828
Derivatives in gain	2d	364,953	537,379
Non-financial assets			
Prepayments		544	535
Other assets	13	760	955
Total assets		**8,491,421**	**7,257,252**
Equity			
Share capital		25,000	25,000
Retained earnings		28,878	19,224
Total equity		**53,878**	**44,224**
Liabilities			
Financial liabilities			
Trade and other payables		453	182
Loans to local government not yet advanced		-	50,000
Accrued expenses		554	593
Bills	6	348,179	223,916
Bonds	7	7,865,401	6,819,658
Borrower notes	8	131,614	108,415
Bond repurchases		25,682	-
Derivatives in loss	2d	65,660	10,264
Total liabilities		**8,437,543**	**7,213,028**
Total equity and liabilities		**8,491,421**	**7,257,252**

For the year ended 30 June 2017 in $000s

	Note	Year Ended 2017	Year Ended 2016
Cash flow from operating activities			
Cash applied to loans to local government		(1,385,002)	(1,374,440)
Interest paid on bonds issued		(341,100)	(296,800)
Interest paid on bills issued		(6,029)	(3,224)
Interest paid on bond repurchases		(247)	(26)
Interest received from loans to local government		222,121	218,821
Interest received from cash & cash equivalents		597	1,142
Interest received from marketable securities		2,688	1,076
Interest received from deposits		2,661	4,059
Net interest on derivatives		137,262	89,718
Payments to suppliers and employees		(6,246)	(6,165)
Net cash flow from operating activities	10	**(1,373,295)**	**(1,365,838)**
Cashflow from investing activities			
Change in marketable securities		11,661	(133,068)
Change in deposits		(59,000)	(19,000)
Change in plant and equipment		195	125
Net cashflow from investing activities		**(47,144)**	**(151,943)**
Cashflow from financing activities			
Cash proceeds from bonds issued		1,267,666	1,349,468
Cash proceeds from bills issued		124,263	223,916
Cash proceeds from bond repurchases		11,957	-
Cash proceeds from borrower notes		20,840	19,346
Diviends paid		(1,392)	(1,608)
Cash applied to derivatives		9,940	(67,964)
Net cashflow from financing activities		**1,433,274**	**1,523,158**
Net (decrease) / increase in cash		**12,835**	**5,375**
Cash, cash equivalents and bank overdraft at beginning of year		37,084	31,708
Cash, cash equivalents and bank overdraft at end of year		**49,919**	**37,083**

1 Statement of accounting policies

A. 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 local authorities.

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

The financial statements are as at and for the year ended 30 June 2017.

These financial statements were authorised for issue by the Directors on 31 August 2017.

B. 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 Standards, as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

C. BASIS OF PREPARATION

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

NZ IFRS 9: Financial Instruments. The first two phases of this new standard were approved by the Accounting Standards Review Board in November 2009 and November 2010. These phases address the issues of classification and measurement of financial assets and financial liabilities.

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. Those which may be relevant to LGFA are as follows:

NZ IFRS 9: Financial Instruments (2014) – Effective for periods beginning on or after 1 January 2018. This standard aligns hedge accounting more closely with the risk management activities of the entity and adds requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

D. FINANCIAL INSTRUMENTS

Financial assets

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

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

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

At each balance date an assessment is made whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Financial liabilities

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

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

E. OTHER ASSETS

Property, plant and equipment (PPE)

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.

F) 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.

G) REVENUE AND EXPENSES

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.

H. LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

I. SEGMENT REPORTING

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

J. JUDGEMENTS AND ESTIMATIONS

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future depends critically on judgements regarding future cash flows, including inflation assumptions and the risk-free discount rate used to calculate present values. Refer note 2b for fair value determination for financial instruments.

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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

2 Analysis of financial assets and financial liabilities

A. CATEGORIES OF FINANCIAL INSTRUMENTS

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

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

- *Level 1* – Quoted market prices: Fair value based on quoted prices in active markets for identical assets or liabilities.
- *Level 2* – Valuation techniques using observable market inputs: Fair value based on a valuation technique using other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- *Level 3* – Valuation techniques using significant non-observable market inputs: Fair value based on a valuation technique using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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 & other receivables, trade & other payables

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

Marketable securities and bonds

The fair value of bonds and marketable securities are determined using the quoted price for the instrument (Fair value hierarchy level 1).

