



2026 – 2029

Statement of Intent

LGFA



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

1. Introduction

This Statement of Intent (SOI) sets out the nature and scope of the activities, objectives, and performance targets for the New Zealand Local Government Funding Agency Limited (LGFA) for the three-year period 1 July 2026 to 30 June 2029.

LGFA is enabled under the Local Government Borrowing Act 2011 and is a council-controlled organisation (CCO) for the purposes of the Local Government Act 2002.

The SOI is prepared in accordance with section 64(1) of the Local Government Act 2002.

2. Nature and scope of activities

LGFA raises debt funding for the purpose of providing debt financing to New Zealand local authorities and CCOs (members).

In August 2024, LGFA confirmed that it will provide financing to support water CCOs established under Local Water Done Well. Four water CCOs have joined LGFA in the 2025-26 financial year and we are expecting a further 13 to join in the 2026-27 year.

LGFA may raise debt funding either domestically and/or offshore in either NZ dollars or foreign currency. LGFA seeks to minimise the cost of borrowing for its council and CCO borrowers.

LGFA is required to pay a 2% Approved Issuer Levy (AIL) on the interest paid on foreign currency borrowing to Central Government but does not pay AIL on any NZD borrowing. AIL is our single largest expense at \$23.8 million over the three-year forecast period and is effectively a tax on Local Government by Central Government.

LGFA only lends to members that have completed required relevant legal and operational arrangements and comply with the LGFA's lending policies.

In addition, LGFA may undertake any other activities considered by the LGFA Board to be reasonably related, incidentally to, or in connection with, that business.

The LGFA Board has agreed subject to receiving shareholder approval to support the development of the Ratepayer Assistance Scheme (RAS).

3. Our purpose Ta tatou kaupapa

Benefiting local communities through delivering efficient financing for local government.

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



Cover: The Amberley Beach Proactive Relocation Project. **Hurunui District Council**

Above: Papa Rererangi i Puketapu Solar Farm, the first project financed under our GS Renewable Energy category. **New Plymouth District Council**

4. Our values Ō mātau uara

We act with integrity

E pono ana mātau

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

We are customer focused

E arotahi ana mātau ki te kiritaki

Our customers are our borrowers, investors, and all other organisations that we deal with. We listen to them and act in their best interests to deliver results that make a positive difference.

We strive for excellence

E whakapau kaha mātau kia hiranga te mahi

We strive to excel by delivering financial products and services that are highly valued at least cost while seeking continuous improvement in everything we do.

We provide leadership

He kaiārahi mātau

We are here for our stakeholders in being strategically minded, providing resilience and executing our strategy. We embrace a high-performance culture and can be relied upon to deliver results.

We are innovative

He auaha mātau

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

5. Foundation objectives

The Shareholders' Agreement is a foundation document and states that, in accordance with the Local Government Act, in carrying on its business the objectives of the Company will be to:

- (a) achieve the objectives of the Shareholders (both commercial and non-commercial) as specified in the Statement of Intent. The Shareholders agree that the Company shall carry on its business with a view to making a profit sufficient to pay a dividend in accordance with the Dividend Policy, but that the primary objective of the Shareholders with respect to the Company is that it optimises the terms and conditions of the debt funding it provides to Participating Local Authorities;
- (b) be a good employer;
- (c) exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and
- (d) conduct its affairs in accordance with sound business practice.

This Statement of Intent sets out the company's strategic priorities, together with associated objectives and performance targets, which align with the foundation objectives and have been agreed with shareholders.

6. Strategic priorities

The following five strategic priorities encompass the foundation objectives and guide the LGFA Board and management in determining our strategy, objectives, and associated performance targets.

Governance, capability, and business practice

LGFA is committed to best-practice corporate governance underpinned by sound business practice to ensure its long-term sustainability and success. It is important to attract and retain high quality directors and staff to ensure the ongoing success of the organisation.

Optimising financing services for local government

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

Environmental and social responsibility

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

Effective management of loans

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

Industry leadership and engagement

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



Upgrading of the seawall at The Strand. Tauranga City Council

7. Objectives and performance targets

This section sets out LGFA's objectives and performance targets for SOI 2026-2029.

The financial performance targets are focused on the 2026-2027 year and, as applicable, are based on the financial forecasts outlined in section 8.

