

25 June 2024

Dear LGFA stakeholder

Statement of Intent 2024-2027

Please find attached the Statement of Intent (SOI) for the 2024-27 period.

LGFA remains focused on delivering strong results for our council borrowers and shareholders.

For our borrowing councils and CCOs we seek to optimise funding terms and conditions by

- Achieving savings in borrowing costs
- Provide longer dated funding and
- Provide certainty of access to markets.

For our shareholders we are focused on

- Delivering a strong financial performance
- Monitoring asset quality and
- Enhancing our approach to treasury and risk management.

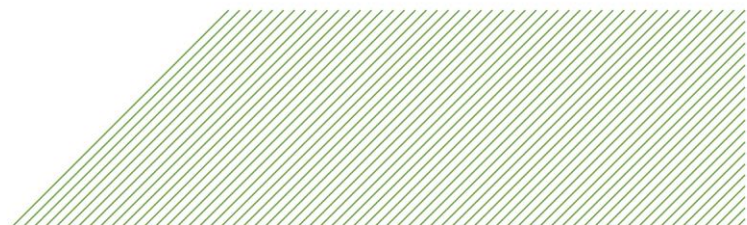
The following points regarding the 2024-27 SOI are worth noting:

- We are needing to strengthen the financial and capital position of LGFA given
 - the weakening credit outlook for the sector¹
 - the additional borrowing by councils and CCOs that has led to increase borrowing costs incurred by LGFA e.g. the cost of offshore issuance, Approved Issuer Levy, legal and issuance expenses, a larger amount of liquid assets to ensure liquidity and NZX listing fees.

We propose to do this by increasing the base on-lending margin by 5 bps (0.05%) and to increase the Borrower Notes percentage to 5%. This will improve our profitability, retained earnings, capital base and preserve our high level of creditworthiness.

- As with previous years, there remains uncertainty within the SOI forecasts relating to the amount of both council loans and LGFA bonds outstanding as this depends upon the magnitude and timing of council borrowing. The actual amount of borrowing will be influenced by the ability of councils to deliver on the capex projections in their Long Term Plans (“LTPs”), any cost increases as we well as the amount of Central Government assistance in funded capex delivery.
- The Local Water Done Well reform programme (“LWDW”) is progressing with the second (of three) Bills currently passing through Parliament. There remains uncertainty for the sector

¹ S&P Global Ratings have placed twenty-one councils and two CCO on negative outlook, and they comprise 39% of the LGFA loan book.



(and LGFA) as to the amount, timing and transition of assets, debt and revenue to the new water organisations. We have assumed that any impact from LWDW is unlikely to occur until the 2025-26 year. For our council borrowing and bond issuance forecasting purposes we have used the latest Draft 2024-34 LTPs from councils (that incorporate water related activities). The only adjustment made is that we have assumed that LGFA won't be lending to financially independent Water CCOs such as Watercare.

- The SOI performance targets are the same as the targets in the prior year SOI except we have strengthened our focus on achieving sustainability outcomes and added performance targets to our Industry Leadership and Engagement Objectives.

The changes made to the Final SOI compared to the Draft SOI that you received in February 2024 for comment have been:

- We have increased our forecasts for council borrowing in the 2024-25, 2025-26 and 2026-27 financial years by \$1.2 billion, \$340 million, and \$1.1 billion. We have increased our forecasts for LGFA bond issuance by 2024-25, 2025-26 and 2026-27 financial years by \$150 million, \$460 million, and \$1.12 billion. We have increased our forecast for LGFA Bills on issue by \$500 million.
- Net Interest Income is forecast to increase in the 2024-25, 2025-26 and 2026-27 financial years by \$1.6 million, \$1.3 million, and \$14.5 million.
- Expenses are forecast to increase by \$2.2 million in 2024-25, \$2.9 million in 2025-26 and \$3.4 million in 2026-27 with over half of the increase in expenses coming from increased Approved Issuer Levy payments to Central Government from our offshore bond issuance.
- Forecast Net Operating Profit is forecast to decrease by \$600k (2024-25) but increase by \$8.4 million (2025-26) and \$11.1 million (2026-27).

We remain committed to delivering the lowest possible borrowing cost to the sector, providing certainty of access to funding and long dated tenors to councils while at the same time protecting the interests of our guarantors and shareholders.

We thank you for your support of LGFA and please feel free to contact me if you have any questions or require further clarification on anything relating to the SOI or LGFA in general.

Yours sincerely



Mark Butcher
Chief Executive