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 (Fair value hierarchy level 2).

Loans to local government

The fair value of loans to local government authorities 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 (Fair value hierarchy level 2).

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 hierarchy level 2).

Fair value of financial assets and financial liabilities

The fair value of financial assets and financial liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

As at 30 June 2017 in $000s	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with NZ IFRS 9	Fair value
Financial assets				
Cash and bank balances	-	49,919	-	49,919
Trade and other receivables	-	-	-	-
Receivable unsettled bond repurchases	-	13,723	-	13,726
Loans to local government	-	7,783,932	-	8,031,625
Marketable securities	-	127,641	-	127,818
Deposits	-	149,949	-	150,559
Derivatives	-	-	364,953	364,953
	-	**8,125,164**	**364,953**	**8,738,600**
Financial liabilities				
Trade and other payables	453	-	-	453
Bills	348,179	-	-	348,296
Bonds	7,865,708	-	-	7,958,723
Borrower notes	131,614	-	-	131,109
Bond repurchases	25,682	-	-	25,682
Derivatives	-	-	65,660	65,660
	8,371,636	**-**	**65,660**	**8,529,923**

As at 30 June 2016 in $000s	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with NZ IFRS 9	Fair value
Financial assets				
Cash and bank balances	-	37,084	-	37,084
Trade and other receivables	-	-	-	
Loans to local government	-	6,451,332	-	6,692,415
Marketable securities	-	139,339	-	139,661
Deposits	-	89,828	-	90,016
Derivatives	-	-	537,379	537,379
	-	**6,717,583**	**527,115**	**7,496,555**
Financial liabilities				
Trade and other payables	182	-	-	182
Loans payable	50,000	-	-	50,000
Bills	223,916	-	-	223,898
Bonds	6,819,658	-	-	6,869,372
Borrower notes	107,615	-	-	108,044
Derivatives	-	-	10,264	10,264
	7,201,371	**-**	**10,264**	**7,261,760**

B. 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 a number of financial risks, the most significant being market risk, credit risk, and liquidity risk. The exposure and management of these risks is outlined below.

Market risk

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

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 through the use of Value at Risk (VaR) and Partial Differential Hedge (PDH) limits to mitigate the potential change in value of the balance sheet due to changes in interest rates. PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates, whereas VaR measures the expected loss for a given period with a given confidence.

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

As at 30 June 2017 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	49,919	49,919	-	-	-	-
Loans to local government	7,735,564	6,670,326	6,538	290,500	426,200	342,000
Receivable unsettled bond repurchases	13,723	13,723	-	-	-	-
Marketable securities	126,302	103,747	7,555	15,000	-	-
Deposits	148,000	138,000	10,000	-	-	-
Financial liabilities						
Bills	(350,000)	(325,000)	(25,000)	-	-	-
Bonds	(7,505,000)	(1,015,000)	-	(1,200,000)	(2,105,000)	(3,185,000)
Borrower notes	(120,198)	(103,179)	(80)	(4,648)	(6,819)	(5,472)
Bond repurchases	(25,682)	(25,682)	-	-	-	-
Derivatives	-	(5,418,200)	-	909,200	1,666,250	2,842,750
Total	**72,628**	**88,654**	**(987)**	**10,052**	**(19,369)**	**(5,722)**

As at 30 June 2016 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	37,084	37,084	-	-	-	-
Loans to local government	6,400,918	5,309,071	5,147	155,500	687,200	244,000
Marketable securities	137,200	95,000	1,200	31,000	10,000	-
Deposits	89,000	89,000	-	-	-	-
Financial liabilities						
Loans payable	(50,000)	(50,000)	-	-	-	-
Bills	(225,000)	(225,000)	-	-	-	-
Bonds	(6,220,000)	-	-	(1,015,000)	(3,065,000)	(2,140,000)
Borrower notes	(99,059)	(81,672)	-	(2,488)	(10,995)	(3,904)
Bond repurchases	-	-	-	-	-	-
Derivatives	-	(5,114,200)	-	865,500	2,329,450	1,919,250
Total	**70,142**	**59,283**	**6,347**	**34,512**	**(49,345)**	**19,346**

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.