Governance, capability, and business practice

Objectives	How we measure our performance
Demonstrate best-practice corporate governance.	The Annual Report outlines our compliance with the eight core principles underpinning the NZX Corporate Governance Best Practice Code.
Set and model high standards of ethical behaviour.	LGFA has adopted a formal Code of Ethics, incorporating its Conflicts of Interest and Code of Conduct policies, which sets out the standards and values that directors and employees are expected to follow.
Achieve the shareholder-agreed objectives and performance targets specified in this Statement of Intent.	LGFA reports performance against objectives quarterly to shareholders and in our Annual Report, Half Year Report and Climate-Related Disclosures.
Ensure products and services offered to participating borrowers are delivered in a cost-effective manner.	LGFA prepares annual operating budgets and monitors progress against these monthly. Financial performance is reported quarterly to shareholders and in our Annual and Half Year Reports.
Be a good employer by providing safe working conditions, training and development and equal opportunities for staff.	The Annual Report reports on our health and safety and wellbeing practices and policies, compliance with the Health and Safety at Work Act, diversity and inclusion and capability and development.
Attract and retain the best quality staff.	A high level of staff satisfaction and engagement in the Annual Staff Engagement survey. Succession planning, retention and recruitment outcomes are reviewed and reported.

Performance targets	2026-2027 target
Comply with the Shareholder Foundation Policies and the Board-approved Treasury Policy at all times.	No breaches.
Staff Engagement Survey results	All scores greater than 80%.
Maintain LGFA's credit rating equal to the Central Government rating where both entities are rated by the same Rating Agency.	LGFA credit ratings equivalent to Central Government.
LGFA's total operating income, excluding unrealised gains / (losses) on financial instruments, for the period to 30 June 2027.	>\$46.2 million.
LGFA's total operating expenses (excluding Approved Issuer Levy) for the period to 30 June 2027.	<\$13.5 million.

Optimising financing services for local government

Objectives	How we measure our performance
Provide interest cost savings relative to alternative sources of financing.	Measure LGFA issuance spreads against other high-grade issuers in the New Zealand domestic capital markets.
Offer flexible short and long-term lending products that meet the borrowing requirements for borrowers.	Measure LGFA's share of overall council borrowing. Survey participating borrowers on an annual basis.
Deliver operational best practice and efficiency for lending services.	Monitor settlements errors for new trades and cashflows. Survey participating borrowers on an annual basis.
Ensure certainty of access to debt markets, subject always to operating in accordance with sound business practice.	Maintain a vibrant primary and secondary market in LGFA bonds. Monitor participation by investors at our tenders through bid-coverage ratios and successful issuance yield ranges. Have the ability to issue debt securities in NZD and foreign currency.

Performance targets	2026-2027 target
Share of aggregate long-term debt funding to the Local Government sector. The market share excludes entities who are ineligible for borrowing from LGFA e.g. water entities not financially supported by their parent councils.	> 80%
Conduct an annual survey of Participating Borrowers who borrow from LGFA as to the value added by LGFA to the borrowing activities.	> 85% satisfaction score.
Successfully refinance existing loans to councils and LGFA bond maturities as they fall due.	100%
Meet all lending requests from Participating Borrowers, where those requests meet LGFA operational and covenant requirements.	100%
Onboard all remaining water CCOs who did not join in 2025-26 by 30 June 2027. This assumes all water CCOs apply to join LGFA.	Onboard all water CCOs once their application to join LGFA has been approved.

Environmental and social responsibility

Objectives	How we measure our performance
Assist the local government sector in achieving their sustainability and climate change objectives.	LGFA is committed to assist borrowers financing of projects that promote environmental and social wellbeing in New Zealand, and to encourage a reduction in greenhouse gas emissions and increase climate-resilience amongst borrowers. We do this through the development of lending products such as Green and Social (GS) loans and Climate Action Loans (CALs). This objective will be measured by the number of new GS loans and the number of new members eligible for CALs.
Improve sustainability outcomes within LGFA.	LGFA is committed to reducing our carbon emissions, increasing our resilience to climate change, and managing our climate-related risks and opportunities. To do this effectively, climate change considerations will be embedded into our governance, strategy and risk management functions.