	2017		2016	
For the year ended 30 June in $000s	100 bps increase $000s	100 bps decrease $000s	100 bps increase $000s	100 bps decrease $000s
Fair value sensitivity analysis				
Fixed rate assets	-	-	-	-
Fixed rate liabilities	272,084	(277,500)	260,219	(264,820)
Derivative financial instruments	(272,084)	277,500	(260,219)	264,820
	-	-	-	-
Cash flow sensitivity analysis				
Variable rate assets	62,982	(62,982)	51,295	(51,295)
Variable rate liabilities	(1,008)	1,008	(820)	820
Derivative financial instruments	(63,867)	63,867	(52,172)	52,172
	(1,893)	**1,893**	**(1,697)**	**1,697**

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 particular counterparty.

Exposure to credit risk

LGFA monitors the concentration of credit risk by the type of counterparty. 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 are shown in the table below.

As at 30 June 2017 in $000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter-parties	Total carrying value
Financial assets					
Cash and bank balances	49,385	-	534	-	49,919
Trade and other receivables	-	-	-	-	-
Receivable unsettled bond repurchases	-	-	13,723	-	-
Loans to local government	-	7,783,932	-	-	7,783,932
Marketable securities	31,180	16,937	34,845	44,679	127,641
Deposits	-	-	149,949	-	149,949
Derivatives	364,953	-	-	-	364,953
	445,518	**7,800,869**	**199,051**	**44,679**	**8,476,394**

As at 30 June 2016 in $000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter-parties	Total carrying value
Financial assets					
Cash and bank balances	36,834	-	250	-	37,084
Trade and other receivables	-	-	-	-	-
Loans to local government	-	6,451,332	-	-	6,451,332
Marketable securities	26,644	-	70,039	42,657	139,339
Deposits	-	-	89,828	-	89,828
Derivatives	537,379	-	-	-	537,379
	600,857	**6,451,332**	**160,117**	**42,657**	**7,254,962**

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 or impaired. The carrying value of the financial assets is expected to be recoverable.

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 New Zealand Debt Management Office (NZDMO) provides a committed liquidity facility that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2017, the undrawn committed liquidity facility was $500 million (2016: $400 million).

Contractual cash flows of financial instruments

The contractual cash flows associated with financial assets and liabilities are shown in the table below.

As at 30 June 2017 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							
Cash and bank balances	49,919	-	-	-	-	49,919	49,919
Trade and other receivables							
Receivable unsettled bond repurchases		13,723	-	-	-	13,723	13,723
Loans to local government	-	211,716	1,135,725	4,077,315	3,388,036	8,812,791	7,783,932
Marketable securities	-	58,808	54,569	15,750	-	129,126	127,641
Deposits	-	34,762	116,848	-	-	151,611	149,949
Financial liabilities						-	
Trade and other payables	(453)	-	-	-	-	(453)	(453)
Bills	-	(200,000)	(150,000)	-	-	(350,000)	(348,179)
Bonds	-	(30,000)	(1,322,225)	(4,225,800)	(3,612,475)	(9,190,500)	(7,865,708)
Bond repurchases		(25,684)	-	-	-	(25,684)	(25,684)
Borrower notes	-	-	(17,192)	(66,814)	(62,910)	(146,916)	(131,614)
Derivatives	-	(14,673)	149,931	368,393	151,532	655,184	299,600
	49,466	**48,652**	**(32,344)**	**168,844**	**(135,817)**	**98,801**	**53,126**

As at 30 June 2016 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							
Cash and bank balances	37,084					37,084	37,084
Trade and other receivables						-	
Loans to local government		220,061	204,136	4,611,787	2,432,363	7,468,347	6,451,332
Marketable securities		86,608	11,824	42,957		141,389	139,339
Deposits		30,494	60,137			90,631	89,828
Financial liabilities							
Trade and other payables	(182)	-	-	-	-	(182)	(182)
Loan payable		(50,000)	-	-	-	(50,000)	(50,000)
Bills		(150,000)	(75,000)	-	-	(225,000)	(223,916)
Bonds		(29,500)	(293,950)	(5,025,700)	(2,496,200)	(7,845,350)	(6,819,658)
Borrower notes		-	-	(76,719)	(45,234)	(121,953)	(108,415)
Derivatives		(13,051)	131,464	348,914	130,946	598,273	527,115
	36,902	**94,612**	**38,611**	**(98,761)**	**21,875**	**93,239**	**42,527**

C. HEDGE ACCOUNTING

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

The gain or loss on the hedging instrument and the hedged item attributable to the hedged risk for fair value hedge relationships is shown in the table below.

For the year ended 30 June in $000s	2017 Gain/(loss)	2016 Gain/(loss)
Hedging instruments – interest rate swaps	(174,572)	236,449
Hedged items attributable to the hedged risk – fixed rate bonds	174,572	(236,449)
Ineffectiveness recognised in profit or loss from fair value hedges	**-**	**-**

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

D. 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 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 2017 in $000s	Derivative assets	Derivative liabilities
Gross amounts	364,953	(65,660)
Amounts offset	-	-
Carrying amounts	364,953	65,660
Amounts that don't qualify for offsetting	-	-
Financial assets & liabilities	(65,660)	(65,660)
Collateral	-	-
Net Amount	**299,293**	**-**

As at 30 June 2016 in $000s	Derivative assets	Derivative liabilities
Gross amounts	537,379	10,264
Amounts offset	-	-
Carrying amounts	537,379	10,264
Amounts that don't qualify for offsetting	-	-
Financial assets & liabilities	(10,264)	(10,264)
Collateral	-	-
Net Amount	**527,115**	**-**

3 Issuance and on-lending expenses

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

For the year ended 30 June in $000s	2017	2016
NZDMO facility fee	442	400
NZX	412	177
Rating agency fees	547	527
Legal fees for issuance	169	144
Regulatory, registry, other fees	37	52
Trustee fees	100	100
Approved issuer levy[1]	1,795	1,628
Information Services	138	120
	3,640	**3,148**

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

4 Operating expenses

Operating expenses are all other expenses that are not classified as 'Issuance and on-lending expenses.'

For the year ended 30 June in $000s	2017	2016
Consultants	51	164
Directors fees	348	307
Insurance	60	61
Legal fees	37	327
Other expenses	875	716
Auditors' remuneration		
Statutory audit	81	86
Advisory services[1]	4	
Personnel	1,372	1,163
Recruitment	-	14
	2,828	**2,838**

1. KPMG provided advisory services related to accounting for bond repurchase trades.

5 Loans to local government

For the year ended 30 June in $000s	2017 Short-term loans	2017 Loans	2016 Short-term loans	2016 Loans
Ashburton District Council	10,018	25,707	10,006	15,820
Auckland Council	-	2,429,887	-	2,158,614
Buller District Council	-	20,001	-	20,002
Canterbury Regional Council	-	25,083	-	25,036
Christchurch City Council	96,280	1,485,304	65,177	1,209,669
Far North District Council	-	30,121	-	10,040
Gisborne District Council	-	27,085	4,970	17,060
Gore District Council	6,023	11,034	6,026	6,042
Greater Wellington Regional Council	-	280,702	-	255,660
Grey District Council	-	20,551	-	20,655
Hamilton City Council	-	351,028	-	230,663
Hastings District Council	-	60,211	-	50,175
Hauraki District Council	-	41,139	-	34,133
Horizons Regional Council	-	10,013	-	10,015
Horowhenua District Council	12,013	63,923	7,007	47,870
Hurunui District Council	-	23,085	-	17,069
Hutt City Council	-	97,727	-	79,711
Kaipara District Council	8,925	43,172	-	35,156
Kapiti Coast District Council	-	210,623	-	150,471
Manawatu District Council	-	58,094	-	51,035
Marlborough District Council	19,851	63,207	-	28,067
Masterton District Council	2,006	52,209	3,002	44,169
Matamata-Piako District Council	-	29,581	-	24,573
Nelson City Council	-	55,201	10,007	35,171
New Plymouth District Council	-	61,167	-	61,193
Opotiki District Council	-	5,180	-	5,210
Otorohanga District Council	-	9,178	-	9,246
Palmerston North City Council	10,025	77,255	-	77,295
Porirua City Council	-	28,608	9,982	23,621
Queenstown Lakes District Council	7,070	86,177	-	76,371
Rotorua District Council	1,001	114,976	-	100,025
Selwyn District Council	-	35,050	-	35,056
South Taranaki District Council	-	62,267	9,989	62,234
South Wairarapa District Council	4,034	13,586	-	7,536
Tararua District Council	1,004	10,033	-	9,033
Tasman District Council	-	90,273	-	90,314
Taupo District Council	-	125,417	-	125,431
Tauranga City Council	-	347,207	-	277,009
Thames-Coromandel District Council	-	35,061	-	35,069
Timaru District Council	10,047	67,347	9,737	51,325
Upper Hutt City Council	2,997	31,628	-	24,591
Waikato District Council	-	80,265	-	60,212
Waimakariri District Council	10,010	85,797	10,005	75,861
Waipa District Council	-	13,015	-	13,018
Waitomo District Council	5,022	25,027	-	-
Wellington City Council	-	294,047	-	233,884
Western Bay of Plenty District Council	-	105,386	-	70,233
Whakatane District Council	6,021	34,129	3,015	28,076
Whanganui District Council	-	66,327	-	41,162
Whangarei District Council	9,972	142,522	9,968	122,558
	222,318	**7,561,614**	**158,891**	**6,292,441**