Performance targets	2026-2027 target
Health and Safety.	No notifiable incidents.
Maintain Toitū Carbon Zero certification.	Carbon-zero certification maintained.
Increase our GS lending book and Climate Action Loans.	Two new GS loans undertaken and two new borrowers enter into CALs.
Develop a sustainable financing option for the water sector.	The new sustainable financing product is utilised by water entities.
Enhance our insight into climate-related risks through council lending.	Climate change is incorporated into LGFA's credit risk assessments.

Effective management of loans

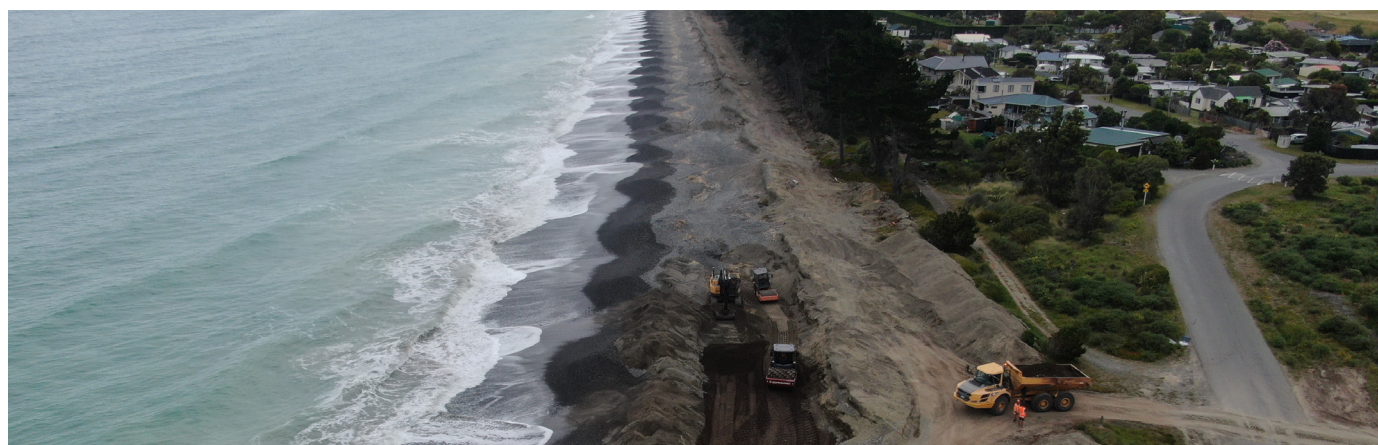
Objectives	How we measure our performance
Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies. Analyse finances at the Council group level where appropriate and report to shareholders.	LGFA reviews all participating councils and CCOs financial statements on an annual basis and the agendas and management reports on an ongoing basis for all councils on the LGFA borrower watch-list. Member councils are required to complete annual compliance certificates by the end of November each year.
Endeavour to meet each participating borrower annually, including meeting with elected officials as required, or if requested.	Number of members visited in a year.
Ensure a smooth transition of water-related loans if the Local Water Done Well Reforms progresses over forecast period.	LGFA will be able to ensure the successful transition of existing council water-related loans to Water CCOs (if requested by a council).

Performance targets	2026-2027 target
Review each Participating Borrower's financial position.	100%
Arrange to meet each Participating Borrower over a 15-month period, including meeting with elected officials as required, or if requested.	100%

Industry leadership and engagement

Objectives	How we measure our performance
Take a proactive role to enhance the financial strength and depth of the local government debt market and work with key central government and local government stakeholders on sector and individual council issues.	<p>Report on actions undertaken and progress made on sector issues.</p> <p>Identifying any legislative or Central Government policy changes that may impact LGFA and undertake formal or informal submissions.</p> <p>Assist the local government sector with understanding any legislative or Central Government policy changes that may impact LGFA.</p> <p>Provide the opportunity for a Council or CCO staff member to enhance their governance understanding and skills through the LGFA Future Director Programme.</p>
Support the local government sector with the transition to the Local Water Done Well Reforms by assisting with the development options for the Water Services Delivery Plans and communicating our requirements (lending, financial covenants, reporting), as well as loan pricing guidance, implementation considerations and views on best practice.	Report on our sector-wide engagement and initiatives with assisting members' transition to the Local Water Done Well Reforms.

Performance targets	2026-2027 target
Provide quarterly updates to shareholders and borrowers on sector developments that are impacting LGFA.	Four quarterly updates to councils and CCOs.
Meet annually with Infrastructure Commission, Local Government New Zealand, Taituara, Water New Zealand, Infrastructure New Zealand, Crown Infrastructure Partners, Department of Internal Affairs, Treasury and Minister's office to discuss sector issues from an LGFA perspective.	Nine meetings across stakeholders.
Support councils with Local Water Done Well by providing timely and responsible advice for on-boarding water CCOs.	On-boarding process is underway for all water CCOs who have requested it.
Provide a governance opportunity for a council or CCO staff member under the LGFA Future Director Programme.	One Future Director appointed for an 18 month term.



The Amberley Beach Proactive Relocation Project. **Hurunui District Council**

8. Financial forecasts

LGFA's financial forecasts for the three years to 30 June 2029:

Summary comprehensive income \$m	Jun 27	Jun 28	Jun 29
Net interest income	44.3	45.5	47.4
Other operating income	1.9	1.9	1.9
Total income	46.2	47.4	49.3
Approved Issuer Levy	7.4	7.9	8.4
Operating expenses	13.5	14.2	14.8
Net profit	25.3	25.3	26.0
Financial position \$m	Jun 27	Jun 28	Jun 29
Liquid assets portfolio	4,585	4,695	6,110
Loans	25,207	26,361	26,722
Other assets	-	-	-
Total assets	29,792	31,056	32,832
NZD bonds on issue (ex Treasury stock)	16,950	17,626	18,084
FCY bonds on issue	10,597	10,885	12,057
Bills & ECP on issue	1,158	1,158	1,158
Borrower notes	879	1,021	1,122
Other liabilities	-	-	-
Total liabilities	29,584	30,689	32,421
Capital	25	25	25
Reserves	(8)	(8)	(8)
Retained earnings	164	188	212
Dividend	(2)	(2)	(2)
Shareholder equity	180	203	228
Shareholder equity + borrower notes	1,059	1,225	1,350
Ratios	Jun 27	Jun 28	Jun 29
Liquid assets/funding liabilities	16.1%	15.9%	19.5%
Liquid assets / total assets	15.4%	15.1%	18.6%
Net interest margin	0.18%	0.17%	0.18%
Cost to income ratio	29.2%	29.9%	30.1%
Return on average assets	0.09%	0.08%	0.08%
Shareholder equity/total assets	0.6%	0.7%	0.7%
Shareholder equity + BN/total assets	3.6%	3.9%	4.1%
Asset growth	9.1%	4.2%	5.7%
Loan growth	4.8%	4.6%	1.4%
Return on equity	16.2%	14.1%	12.8%
Capital ratio	17.8%	19.7%	20.6%

The above forecasts assume a gross bond issuance programme of \$4.66 billion (FY27), \$4.77 billion (FY28) and \$4.80 billion (FY29) based upon term gross lending to councils and CCOs of \$4.88 billion (FY27), \$5.48 billion (FY28) and \$5.69 billion (FY29).

Note: The forecasts include consideration that LGFA will provide financing to support water CCOs established under Local Water Done Well. However, there is a level of uncertainty regarding the financial forecasts for both council borrowing and LGFA bond issuance due to the uncertainty relating to the timing of the establishment of water CCOs and the impact on councils.

Our council lending and LGFA bond issuance forecasts include LGFA lending to the proposed water CCOs if they meet our qualifying criteria for membership. We have assumed we will not be lending to financially independent water CCOs such as Watercare as they are unlikely to meet the qualifying criteria.

Borrower Notes are subordinated capital instruments that contribute as equity. When a Council or CCO borrows on a long term basis from LGFA, they must subscribe for 5% of the face value of the loan in the form of Borrower Notes.

Ratepayer Assistance Scheme

LGFA is supporting the development of the Ratepayer Assistance Scheme (RAS) that will assist ratepayers with the ability to defer rates, enter property improvement loans and spread the payment of development contributions (or levies) over a long time horizon. LGFA has committed to financially contribute to the RAS business case. If the business case is supportive and the RAS proceeds then (subject to shareholder approval), LGFA will consider taking a shareholding, providing a debt facility, providing support services, investing in preference shares (akin to the LGFA Borrower Notes) and managing the RAS debt issuance programme. The LGFA participation in RAS has not been factored into the above financial forecasts.