6 Bills on issue

As at 30 June 2017 in $000's

Maturity date	Face value	Unamortised premium	Accrued interest	Total
12 July 2017	50,000	(30)	-	49,970
4 August 2017	25,000	(46)	-	24,954
16 August 2017	50,000	(129)	-	49,871
13 September 2017	50,000	(204)	-	49,796
26 September 2017	25,000	(126)	-	24,874
11 October 2017	25,000	(143)	-	24,857
26 October 2017	25,000	(172)	-	24,828
15 November 2017	25,000	(194)	-	24,806
27 November 2017	25,000	(223)	-	24,777
13 December 2017	25,000	(232)	-	24,768
26 January 2018	25,000	(322)	-	24,678
	350,000	**(1,821)**	**-**	**348,179**

As at 30 June 2016 in $000's

Maturity date	Face value	Unamortised premium	Accrued interest	Total
13 July 2016	50,000	(42)	-	49,958
17 August 2016	50,000	(156)	-	49,844
14 September 2016	50,000	(238)	-	49,762
12 October 2016	25,000	(163)	-	24,837
16 November 2016	25,000	(219)	-	24,781
14 December 2016	25,000	(266)	-	24,734
	225,000	**(1,084)**	**-**	**223,916**

7 Bonds on issue

Bonds on issue do not include LGFA bonds subscribed by LGFA and held as treasury stock. However, LGFA bonds listed on the NZX include LGFA bonds subscribed by LGFA and held as treasury stock. Refer note 9: Treasury stock and bond repurchase transactions.

As at 30 June 2017 in $000's

Maturity date		Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 December 2017	6% coupon	1,015,000	7,763	2,662		
15 March 2019	5% coupon	1,200,000	19,488	17,609		
15 April 2020	3% coupon	755,000	(12,471)	4,765		
15 May 2021	6% coupon	1,350,000	68,236	10,345		
15 April 2023	5.5% coupon	1,350,000	69,813	15,621		
15 April 2025	2.75% coupon	660,000	(34,201)	3,818		
15 April 2027	4.5% coupon	960,000	33,450	9,089		
14 April 2033	3.5% coupon	215,000	(20,650)	1,604		
Total		**7,505,000**	**131,428**	**65,513**	**163,460**	**7,865,401**

As at 30 June 2016 in $000's

Maturity date		Face Value	Unamortised premium	Accrued interest	Fair Value hedge adjustment	Total
15 December 2017	6% coupon	1,015,000	24,292	2,662		
15 March 2019	5% coupon	1,180,000	29,129	17,315		
15 April 2020	3% coupon	565,000	(18,322)	3,566		
15 May 2021	6% coupon	1,320,000	79,629	10,115		
15 April 2023	5.5% coupon	1,285,000	70,428	14,869		
15 April 2025	2.75% coupon	100,000	(3,157)	579		
15 April 2027	4.5% coupon	755,000	23,373	7,148		
Total		**6,220,000**	**205,372**	**56,254**	**338,032**	**6,819,658**

8 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 1.6% of the aggregate borrowings by that local authority.

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.