9. Dividend policy

LGFA primary objective is to maximise benefits to participating borrowers rather than shareholders. Consequently, it is intended to pay a limited dividend to shareholders.

The Board's policy is to pay a dividend that provides an annual rate of return to shareholders equal to LGFA fixed rate bond cost of funds plus 2.00% over the medium term.

At all times payment of any dividend will be discretionary and subject to the Board's legal obligations and views on appropriate capital structure.

10. Governance

Board

The Board is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with the Companies Act 1993, the Local Government Act 2002, the Local Government Borrowing Act 2011, the Company's Constitution, the Shareholders' Agreement for LGFA and this SOI.

The Board comprises seven directors with six being independent directors and one being a non-independent director.

The Board's approach to governance is to adopt best practice with respect to:

- The operation of the Board.
- The performance of the Board.
- Managing the relationship with the Company's Chief Executive.
- Being accountable to all Shareholders.

All directors are required to comply with a formal Charter.

The Board will meet on a regular basis and no fewer than six times each year.

Shareholders' Council

The Shareholders' Council is made up of between five and ten appointees of the Shareholders (including an appointee from the Crown). The role of the Shareholders' Council is to:

- Review the performance of LGFA and the Board, and report to Shareholders on that performance on a periodic basis.
- Make recommendations to Shareholders as to the appointment, removal, replacement, and remuneration of directors.
- Make recommendations to Shareholders as to any changes to policies, or the SOI, requiring their approval.
- Ensure all Shareholders are fully informed on LGFA matters and to coordinate Shareholders on governance decisions.

11. Information to be provided to Shareholders

The Board aims to ensure that Shareholders are informed of all major developments affecting LGFA's state of affairs, while at the same time recognising both LGFA's obligations under NZX Listing Rules and that commercial sensitivity may preclude certain information from being made public.

Annual Report

The LGFA's balance date is 30 June.

By 30 September each year, the Company will produce an Annual Report complying with Sections 67, 68 and 69 of the Local Government Act 2002, the Companies Act 1993 and Financial Reporting Act 2013. The Annual Report will contain the information necessary to enable an informed assessment of the operations of the company, and will include the following information:

- Directors' Report.
- Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position, Statement of Cashflows, Statement of Accounting Policies and Notes to the Accounts.
- Comparison of the LGFA's performance regarding the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Auditor's Report on the financial statements and the performance targets.
- Any other information that the directors consider appropriate.

Climate-Related Disclosures

By 30 September each year, the Company will produce Climate-Related Disclosures in accordance with the Aotearoa New Zealand Climate Standards issued by the External Reporting Board.

The Climate Standards require the Company to disclose climate-related information across the following four thematic areas:

- Governance
- Strategy
- Risk management
- Metrics and targets.

Half Yearly Report

By 28 February each year, the Company will produce a Half Yearly Report complying with Section 66 of the Local Government Act 2002. The Half Yearly Report will include the following information:

- Directors' commentary on operations for the relevant six-month period.
- Unaudited half-yearly Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position and Statement of Cashflows.

Quarterly Report

By 31 January, 30 April, 31 July, and 31 October each year, the Company will produce a Quarterly Report. The Quarterly Report will include the following information:

- Commentary on operations for the relevant quarter, including a summary of borrowing margins charged to Participating Borrowers (in credit rating bands).
- Comparison of LGFA's performance regarding the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Analysis of the weighted average maturity of LGFA bonds outstanding.
- In the December Quarterly Report only, commentary on the Net Debt/Total Revenue percentage for each Participating Local Authority that has borrowed from LGFA (as at the end of the preceding financial year).
- To the extent known by LGFA, details of all events of review in respect of any Participating Borrower that occurred during the relevant quarter (including steps taken, or proposed to be taken, by LGFA in relation thereto).
- Details of any lending to CCOs during the quarter and the amount of CCO loans outstanding.
- Commentary on sustainability initiatives.