9 Treasury stock and bond repurchase transactions

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 2017, treasury stock had been issued in the following maturities (in $000s):

	2017	2016
15 March 2019	50,000	-
15 April 2020	50,000	-
15 May 2021	50,000	-
15 April 2023	50,000	-
15April 2025	50,000	-
15 April 2027	50,000	-
14 April 2033	50,000	-
Total	**350,000**	**-**

LGFA makes these treasury stock bonds available to banks authorised as its tender counter-parties 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.

Each month, LGFA notifies the market the amount of outstanding repurchase transactions and LGFA bonds held as treasury stock.

As at 30 June 2017, bond repurchase transactions comprised:

		30 June 2017 Bond repurchase trades	30 June 2016 Bond repurchase trades
15 March 2019	5% coupon	-	-
15 April 2020	3% coupon	-	-
15 May 2021	6% coupon	-	-
15 April 2023	5.5% coupon	-	-
15 April 2025	2.75% coupon	9,981	-
15 April 2027	4.5% coupon	15,701	-
14 April 2033	3.5% coupon	-	-
		25,682	**-**

10 Reconciliation of net profit / (loss) to net cash flow from operating activities

For the year ended 30 June in $000s	2017	2016
Net profit/(loss) for the period	11,046	9,545
Cash applied to loans to local government	(1,385,002)	(1,374,440)
Non-cash adjustments		
Amortisation and depreciation	438	(756)
Working capital movements		
Net change in trade debtors and receivables	271	(224)
Net change in prepayments	(9)	(212)
Net change in accruals	(39)	248
Net Cash From operating activities	**(1,373,295)**	**(1,365,838)**

11 Share capital

As at 30 June 2017 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.

Shareholder information

Registered holders of equity securities as at 30 June	2017		2016	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional Council	3,731,960	8.3%	3,731,960	8.3%
Greater Wellington Regional Council	3,731,960	8.3%	3,731,960	8.3%
Tasman District Council	3,731,960	8.3%	3,731,960	8.3%
Tauranga City Council	3,731,960	8.3%	3,731,960	8.3%
Wellington City Council	3,731,960	8.3%	3,731,960	8.3%
Western Bay of Plenty District Council	3,731,960	8.3%	3,731,960	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%**

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, while remaining a going concern.

Dividend

LGFA paid a dividend of $1,392,500 on 14 October 2016, being $ 0.0557 per paid up share (2015: $1,607,500, being $ 0.06826 per paid up share).

12 Operating leases

Following the November 2016 Kaikoura earthquake, LGFA registered offices at 142 Featherston Street, Wellington are unable to be occupied. To date, there is no agreed date for re-occupation and contractual lease payments have been suspended by agreement until future notice.

13 Other assets

As at 30 June in $000s	2017	2016
Property, plant and equipment[1]	-	43
Intangible assets[2]	760	912
Total other assets	**760**	**955**

1. Property, plant and equipment were fully depreciated during the financial year.
2. Intangible assets comprise acquired and internally developed software costs incurred on the implementation of LGFA's treasury management system.

14 Capital commitments

As at 30 June 2017, there are no capital commitments.

15 Contingencies

There are no material contingent liabilities at balance date.

16 Related parties

Identity of related parties

The Company is related to the local authorities set out in the Shareholder Information in note 11.

The Company operates under an annual Statement of Intent with the respective local authorities that sets out the intentions and expectations for LGFA's operations and lending to participating local authorities.

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 councils. The lending to individual councils is disclosed in note 5, and interest income recognised on this lending is shown in the statement of comprehensive income.

The purchase of LGFA borrower notes by participating councils. Refer note 8.

NZDMO provides LGFA with a committed credit facility and is LGFA's derivatives counterparty.

Transactions with key management personnel

Salaries $802,434 (2016: $704,084)

Fees paid to directors are disclosed in operating overheads in note 4.

17 Subsequent events

Subsequent to balance date, LGFA has issued $255 million bonds through two tenders.

Subsequent to balance date, on 31 August 2017, the Directors of LGFA declared a dividend of $1,390,000 ($ 0.0556) per paid up share.

Right: Christchurch office and Council Chambers opened in April 2015. Environment Canterbury.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

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

Opinion

We have audited:

- the financial statements of the Company on pages 34 to 58, that comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including accounting policies and other explanatory information; and
- the performance information of the Company on pages 20 to 29.

In our opinion:

- the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards (IFRS)
- the performance information of the Company 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 2017.

Basis for opinion

We conducted 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 Auditor's responsibilities for the audit of the financial statements and the performance information section of our report. We are independent of the Company in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition to the audit we have carried out an engagement in the area of technical accounting advice, which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the Company.

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

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $56.8 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

KPMG

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 shareholders 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 5 to the Financial Statements. The loans LGFA has provided to local government make up over 90% of total assets. The loans are recognised at amortised cost and the nature of the counterparties is such that we do not consider these loans to be at high risk of significant misstatement. However, based on their materiality, and the judgement involved in assessing the credit worthiness of counterparties they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our audit procedures included: - understanding the processes in place to assess borrowers and to record loan transactions. This included evaluating the control environment in place at LGFA. - agreeing the 30 June 2017 loan balances to confirmations received from the individual borrowing councils. - assessing the borrowers' compliance with financial covenants. We did not identify any material differences in relation to the existence or impairment of loans.
Application of hedge accounting	
Refer to Note 2 of the Financial Statements. LGFA enters into derivatives (interest rate swaps) to manage interest rate risk related to issuing fixed rate bonds. Fair value hedge accounting is applied where specific requirements are met around documentation of the hedge relationship and the relationship is demonstrated as being an effective hedge. Hedge accounting is complex, particularly in the area of whether the requirements (both initial and ongoing) for its application are met. Should the requirements for hedge accounting not be met, LGFA could experience significant volatility in the Statement of Comprehensive Income from changes in the fair value of the derivatives. 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: - agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty. - using our treasury valuation specialists we independently recalculated the fair value of all of the derivatives recorded by LGFA. - ensuring the hedge documentation supporting the application of hedge accounting was in accordance with relevant accounting standards. - determining based on sample testing that management's hedge effectiveness calculations were correctly performed using appropriate source information. We are satisfied that the application of hedge accounting is appropriate.

KPMG

Other information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information included on pages 4 to 17 and 64 to 68, 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 and, in doing so, 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 the work we have performed, 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.

Directors' responsibilities for the financial statements and the performance information

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for preparing the performance information for the Company.

In preparing the financial statements and the performance information, the directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities 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 conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of shareholders taken on the basis of these 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. We also:

- 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.

KPMG

- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We evaluate the appropriateness of the reported performance information within the Company's framework for reporting its performance.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the 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.
- 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 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements and the performance information of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

Brent Manning
KPMG
On behalf of the Auditor-General
Wellington, New Zealand
31 August 2017

Credit rating

As at 30 June 2017, LGFA has the following credit ratings:

Rating Agency	Local currency		Foreign currency	
	Long term	Short term	Long term	Short term
Standard & Poors	AA+	A-1+	AA	A-1+
Fitch	AA+	F1+	AA	F1+

Board of Directors

INTERESTS REGISTER

Name of Director	Nature and extent of interest	
Craig Stobo	**Director** Precinct Properties New Zealand Limited Elevation Capital Management Limited Saturn Portfolio Management Limited Stobo Group Limited AIG Insurance NZ Limited Fliway Group Limited Bureau Limited SouthWest Trustees Limited Appello Services Limited Biomarine Group Limited Legend Terrace Limited	**General disclosure** Chair, Establishment Board, Local Government Risk Agency
John Avery	**Director** Spider Tracks Limited Fund Managers Auckland Limited Strategic Pay Limited Strategic Pay Trustee Service Limited	**General disclosure** The New Zealand School of Dance (Trustee) New Zealand Dance Advancement Trust (Trustee) Stinger Trust (Trustee)
Philip Cory-Wright	**Director** South Port New Zealand Limited Matariki Forests Limited Papa Rererangi i Puketapu (New Plymouth Airport)	
Abby Foote	**Director** Z Energy Limited BNZ Life Insurance Limited (ceased 30 June 2017) Livestock Improvement Corporation Limited The Museum of New Zealand Te Papa Tongarewa Television New Zealand Limited	

Linda Robertson	**Director** RML Consulting Limited Dunedin City Holdings Limited Dunedin City Treasury Limited King Country Energy Limited NZ Registry Services Limited NZPM Group Limited Auckland Council Investments Limited Crown Irrigation Investments Limited	**General disclosure** Audit and Risk Committee, Ministry of Social Development Technical Advisory Committee, NZ Export Credit Office Chair, Audit and Risk Committee, Central Otago District Council
Mike Timmer		**General disclosure** Officer, Greater Wellington Regional Council Chairman of Finance Committee, Physiotherapy New Zealand