Statement of Intent

By 1 March in each year the Company will deliver to the Shareholders its draft SOI for the following year in the form required by Clause 9(1) of Schedule 8 and Section 64(1) of the Local Government Act 2002.

Having considered any comments from the Shareholders received by 30 April, the Board will deliver the completed SOI to the Shareholders on or before 30 June each year.

Shareholder Meetings

The Board will hold an Annual General Meeting between 30 September and 30 November each year to present the Annual Report to all Shareholders.

The Company will hold a meeting with the Shareholders' Council approximately every six months – prior to the Annual General Meeting and after the Half Yearly Report has been submitted. Other meetings may be held by agreement between the Board and the Shareholders' Council.

12. Acquisition/divestment policy

LGFA will invest in securities in the ordinary course of business. It is expected that these securities will be debt securities. These investments will be governed by LGFA's lending and/or investment policies as approved by the Board and/or Shareholders.

Any subscription, purchase, or acquisition by LGFA of shares in a company or organisation will, if not within those investment policies, require Shareholder approval other than as concerns the formation of wholly-owned subsidiaries and the subscription of shares in such wholly-owned subsidiaries.

13. Activities for which compensation is sought from Shareholders

At the request of Shareholders, LGFA may (at its discretion) undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full cost of providing such activities.

Currently there are no activities for which compensation will be sought from Shareholders.

14. Commercial value of Shareholder's investment

LGFA will seek to maximise benefits to Participating Local Authorities as Borrowers rather than Shareholders.

Subject to the Board's views on the appropriate capital structure for LGFA, the Board's intention will be to pay a dividend that provides an annual rate of return to Principal Shareholders equal to LGFA fixed rate bond cost of funds plus 2.00% over the medium term.

As the Shareholders will have invested in the LGFA on the basis of this limited dividend, the Board considered that at establishment the commercial value of LGFA was equal to the face value of the Shareholders' paid up Principal Shares - \$25 million.

In the absence of any subsequent share transfers to the observed share transfers on 30 November 2012, the Board considers the current commercial value of LGFA is at least equal to the face value of the Shareholders' paid up Principal Shares of \$25 million. This equates to a value per share of \$1.00.

15. Accounting policies

LGFA has adopted accounting policies that are in accordance with the New Zealand International Financial Reporting Standards and generally accepted accounting practice.

1. Reporting entity

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

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

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

The registered address of LGFA is Level 8, Grant Thornton House, 215 Lambton Quay, Wellington 6011.

2. Statement of compliance

LGFA is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA).

LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with NZ IFRS and other applicable Financial Reporting Standard, as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

3. Basis of preparation

MEASUREMENT BASE

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

The financial statements are prepared on an accrual basis.

FUNCTIONAL AND PRESENTATION CURRENCY

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

FOREIGN CURRENCY CONVERSIONS

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

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies.

EARLY ADOPTION STANDARDS AND INTERPRETATIONS

LGFA has not early adopted any standards.

STANDARDS NOT YET ADOPTED

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements. This includes NZ IFRS 18 Presentation and Disclosure in Financial Statements.

FINANCIAL INSTRUMENTS

Financial assets

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

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

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

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

At each balance date, an expected credit loss assessment is performed for all financial assets and is calculated as either:

- Credit losses that may arise from default events that are possible within the next 12 months, where no significant increase in credit risk has arisen since acquisition of the asset, or
- Credit losses that may arise from default events that are possible over the expected life of the financial asset, where a significant increase in credit risk has arisen since acquisition of the asset.

Impairment losses on financial assets will ordinarily be recognised on initial recognition as a 12-month expected loss allowance and move to a lifetime expected loss allowance if there is a significant deterioration in credit risk since acquisition.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at either:

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

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

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

OTHER ASSETS

Property, plant and equipment

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

OTHER LIABILITIES

Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

REVENUE

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

EXPENSES

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Approved issuer levy

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

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

SEGMENT REPORTING

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

JUDGEMENTS AND ESTIMATIONS

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts. For example, the fair value of financial instruments depends critically on judgements regarding future cash flows, including inflation assumptions and the risk-free discount rate.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and these estimates and underlying assumptions are reviewed on an ongoing basis. Where these judgements significantly affect the amounts recognised in the financial statements they are described in the following notes.