DIRECTOR REMUNERATION

Director	2017($)
Craig Stobo	$90,000
John Avery	$51,000
Philip Cory-Wright	$51,000
Abby Foote	$54,000
Mike Timmer	$51,000
Linda Robertson	$51,000
Total	$348,000

STAFF REMUNERATION

Total remuneration	2017
$110,000 to $119,999	1
$200,000 to $209,999	1
$260,000 to $269,999	1
$540,000 to $549,999	1
Total staff receiving $100,000 or more	4

DONATIONS

No donations were made by LGFA during the year ended 30 June 2017.

WAIVERS FROM NZX LIMITED (NZX)

LGFA's fixed rate bonds are quoted on the NZX Debt Market (LGFA Bonds). NZX has granted LGFA a number of waivers from the NZX Listing Rules.

Waiver from Rule 3.2.1

NZX has granted LGFA a waiver from NZX Listing Rule 3.2.1(a) to the extent that this requires the trust deed under which the LGFA Bonds are issued (Trust Deed) to provide that the appointment of a new trustee is to be approved by an extraordinary resolution of the holders of the Securities to which the Trust Deed relates. Effective from 10 May 2016, LGFA ceased to rely on this waiver as the Trust Deed was amended to comply with NZX Listing Rule 3.2.1(a).

Waiver from Rule 5.2.3

NZX has granted LGFA a waiver from NZX Listing Rule 5.2.3 to the extent that this requires the LGFA Bonds to be held by at least 100 members of the public holding at least 25% of the number of securities of that class issued.

The waiver from NZX Listing Rule 5.2.3 was provided on the conditions that:

a. LGFA clearly and prominently disclose the waiver, its conditions and its implications in its annual reports and in each profile or Offering Document for the LGFA Bonds;
b. LGFA will disclose market liquidity as a risk in each offering document (excluding any offering document referred to in paragraph (f) of the definition of "Offering Document" under NZX Listing Rule 1.6.1) for the LGFA Bonds; and
c. the nature of LGFA's business and operations do not materially change from its business and operations as at the date of the waiver decision.

The effect of the waiver is that the LGFA Bonds may not be widely held and there may be reduced market liquidity in the LGFA Bonds.

Waiver from Rule 6.3.2

NZX has granted LGFA a waiver from NZX Listing Rule 6.3.2 so that the deemed date of receipt of notices for a holder of LGFA Bonds who has supplied LGFA with an address outside of New Zealand, will be five working days after that notice is posted to that physical address.

NET TANGIBLE ASSETS

Net tangible asset per $1,000 of listed bonds as at 30 June 2017 is $6.86 (2016: $7.11).

EARNINGS PER SECURITY

Earnings per $1,000 of listed bonds as at 30 June 2017 is $1.41 (2016: $1.53).

AMOUNT PER SECURITY OF FINAL DIVIDENDS

Not applicable.

SPREAD OF QUOTED SECURITY HOLDERS

Spread of bondholders (LGF010, LGF020, LGF030, LGF040, LGF050, LGF060, LGF070 and LGF080) as at 30 June 2017.

Holding range	Holder count	Holding quantity	Holding quantity %
10,000 to 49,999	451	$11,663,000	0.15
50,000 to 99,999	158	$10,944,000	0.14
100,000 to 499,999	201	$44,060,000	0.56
500,000 to 999,999	35	$24,921,000	0.32
1,000,000 and above	71	$7,763,412,000	98.83
Total	916	$7,855,000,000	100

LGFA Board of Directors. From left: Philip Cory-Wright, Abby Foote, Craig Stobo, Linda Robertson, John Avery, Mike Timmer

LGFA Staff. From left: Koshick Ranchhod, Ariadne Clarke, Andrew Michl, Jane Phelan, Mark Butcher, Neil Bain

Directory

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Follow us twitter.com/nzlgfa

Mercury Bay Sports Park. Thames-Coromandel District Council.

Back cover: Lower Hutt's Avalon Park Playground, opened in October 2016. Hutt City Council.

LGFA

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY