Absolutely Positively **Wellington** City Council
Me Heke Ki Pōneke

ORDINARY MEETING

OF

WELLINGTON CITY COUNCIL

AGENDA

Time:	**9:30am**
Date:	**Wednesday, 24 June 2020**
Venue:	**Ngake (16.09)** **Level 16, Tahiwi** **113 The Terrace** **Wellington**

MEMBERSHIP

Mayor Foster
Councillor Calvert
Councillor Condie
Councillor Day
Councillor Fitzsimons
Councillor Foon
Councillor Free (Deputy Mayor)
Councillor Matthews
Councillor O'Neill
Councillor Pannett
Councillor Paul
Councillor Rush
Councillor Sparrow
Councillor Woolf
Councillor Young

Have your say!
You can make a short presentation to the Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 04-803-8334, emailing public.participation@wcc.govt.nz or writing to Democracy Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number, and the issue you would like to talk about. All Council and committee meetings are livestreamed on our YouTube page. This includes any public participation at the meeting.

TABLE OF CONTENTS
24 JUNE 2020

1. Meeting Conduct

1.1 Karakia

The Chairperson will open the meeting with a karakia.

Whakataka te hau ki te uru,	Cease oh winds of the west
Whakataka te hau ki te tonga.	and of the south
Kia mākinakina ki uta,	Let the bracing breezes flow,
Kia mātaratara ki tai.	over the land and the sea.
E hī ake ana te atākura.	Let the red-tipped dawn come
He tio, he huka, he hauhū.	with a sharpened edge, a touch of frost,
Tihei Mauri Ora!	a promise of a glorious day

At the appropriate time, the following karakia will be read to close the meeting.

Unuhia, unuhia, unuhia ki te uru tapu nui	Draw on, draw on
Kia wātea, kia māmā, te ngākau, te tinana, te wairua	Draw on the supreme sacredness
I te ara takatū	To clear, to free the heart, the body
Koia rā e Rongo, whakairia ake ki runga	and the spirit of mankind
Kia wātea, kia wātea	Oh Rongo, above (symbol of peace)
Āe rā, kua wātea!	Let this all be done in unity

1. 2 Apologies

The Chairperson invites notice from members of:

1. Leave of absence for future meetings of the Wellington City Council; or
2. Apologies, including apologies for lateness and early departure from the meeting, where leave of absence has not previously been granted.

1. 3 Announcements by the Mayor

1. 4 Conflict of Interest Declarations

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

1. 5 Confirmation of Minutes

The minutes of the meeting held on 27 May 2020 will be put to the Council for confirmation.

1. 6 Items not on the Agenda

The Chairperson will give notice of items not on the agenda as follows:

Matters Requiring Urgent Attention as Determined by Resolution of the Wellington City Council

The Chairperson shall state to the meeting.

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent meeting.

The item may be allowed onto the agenda by resolution of the Wellington City Council.

Minor Matters relating to the General Business of the Wellington City Council

The Chairperson shall state to the meeting that the item will be discussed, but no resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent meeting of the Wellington City Council for further discussion.

1. 7 Public Participation

A maximum of 60 minutes is set aside for public participation at the commencement of any meeting of the Council or committee that is open to the public. Under Standing Order 3.23.3 a written, oral or electronic application to address the meeting setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the meeting concerned, and subsequently approved by the Chairperson.

2. General Business

LOCAL GOVERNMENT FUNDING AGENCY - NOTICE OF SPECIAL GENERAL MEETING

Purpose

1. This report asks the Council to give approval to vote at the Special General Meeting of Local Government Funding Agency.

Summary

2. The Local Government Funding Agency (LGFA) provides debt funding to local authorities. The Council has an equity stake of 8.3% in the LGFA, is a borrower with long-term loans of $536m and is a guarantor of losses incurred by the LGFA from borrower defaults.
3. A Shareholders' Agreement establishes a Shareholders' Council to advise shareholders on relevant matters that require shareholder resolutions. The Shareholders' Agreement also contains foundation policies for LGFA lending. The Council's appointee is Martin Read.
4. There are 54 Council guarantors of the LGFA's total lending, of which the Council has a 5.4% share (based on a proportionate share of rates income). Total debt issued by the LGFA is $10.4 billion, the LGFA currently has access to liquid assets of $1.56 billion.
5. The Board of Local Government Funding Agency (LGFA) has reviewed the foundation policy covenants and is recommending to shareholders to amend the net debt to total revenue financial covenant to 300% from 250% for the year ending 30 June 2021. The ratio would gradually reduce to 280% by 30 June 2026.
6. All other LGFA covenants relating to net interest expense remain unchanged.
7. Council's Treasury Policy requires amendment to align with LGFA's recommended change to the net debt to total revenue covenant, subject to LGFA's shareholders approving foundation policies.

Recommendation/s

That the Council:

1. Receives the information and the Local Government Funding Agency Notice of Special General Meeting.
2. Approve the amendments to the foundation policies of the Local Government Funding Agency.
3. Approve by way of proxy, Martin Read to attend the Special General Meeting to vote to

approve the changes to the foundation policies

4. Approve the amendment of Council's Treasury Policy to align with the Local Government Funding Agency foundation policy change to the LGFA net debt to revenue covenant, subject to shareholders' approval of 2. above.

Background

8. Council's involvement in LGFA allows access to long-term funding and lower debt servicing costs. LGFA was established primarily to support the local authority sector and in addition it improves the depth in the New Zealand capital markets.

9. The proposed increase to net debt to total revenue covenant provides financial flexibility to manage Council's large investment programme.

10. Amendment to Foundation Policies require shareholders' approval by way of an Ordinary Resolution. This requires approval by a simple majority of more than 50% of votes of the shareholders entitled to vote.

11. Council's shareholding in the LGFA is 8.3% (paid up capital).

12. When lending to local authorities, the LGFA sets covenants which local authority borrowers must meet. The current and proposed covenants are shown in the table below:

Covenant	Ratio Current	Ratio Proposed
Net Debt / Total Revenue	250%	300% to 280%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<30%	<30%
Liquidity	>110%	>110%

13. Currently, borrowers are able to apply for bespoke financial covenants that exceed the above targets. Loan agreements reached on bespoke terms require the approval of the LGFA board only.

14. The LGFA has two classes of local authority borrowers – those with long-term credit ratings of 'A' equivalent or higher of which there are around 30 borrowing councils, and the remaining 37 without. Of total loans on issue, 90.1% are to councils with credit ratings.

Discussion

15. LGFA is proposing to raise its foundation policy covenant limit on net debt to total revenue to 300% from 250%. This new covenant limit will be effective for the period ending 30 June 2021 and will then be gradually reduced to 280% by the year ending 30 June 2026.

16. The table below outline the proposed net debt to total revenue covenant by year:

    Financial Year Ending Net Debt to Total Revenue

    30 June 2021 <300%

    30 June 2022 <300%

    30 June 2023 <295%

    30 June 2024 <290%

    30 June 2025 <285%

    30 June 2026 <280%

17. The objective of this proposed change is to provide councils with short to medium term additional debt capacity to manage financial stress arising from the COVID-19 pandemic.
18. Over the longer term, the reduction to 280% by 30 June 2026 will allow additional capacity to manage other local government funding challenges like infrastructure investment and climate change.
19. The foundation policy covenants apply to councils with an external credit rating of 'A' or higher. All rated Councils have a rating of A+ or higher, comprising 30 of the 67 borrowers which have borrowed 90% of all LGFA lending.
20. A lower limit of 175% applies to the 37 unrated councils and no changes are proposed for these councils. The LGFA has assessed these councils as having in general, better credit quality than the councils with a credit rating.
21. The LGFA expects a maximum of five councils are likely to exceed the 250% covenant, based on Long-term Plan expectations. These include growth councils – Auckland, Tauranga and Hamilton which together could borrow up to an additional $1.27 billion to reach the 280% ceiling by 2026. The total extra borrowing capacity with these changes (with current council revenues) is calculated to be $2.614 billion.
22. The LGFA has discussed the proposal with credit rating agencies who have advised that it will not change the LGFA's overall rating of AA+ (and therefore its price of borrowing for on-lending to local authorities will not increase as a result of the increased financial covenant).
23. The proposed changes have been discussed with both Standard and Poor's and Fitch Rating agencies, by the LGFA, and they are comfortable with this proposed relaxation of the net debt to total revenue covenant. They have assessed that it should not currently affect the credit rating of the LGFA, however this excludes the impact on the credit rating of the individual Council borrowers/guarantors etc.
24. These changes have also been discussed with LGFA Shareholders' Council and they support the proposal.
25. Council's Treasury Policy is currently aligned to LGFA's covenant net debt to total revenue of 250%. Therefore, it is appropriate to now align with LGFA's new proposed covenant in the event shareholders approve the above proposal.

26. The Wellington City Council (WCC) representative asked the Shareholders Council to seek an independent analysis of the extra risk for guarantors by the proposed relaxation of the covenant limits. A review was carried out by the LGFA and is attached in Appendix 5.

27. The WCC representative to the Shareholders Council has asked the Shareholders Council and the LGFA to make a number of considerations for:

- Whether it is appropriate for the Government to become a Guarantor (to sit alongside their 11.1% shareholding) to complement the Government's request/support to increase the covenants.
- Differential pricing for those Councils going above the existing 250% debt:income ratio covenant limit – so that those that increase the risk pay more for it, rather than the proposal where the risk and pricing is shared across all borrowers.
- Capping of joint and several type guarantees at the current 250% debt:income ratio limit.

28. The LGFA and Shareholders Council have considered these factors but did not propose to make any changes that specifically address these considerations.

29. On the basis these aspects have been raised and had these aspects considered, it is recommended that it is appropriate that WCC continue to support the LGFA by approving the proposed amendment to the foundation documents.

Next Actions

30. The WCC vote will vote at the Special General Meeting on 30 June 2020, the result will be by way of a simple majority (over 50%).

31. If the vote is successful documentation changes will be required, which will be brought back to Council.

Attachments

Author	Martin Read, Manager Financial Strategy & Treasury
Authoriser	Andy Matthews, Chief Financial Officer

SUPPORTING INFORMATION

Engagement and Consultation

Not applicable.

Treaty of Waitangi considerations

Not applicable.

Financial implications

Matters considered in the report are considered to be of low significance, in terms of Council's Significance and Engagement Policy.

Policy and legislative implications

Changes to the Treasury Management Policy will be required to be consistent with this change as noted in the report.

Risks / legal

This proposed increase to net debt to total revenue covenant provides additional debt capacity of approximately $2.6 billion (based on current Council revenues) or $2.35 billion based on a 10% reduction in Council revenues.

Although this change of allowing councils with high debt to borrow additional debt may add downward pressure to their individual council ratings, this is not expected to impact on LGFA's credit rating in the short term.

A risk assessment from the LGFA is attached to this report in attachment 5.

Climate Change impact and considerations

Additional debt capacity will be created with this change to fund local government funding challenges like climate change

Communications Plan

Not applicable.

Health and Safety Impact considered

Not applicable.

LGFA
NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
NOTICE OF SPECIAL GENERAL MEETING

Notice is given that a special meeting of shareholders of New Zealand Local Government Funding Agency Limited ("**Company**" or "**LGFA**") will be held virtually on **30 June 2020** commencing at **2:00pm.** The board of the Company has called this special meeting in accordance with clause 15.2(a) of the Company's constitution.

BUSINESS

1. **CHANGES TO FOUNDATION POLICIES**

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

2. **GENERAL BUSINESS**
   To consider such other business as may properly be raised at the meeting.

Please refer to the explanatory note that accompanies this notice of meeting.

VIRTUAL MEETING

With measures to contain the spread of COVID-19 expected to remain in place for some time, the board of the Company has made the decision to hold this meeting as a virtual meeting, in accordance with clause 14.1(b) of the Company's constitution.

All shareholders will be able to participate in the meeting via an internet connection (using a computer, laptop, tablet or smartphone). In order to participate remotely you will need to either:

- **[Relevant instructions for service, eg for Lumi]** Download Lumi AGM from the App Store or Google Play Stores for free – search for Lumi-AGM; or
- Visit web.lumiagm.com on your desktop or mobile device.

If you have any questions, or need assistance with the online process, please contact Jane Phelan.

Shareholders will be able to vote on the resolution and ask questions by using their own computer or mobile devices.

Shareholders will still be able to appoint a proxy to vote for them, as they otherwise would, by following the instructions on the proxy form.

By order of the board:

Craig Stobo, Chairman
12 May 2020

ORDINARY RESOLUTIONS: *Ordinary resolutions are resolutions approved by a simple majority of more than 50% of the votes of the shareholders entitled to vote and voting at the special general meeting.*

SHAREHOLDERS ENTITLED TO ATTEND AND VOTE: *Pursuant to section 125 of the Companies Act 1993, for the purposes of voting at the special general meeting, those registered shareholders of the Company as at 9.00am on Tuesday 30 June 2020 shall be entitled to exercise the right to vote at the meeting.*

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

EXPLANATORY NOTE

CHANGES TO FOUNDATION POLICIES

This resolution seeks shareholders' approval for amendments to the Foundation Policies of the Company.

The Foundation Policies of the Company are set out in schedule 1 to the SHA. In summary, as relevant for the proposed resolution, clause 5.1(c) of the SHA provides that neither the Board nor any shareholder shall take or permit any action to cause any alteration to any of the Foundation Policies unless it is approved by Ordinary Resolution of the Company's shareholders.

The proposed changes to the Foundation Policies requiring shareholder approval by Ordinary Resolution relate to a change to the Net Debt / Total Revenue foundation policy financial covenant.

Proposed Change

The proposed change is to increase the Net Debt / Total Revenue foundation policy financial covenant from the current 250% to 280%, which applies to Local Authorities with a long-term credit rating of 'A' equivalent or higher.

However, such Local Authorities will not be required to comply with the revised Net Debt / Total Revenue foundation policy financial covenant until the financial year ending 30 June 2026. Until that date, such Local Authorities must comply with the Net Debt / Total Revenue foundation policy financial covenants set out in the table below:

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

Then from the Financial Year ending 30 June 2026 the Net Debt/Total Revenue foundation policy financial covenant will be 280% for such Local Authorities with a long-term credit rating of 'A' equivalent or higher.

The proposed change is to provide greater financial flexibility and borrowing capacity for such Local Authorities as a result of the short-term impacts of COVID-19 and the medium-term structural changes to the local government sector to meet additional demand for infrastructure investment.

Local Authorities are faced with short-term revenue uncertainties as a result of the impact of COVID-19 on the New Zealand economy. This will impact both rates revenue and non-rates revenue for many Local Authorities and a recent Department of Internal Affairs Report projects revenue shortfalls of between 2.3% and 11% in the 2020-21 financial year.[1]

The foundation policy and lending policy financial covenants were incorporated into the Foundation Policies in 2011 and have not subsequently been amended. Since 2011, Local Authorities have faced increased borrowing requirements to finance additional infrastructure to meet population growth, climate change and water quality issues. Central Government has also called upon Local Authorities to assist with additional infrastructure investment in the near term as part of the economic relief package post COVID-19.

The proposed changes only apply to Local Authorities with a long-term credit rating of 'A' equivalent or higher. As at 12 May 2020 thirty Local Authorities were required to meet the foundation policy financial

[1] DIA Local Government Sector COVID-19 Financial Implications Report 2 –4 May 2020

covenants. The other thirty-seven Local Authorities are required to meet the more restrictive lending policy financial covenants.

LGFA has undertaken scenario testing to determine the potential additional borrowing as a result of the proposed change to the foundation policy financial covenants and has concluded that the proposed changes do not incur significant additional risk for shareholders or guarantors of LGFA. This is because the probability of a default by a Local Authority remains low and if a default did occur then the probability of recovery of loans owing to LGFA remains high.

LGFA has discussed the proposed changes with both S&P Global Ratings Australia Pty Limited and Fitch Australia Pty Limited who provide a credit rating on LGFA. Both agencies were supportive verbally of the proposed change and S&P Global Ratings Australia Pty Limited provided their support in writing.[2]

[2] S&P Global Ratings Bulletin "New Zealand Local Government Funding Agency Ltd Ratings Can Tolerate Higher Council Leverage Limits. 5 May 2020

APPENDIX: FORM OF AMENDED FOUNDATION POLICIES

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

PROXY FORM

LGFA
NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

I/We ______________________________

of ____

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

of ______________________ or failing him/her __________________________

of ______________________ as my/our proxy to vote for me/us at the special general meeting of the Company to be held on 30 June 2020 and at any adjournment thereof.

If you wish to direct the proxy how to vote, please indicate with a ☒ in the appropriate box below. If the proxy can vote as he or she thinks fit, please indicate with a ☒ in the following box: ☐

	For	**Against**
1. To approve the changes to the foundation policies of the Company	☐	☐

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

____

Signature of Shareholder

Dated: 2020

Notes:

1. In light of recent public health announcements relating to COVID-19, the Company's board has made the decision to hold the special general meeting as a virtual meeting. You may attend the virtual meeting and vote or you may appoint a proxy to attend and vote in your place.

2. If you wish you may appoint as your proxy the chairperson of the meeting. The chairperson intends to vote all discretionary proxies, for which they have authority to vote, in favour of the resolution.

3. If you are a body corporate, this proxy form must be signed on behalf of the body corporate by a person acting under the body corporate's express or implied authority.

4. For this proxy form to be valid, you must complete it and produce it to the Company at least 48 hours before the time for holding the meeting. You can produce it to the Company by delivering it to **Level 8, City Chambers, 142 Featherston Street, Wellington 6145 or via email to** jane.phelan@lgfa.co.nz. **It must be received at least 48 hours before the time for holding the meeting.**

5. If this proxy form has been signed under a power of attorney, a copy of the power of attorney (unless already deposited with the Company) and a signed certificate of non-revocation of the power of attorney must be produced to the Company with this proxy form.

6. If you return this form without directing the proxy how to vote on the resolution, the proxy can vote how he or she thinks fit if authorised by you in this proxy form by ticking the appropriate box. Otherwise, the proxy will be deemed to have abstained from voting on that matter.

7. Capitalised terms in this proxy form have the meanings given to them in the shareholders' agreement dated 7 December 2011 (as amended from time to time) between the Company and its shareholders.

LGFA
NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Agenda
Special General Meeting

30 June 2020

Via [lumiagm.com / virtualmeeting.nz]

2:00pm – 3:00pm

Commented [MB1]: To be decided

	Agenda Item	Leading Discussion
1	Introduction from Chairman	Craig Stobo
2	Quorum	Craig Stobo
3	Changes to LGFA Foundation Policies	Mark Butcher
4	General Business	Craig Stobo

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
AUCKLAND Level 5, Walker Wayland Centre, 53 Fort Street
WELLINGTON Level 8, City Chambers, 142 Featherston Street
PO Box 5704, Lambton Quay, Wellington 6145 | PH +64 4 974 6530 | www.lgfa.co.nz

Foundation Policies

(Clause 5.1 of the Shareholders' Agreement)

All foundation policies may be reviewed annually by Principal Shareholders at the annual meeting of Shareholders. Any alteration requires approval pursuant to clause 5.1.

Credit Risk

Lending Policy

All Local Authorities that borrow from the Company will:

- Provide debenture security in relation to their borrowing from the Company and related obligations, and (if relevant), equity commitment liabilities to the Company and (if relevant) guarantee liabilities to a security trustee approved for the Company's creditors.
- Issue securities (bonds / FRNs / CP) to the Company and/or enter into facility arrangements with the Company.
- Comply with their own internal borrowing policies.
- Comply with the financial covenants outlined in the following table, provided that:
  - Unrated Local Authorities or Local Authorities with a long-term credit rating lower than 'A' equivalent can have bespoke financial covenants that exceed the:
    - Lending policy covenants outlined in the following table with the approval of the Board;
    - Foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution.
  - Local Authorities with a long-term credit rating of 'A' equivalent or higher~~:~~:
    - will not be required to comply with the lending policy covenants in the following table~~;~~; and
    - can have bespoke financial covenants that exceed the foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution~~.~~; and in any event, will not be required to comply with the Net Debt / Total Revenue foundation policy covenant outlined in the following table until the financial year ending 30 June 2026. Until that date, such Local Authority must comply with the Net Debt / Total Revenue covenant set out in the table entitled "Alternative Net Debt / Total Revenue Covenant" below.
  - Any Board or Ordinary Resolution approval of bespoke financial covenants will only be provided after a robust credit analysis and any approval must also include bespoke reporting and monitoring arrangements.
- If the principal amount of a Local Authority's borrowings, or the Company's commitment under a facility agreement with a Local Authority, is at any time greater than NZD 20 million, be a party to a deed of guarantee and an equity commitment deed (in each case in a form set by the Company).

Formatted

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250280%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

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

Total Revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non government capital contributions (e.g. developer contributions and vested assets).
Net debt is defined as total debt less liquid financial assets and investments.
Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.
Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

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

During the initial three years of operation the Auckland Council will be limited to a maximum of 60% of the Company's total Local Authority (including CCOs (as defined below)) assets. After three years Auckland Council will be limited to a maximum of 40% of the Company's total Local Authority (including CCO) assets.

No more than the greater of NZD 100 million or 33% of a Local Authority's or CCO's (as defined below) borrowings from the Company will mature in any 12 month period.

Subject to implementation of any amendments or other actions considered necessary, advisable or expedient by the Board and the approval of the Board in relation to the relevant CCO (as defined below) (which may be a Council-Controlled Trading Organisation), an approved CCO may borrow from the Company provided that:

- The CCO is a "council-controlled organisation" as defined in section 6 of the Local Government Act 2002, where the CCO is a company in which equity securities carrying at least 51% or more of the voting rights at a meeting of the shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities (respectively, a "CCO" and each such Local Authority being a "CCO Shareholder");
- Each CCO Shareholder provides a guarantee in respect of the CCO in favour of the Company and/or there is sufficient uncalled capital in respect of the CCO to meet the financial obligations of the CCO;
- Each CCO Shareholder provides equity commitment liabilities to the Company, guarantees liabilities to a security trustee approved for the Company's creditors, and provides debenture

security for its equity commitments to the Company and guarantee liabilities to the security trustee;

- Each CCO Shareholder complies with Lending policy financial covenants, Foundation policy financial covenants or other financial covenants required by the Board (if any~~;~~) and, in the case of a CCO Shareholder with a long-term credit rating of 'A' equivalent or higher, until the financial year ending 30 June 2026, the Net Debt / Total Revenue covenant in the table entitled "Alternative Net Debt / Total Revenue Covenant" above.
- The CCO complies with any covenants required by the Board; and
- If required by the Board, the CCO will grant security in favour of the Company (which may be subject to any intercreditor arrangements acceptable to the Board).

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

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

Cash and Liquid Investment Policy

The Company will only invest in NZD senior debt securities, money market deposits and registered certificates of deposits within the counterparty limits outlined in the following table.

New Zealand Local Authority and CCO securities are excluded from the Company's cash and liquidity portfolio.

Counterparty[1]	S & P Credit Rating or equivalent (Short-term / long-term)[2]	Maximum % Limit (Total Cash + Liquid Assets)	Minimum % Limit (Total Cash + Liquid Assets)	Maximum New Zealand Dollar counterparty Limit (millions)[3]	Maximum term (years)[4]
Category 1: NZ Government or RBNZ[5]	N/A	100%	20%	Unlimited	No longer than the longest dated LGFA maturity on issue
Category 2	A1+ / AAA	80%	N/A	300	3
Category 3	A1+: A1 / AA+	80%	N/A	200	3
	A1+: A1 / AA	80%	N/A	200	3
	A1+: A1 / AA-	80%	N/A	200	3

[1] Category 2, 3, 4 and 5 counterparties do not include the RBNZ or the NZ Government.
[2] Short term rating applies for all securities with a maturity date of 365 days or less.
[3] If the counterparty credit rating is downgraded below the allowed limit, LGFA has 30 days to sell the security.
[4] Maximum term applies from the date of settlement.
[5] At least 20% of the portfolio must be held at the RBNZ or invested in NZ Government securities.

Category 4	A1: /A+, NZ Registered Bank	60%	N/A	200
Category 5	A1: /A+ Other Issuers	10%	N/A	50

The maximum individual counterparty limit (excluding the NZ Government) cannot be greater than 100% of Accessible Capital. Accessible Capital is defined as issued and paid capital plus retained earnings plus issued and unpaid capital plus outstanding borrower notes.

Formatted: Don't keep with next

Derivative Policy

Unless explicitly approved otherwise by the Board, all derivative transactions must be transacted with New Zealand Debt Management as counterparty.

Market Risk

The Company's total 12 month forecast portfolio PDH (Partial Differential Hedge) Limit is $100,000[6].

The Company's total portfolio Value at Risk (VaR) daily limit is $1,000,000[7].

Foreign exchange risk policy

The Company will take no foreign exchange risk.

Operational Risk

Unless explicitly approved otherwise by the Board, the Company will outsource the following functions to New Zealand Debt Management as follows:

- Hedging – New Zealand Debt Management is the LGFA interest rate swap counterparty.

Dividend policy

The policy is to pay a dividend that provides an annual rate of return to Shareholders equal to the Company's cost of funds plus 2.00% over the medium term, recognising that, to assist in the start-up period, the initial expectation is for no dividend for the part period to 30 June 2012, and for a dividend equal to 50% of the target dividend in the two periods to 30 June 2014 to be paid. Thereafter, the intention is to pay at least the full target dividend until the target dividend return is achieved as measured from commencement, including consideration of the time value of money at the target annual rate of return.

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

[6] PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates. For example a PDH of $100,000 means that the portfolio value will fall by $100,000 for a one basis point fall in interest rates.
[7] VaR measures expected loss for a given period with a given confidence. For example, 95% confidence, daily VaR of $1,000,000 means that it is expected that the portfolio will lose $1,000,000 on 5% of days, i.e. 1 day in 20 the portfolio value will decrease by $1,000,000.

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Analysis of additional risk to guarantors from proposed change to Foundation Policy limits

Background:

The LGFA Board has proposed to shareholders to change a Foundation Policy covenant at a Special General Meeting of shareholders on 30 June 2020. Please refer to the Notice of Meeting for the rationale to increase the Net Debt/Total Revenue covenant within the Foundation Policies.

The proposal is to increase the limit to 300% for the 2020/21 and 2021/22 years and then a tapering back to 280% over a five-year period (to June 2026) through a 5% reduction each year from June 2022.

There are no proposed changes to any of the Lending Policy covenants (for unrated councils or those with a credit rating less than "A") and no proposed changes to any of the other Foundation Policy covenants.

The proposed covenant change applies to those councils with a credit rating of "A" or better and there are currently 31 councils with borrowings from LGFA of $9.63 billion as at 26 May 2020.

The Shareholder Council is in favour of the proposal but has asked

> "the LGFA Board to determine (preferably through appropriate independent advice) how much (if any) additional risk could arise as a consequence of lifting the debt covenants to the proposed level and, if there is any additional risk to shareholders and guarantors, advice on what the appropriate response could be to mitigate it."

LGFA management have estimated the additional risk through assessing the probability of default from a change to the covenant by using the S&P rating methodology. They have outlined the rationale for why there is a low likelihood of loss on a council loan if a default occurred. They have also highlighted the mitigants to a call on the guarantee in the unlikely event that a council did default, and a loss did occur.

The LGFA board believes it is not cost effective to undertake an independent review of this analysis as the quantitative analysis is drawn from S&P Global Ratings independent methodology and the qualitative assessment regarding mitigants has been well publicised by LGFA over the past five years. S&P Global Ratings also noted on an investor conference call on 26 May 2020 that the additional risk from the proposed changes to guarantors is very low.

Additional risk from proposed change:

The Net Debt/Total Revenue covenant was set in conjunction with the credit rating agencies in 2011 and is viewed as a crude proxy for the Debt/GDP ratios used to assess Sovereign credit ratings. It is a measure of debt affordability for borrowers. It is however an imperfect assessment for councils with constrained revenue sources (that are largely uncorrelated to economic growth) and the ratio is misleading given it is a comparison of a stock of debt to a flow of income. However, there is no better proxy available for an assessment of debt affordability.

The other covenant ratios are measures of debt serviceability and liquidity. The low level of interest rates means that there are no issues for councils when meeting debt serviceability covenants. Councils have high levels of access to liquidity.

The additional risk for LGFA (and its council guarantors) from relaxing the Net Debt/Total Revenue covenant for those councils with an external credit rating stems from those council borrowers either taking on additional debt or a reduced level of revenue than previously forecast. The risk will depend upon whether there is an increase in

1. Probability of default and/or
2. Likelihood of loss if a default occurs

Probability of default

We use S&P data to assess the probability of a borrower defaulting for a given credit rating. The S&P data shows:

- The probability of a "AA" issuer defaulting over the next 5-year period is 0.32%
- The probability of a "A" issuer defaulting over the next 5-year period is 0.50%
- S&P do not break the analysis down into individual ratings bands between "AA" and "A". It would be reasonable however to assume the outcomes for "AA- "and "A+" would be somewhere in between so we have used 0.38% and 0.44% respectively.
- We have used 5 years for the time period as it is a reasonable proxy for an average council loan (more accurate than using the 1-year data)

The question then becomes how much the risk of a council default increases by lifting the net debt to revenue covenant from 250% to 280%.

- The debt level of a council is only one part of what makes up the credit profile (or riskiness) of a council (the S&P weighting is 20%)
- For a council credit rating outcome, it is entirely possible that an increase in debt will be offset by an improved score for economic strength or liquidity. Therefore, the whole picture needs to be considered.
- LGFA's view is that only Auckland, Hamilton City and Tauranga City Councils are likely to see their net debt to revenue ratio increase to over 250% in the medium term.
- All other councils have enough headroom that makes it unlikely that forecast or actual net debt to total revenue will increase above 250% although it is possible that this could change when the 2021-2031 LTP's are completed.

Expected loss as a result of a default

The following analysis considers the potential loss from the proposed change to the Foundation Policy covenant[1]

- Auckland, Hamilton City and Tauranga City Councils currently makeup 34.3% of LGFA's council lending.
- If it is assumed that these three councils are downgraded by 1 rating notch if their Net Debt / Total Revenue outcome increases from 250% to 280% then the probability of default increases by 0.06% (0.5%-0.32% divided by 3). The underlying assumption is that if a "AA" council is downgraded to "AA- "then the default probability would increase from 0.32% to 0.38%.
- 34.3% of the portfolio multiplied by 0.06% is 0.02%.
- A 0.02% expected loss on a $10.8 billion loan book translates to a loss of $2.2 million over 5 years.

LGFA would expect to recoup some (if not all) of any losses as we only lend to councils secured against rates. If we adjust the $2.2 million expected loss for an 80% recovery rate, then this would be an expected loss of $440,000.

On this basis the change in the predicted loss is negligible.

[1] Note this is an estimate of the additional potential loss and not the overall estimated loss on the loan book.

Likelihood of a call on guarantors – a qualitative assessment

If a council borrower defaults and there is a loss on the loans, then what are the implications for call upon the guarantee?

It must be noted that the guarantor councils guarantee the obligations of LGFA and not individual council loans. Any call under the guarantee would be made by the LGFA board in order to maintain solvency or meet repayment of LGFA obligation to investors.

The mitigants to a call upon the guarantee are

Reduce probability of council default	Reduce likelihood of loss if a council defaulted	Reduce risk of call on guarantee if a council defaulted and a loss incurred.
Performance of Council Sector There has never been a default by a New Zealand Council. In addition, there is strong oversight of the sector by the Office of the Auditor General (OAG) and the Department of Internal Affairs (DIA). If the Government has concerns over the performance of a council, there are several intervention steps that can be taken including the appointment of a Crown Observer through to the appointment of Commissioners.	Security Over Rates All lending undertaken by LGFA to councils is done with a security charge over the council's rates. This means that in the event of a default by a council, LGFA can appoint a statutory manager who can impose a special rate that would be able to recover the amount owed to LGFA. This ensures all lending to councils is first ranking.	LGFA Capital As at March 2020, LGFA had capital of $244.6 million. This was made up of $81.5 million of equity and $163.1 million of borrower notes which could be converted into equity. In addition, there is a further $20 million of uncalled capital. This provides over $250 million of equity that could be used before a call was made under the guarantee. LGFA is proposing to increase the Borrower Notes (BNs) percentage to 2.5% and the recently increased lending margins will increase capital. Increasing the BNs alone will increase capital by almost $100 million in the next six years.
LGFA Financial Covenants LGFA covenants are set at a level that is roughly consistent with a "A+" credit rating from S&P global ratings. A borrower with a credit rating of "A+" remains of investment grade quality and is not expected to default on its obligations.		LGFA Relationship with Government The New Zealand Government does not guarantee LGFA. However, the Government is a 20% shareholder in LGFA. In addition, the Government provides a $1 billion committed credit facility to LGFA. This would provide LGFA access to funding in the event of a severe market disruption in capital markets which in turn would provide continuity of funding to the New Zealand local authority sector. The Government is also a member of the LGFA Shareholder Council.

Current Headroom under Financial Covenants As at June 2019 no council had a net debt to revenue ratio above 200%. This means that there was enough headroom as a starting point. As a result, we do not think any council will breach the LGFA financial covenants as at June 2020.		LGFA Relationship with Reserve Bank of New Zealand (RBNZ) The RBNZ added LGFA bonds to its Large-Scale Asset Purchase (LSAP) programme in early April and can buy up to 30% of LGFA bonds on issue. The Minister of Finance has agreed to indemnify the RBNZ from any losses incurred through operating the LSAP. This provides a source of liquidity for LGFA and ensures we can borrow at cost effective yields.

Conclusion

LGFA assesses there to be a low probability of a council defaulting, a high expected recovery rate if a council did default and several mitigants to reduce the likelihood of a call upon the guarantee.

A statistical model-based outcome suggests an additional $2.2 million expected loss to be considered should the Foundation Policy limit be increased and assuming that three councils move above the existing limit to the new higher limit of 280%. Assuming an 80% recovery rate, then this would be an expected loss of $440,000.

Given the capital position and ongoing profitability of LGFA, we assess the additional risk to be minor and is outweighed by the benefits to the councils of additional headroom and borrowing capability. This will enable our council borrowers to facilitate infrastructure led growth in the post-COVID environment and meet their responsibilities under the Four Well beings of the Local Government Act.

LGFA
NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

4 May 2020

DISCLAIMER

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

This presentation has been prepared by New Zealand Local Government Funding Agency Limited ("LGFA") for general information purposes only. By listening to the presentation, or reading the presentation materials, you acknowledge and agree to the contents of this disclaimer.

To the maximum extent permitted by law, neither LGFA nor any of its affiliates, directors, officers, partners, employees or agents make any representation, recommendation or warranty, express or implied as to the accuracy, completeness or currency of any of the information in this presentation and accept no responsibility or liability therefore. Data is indicative and approximate only, and all information is subject to change. Some information may be taken from publicly available sources and has not been verified by LGFA. This presentation is intended as a snapshot view of LGFA only, and LGFA has no obligation, and does not undertake or accept any responsibility or obligation, to update, expand or correct anything in this presentation or inform you of any matter arising or coming to its notice, after the date of this presentation, which may affect any matter referred to in this presentation.

This presentation contains forward-looking statements including information regarding LGFA's future bond issuances and forecast financial performance based on current information, estimates and forecasts. Those statements are subject to risks, uncertainties, and assumptions which are hard to predict or anticipate, and therefore actual outcomes and performance may differ materially from the statements. Any opinions expressed in this presentation reflect the judgement of LGFA as the date hereof, and do not bind LGFA.

This presentation is not a product disclosure statement, disclosure document or other offer document under New Zealand law or any other law. This presentation is not, and does not constitute financial advice. All reasonable care has been taken in relation to the preparation and collation of this presentation. Except for statutory liability which may not be excluded, no person, including LGFA or any person mentioned in this presentation accepts responsibility for any loss or damage howsoever occurring resulting from the use or reliance on this presentation by any person. Past performance is not indicative of future performance and no guarantee or future rights are implied or given.

Nothing in this presentation is an offer to sell, or solicitation of an offer to purchase, any securities. This presentation must not be relied upon by any person for making any investment decision and will not form part of any investment contract. The information provided in this presentation is not investment advice and does not take into account the investment objectives, financial situation or particular needs (including financial and taxation issues) of any particular investor. Any person considering in investing in LGFA securities must refer to any relevant offer documents and disclosures provided expressly in connection with those securities and should take their own independent financial and legal advice on their proposed investment. LGFA securities have not been and will not be registered under the United States Securities Act of 1933 (**U.S Securities Act**) or the securities laws of any state or other jurisdiction of the United States. LGFA securities may not be offered or sold, directly or indirectly, in the United States or to, or for the account or benefit of, any person in the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any other applicable U.S. state securities laws.

This presentation is proprietary to LGFA and may not be copied, distributed, disclosed or used without LGFA's express written consent.

NZX Limited accepts no responsibility for any statement in this investor presentation. NZX Limited is a licensed market operator and the NZX Debt Market is a licensed market under the Financial Markets Conduct Act 2013.

LGFA
NEW ZEALAND LOCAL
GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

- ❑ Important Notice and Disclaimer
- ❑ **COVID-19 Update**
- ❑ LGFA Risks
- ❑ Proposed Changes to Foundation Policy
- ❑ Appendices

COVID 19 – IMPACT ON COUNCIL 2020/21 REVENUE

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

- Council funding revenue is forecast to fall between 2.3 and 11 percent in the 2020/21 financial year relative to a 20% forecast decline in the DIA's Local Government Sector COVID-19 Financial Report 1 (14 April 2020)
- In dollar terms this equates to a loss of revenue to the sector of between $355 million and $1.5 billion
- Core scenario is based upon remaining in Level 2 until March 2021 and then back to Level Zero in June 2021
- Reduced level of funding will come from:
  - Rates Income (primarily from zero or lower than forecast rate increases for the 2020/21 financial year
  - Fee Income (less parking revenue, revenue from community facilities, regulatory services income)
  - Investment income (lower dividends and / or lower returns from investment funds)
  - Development contributions
- Lost fee income from public transport is currently being reimbursed by the NZ Transport Agency (NZTA)
- Subsidies and grants likely to be as forecast although the funding level from NZTA is still yet to be confirmed

Source: DIA Local Government Sector COVID-19 Financial Implications Report 2

4

COVID 19 – IMPACT ON COUNCIL 2020/21 RATES INCOME

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

- The sector's rates income for 2020/21 is expected to be between 2 and 4 percent lower than originally forecast.
- The sector's non-collection assumption for rates is forecast to be between 2 and 6 percent for 2020/21.
- It is forecast that this will need to be debt financed until such time as the rates are collected.
- Some councils may offer rates postponement schemes.
- As an example Christchurch City Council will offer businesses with an actual 30 percent decline in revenue an up to six month extension on rates payments.
- In addition, penalty fees for late payment of rates are likely to be waived.
- Councils are also likely to offer rent or lease holidays for some tenants of council facilities. Many of these will be community groups.

Source: DIA Local Government Sector COVID-19 Financial Implications Report 2 and Christchurch City Council's website ccc.govt.nz/services/rates-and-valuations/ratesextension/

5

COVID 19 – Council Balance Sheet Response

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

- Councils are currently re-evaluating their 2020/21 capital expenditure programmes.
- Some councils are forecasting that their capital expenditure programmes will be unchanged. Others are reprioritising non-essential capital expenditure.
- Councils expect to make some reductions in operational expenditure.
- Cuts in operational expenditure will be easiest for councils that outsource contracts for some of their services (for example on April 7 Auckland Council announced that it was immediately cutting 1100 jobs for staff it has been employing as temps, or on contracts).
- Limited savings will be made on community facilities that are not open (less maintenance, less power, less cleaning).
- While councils currently intend to maintain service levels, staffing levels will adjust over time depending on demand.

Source: DIA Local Government SectorCOVID-19 Financial Implications Reports 1 and 2

6

COVID 19 – Impact on the 2019/20 Financial Year

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

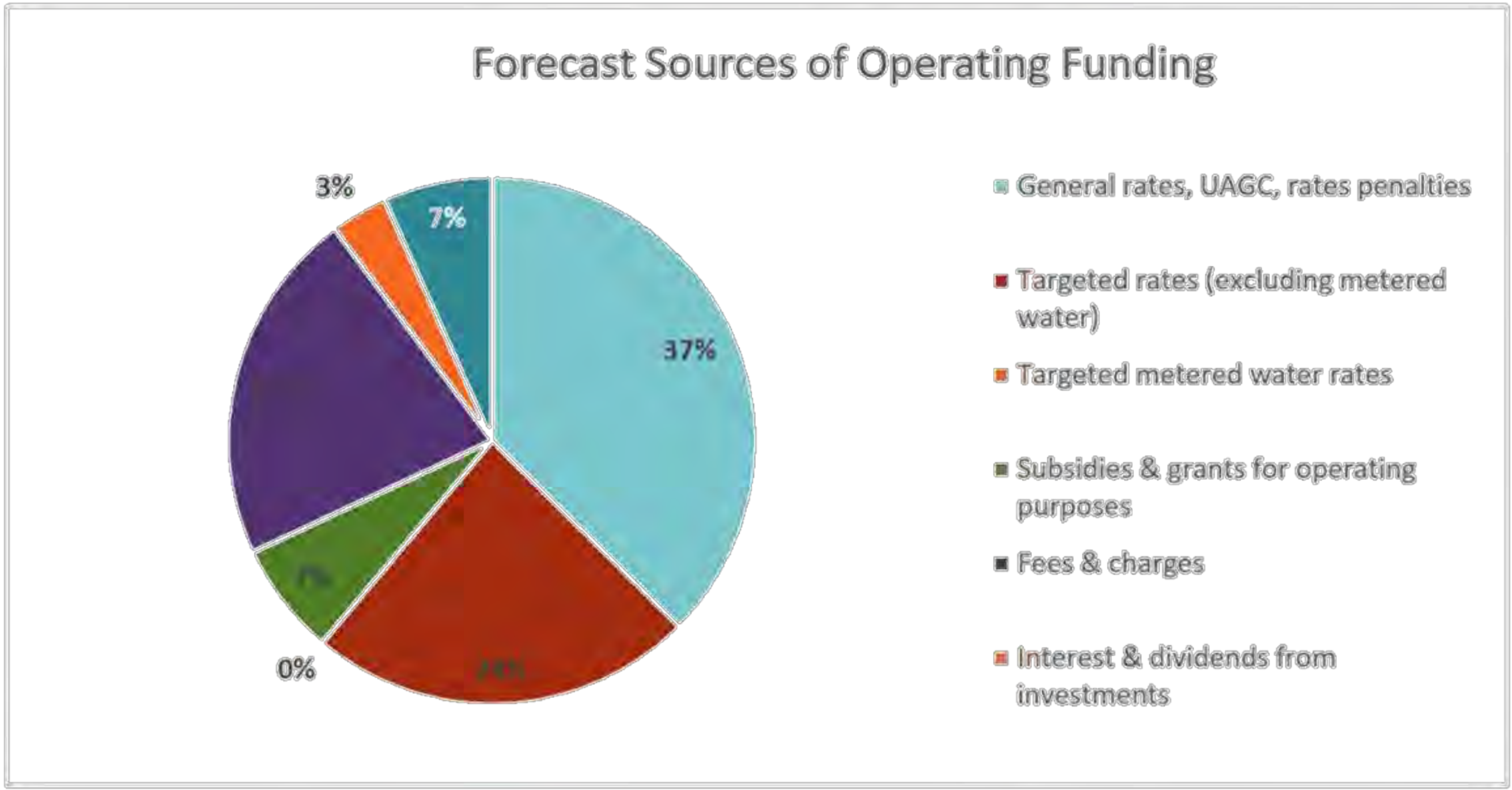
- Level 4 restrictions were imposed on 26 March.
- Councils are forecasting that there will be some loss in 4th quarter revenue.
- The average forecast loss in revenue from fees and charges is 12 percent.
- Construction work stopped during level 4 restrictions on all but essential projects.
- Councils now expect to spend 73 percent of planned 2019/20 capital expenditure budgets. This compares to an actual spend of 81 percent for the year ended June 2019 compared to budget.
- While some councils were expecting to borrow for the reduction in revenue, on average it was expected to be largely offset by a reduction in borrowing required for capital expenditure.
- On LGFA modelling, it is expected that all member councils will be compliant with the LGFA financial covenants as at 30 June 2020.

Source: DIA Local Government Sector COVID-19 Financial Implications Report 2

7

SECTOR REVENUE

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE



Source: DIA analysis of council LTPs for the 2019/20 financial year from the DIA Local Government Sector COVID-19 Financial Implications Report 2

COVID 19 – GOVERNMENT INFRASTRUCTRE PLANS

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

- The Government has asked councils to identify "shovel ready projects" that are ready to start as soon as the construction industry returns to normal.
- The Infrastructure Industry Reference Group will put forward to Ministers projects from the public and private sector that will be ready to start within the next six months.
- These projects will be in addition to the Government's $12 billion New Zealand Upgrade Programme and existing Provincial Growth Fund Infrastructure investments.
- "Infrastructure projects designated crucial to the country's economic recovery will be fast-tracked through the planning process to ensure they start as soon as possible" (Environment Minister - David Parker, 3rd May 2020 National Business Review).
- Nearly all councils have submitted "shovel ready projects" for consideration. For example on April 14 Auckland Council announced they had submitted 73 key projects.
- Provincial Growth Fund projects are continuing. On 30 April, the Minister announced a further $48 million of funding for nine new initiatives.

9

COVID-19 IMPACT ON LGFA BONDS IN SECONDARY MARKET

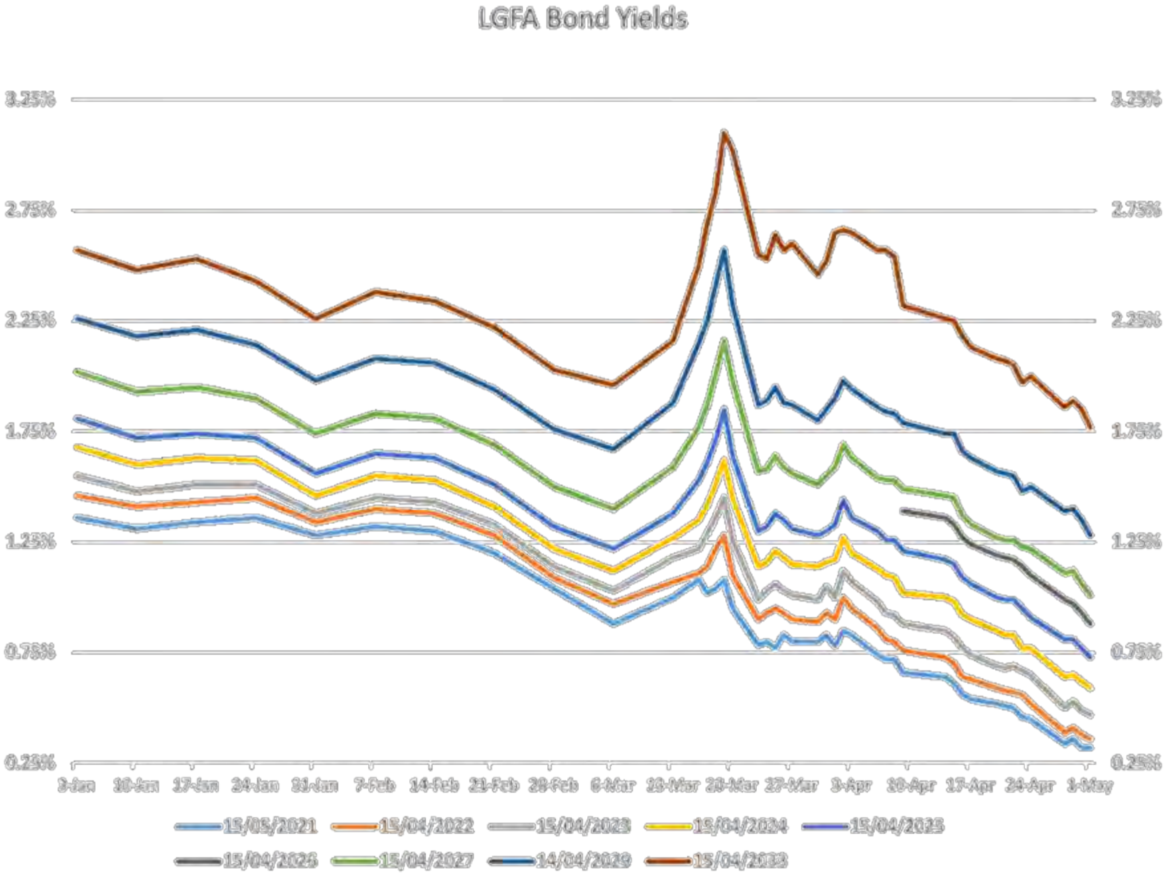
LGFA
NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Initially

- Higher outright yields, steeper yield curve and wider spreads to NZGB and Swap
- Wider bid ask spreads in secondary market
- Secondary market turnover in line with 12 month average

Following RBNZ Large Scale Asset Purchase Programme

- Downward decline in yields continued
- Spreads to Swap and NZGB tighter
- Tighter bid ask spreads
- Record secondary market volume in April
- Positive flow on impact to other high grade issuers

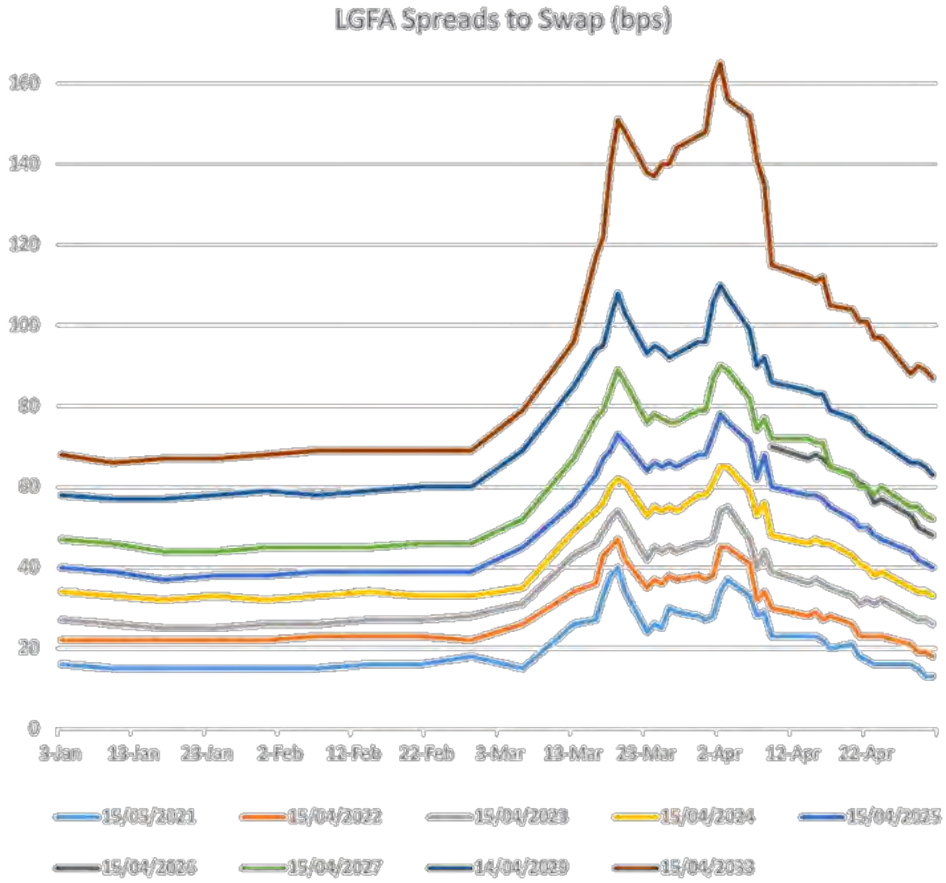


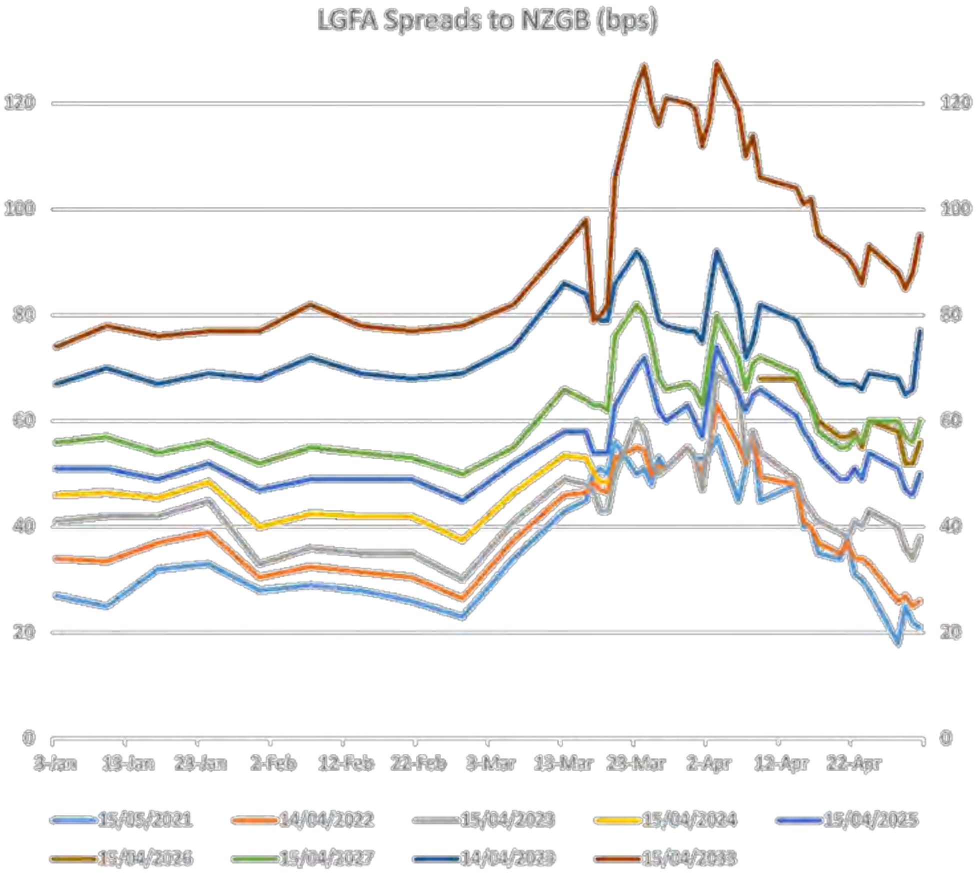
Source: LGFA secondary market end of day yields sourced from BNZ and Bloomberg

10

COVID-19 IMPACT ON LGFA BONDS IN SECONDARY MARKET

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE





Source: LGFA calculated secondary market end of day spreads sourced from BNZ and Bloomberg

11

LGFA COVID-19 RESPONSE

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

- Seamless transition to remote working environment
- Placed rollout of standby facility to Councils on hold pending increase in Liquid Assets Portfolio
- Increased soft cap on LGFA bond maturities from NZ$1.5 billion to NZ$1.75 billion
- Issued 2.5 year Floating Rate Note by private placement
- Increased on-lending margin to councils by 10 bps
- Increase Treasury Stock holding per LGFA bond maturity by NZ$50 million (to NZ$100 million per series) at next issuance opportunity
- Seeking Councils' approval to increase Borrower Notes percentage from 1.6% to 2.5%
- Councils providing best estimate of future borrowing requirement on monthly basis for next six months
- Worked with Department of Internal Affairs, Treasury and Office of Auditor General on implications for councils including stress testing the financial impact
- Proposed changes to Foundation Policy regarding Net Debt / Total Revenue covenant for councils with a long-term credit rating of 'A' equivalent or higher.

Source: LGFA

12

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

- ❑ Important Notice and Disclaimer
- ❑ COVID-19 Update
- ❑ LGFA Risks
- ❑ Proposed Changes to Foundation Policy
- ❑ Appendices

PRUDENT APPROACH TO RISK MANAGEMENT

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

LGFA's policy to minimise financial risks and carefully identify, manage and control all risk.

Market Risk

PDH limit of NZ$100,000 – current exposure (as at 1 May 2020) is -$1,400
VAR limit of NZ$1,000,000 – current exposure (as at 1 May 2020) is $299,000

Credit Risk

All Councils that borrow from LGFA are obliged to:

Provide security in relation to their borrowing from LGFA and related obligations.
Issue securities (bonds/FRNs/CP) to LGFA.
Comply with their own internal borrowing policies.
Comply with the LGFA financial covenants within either the Lending Policy or Foundation Policy

Auckland Council is limited to a maximum of 40% of LGFA's total Local Authority assets.
No more than the greater of NZ$100 million or 33% of a Council's borrowings from LGFA will mature in any 12 month period.

Liquidity and Funding Risk

Cash and Investments

LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations when they fall due.
Only invest in NZD senior debt securities, money market deposits and registered certificates of deposits within strict counterparty limits.

NZ Government liquidity facility

The New Zealand Government provides a committed liquidity facility up to NZ$1 billion in size that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall.
Facility size is set by LGFA at NZ$700 million (as at 1 May 2020)

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

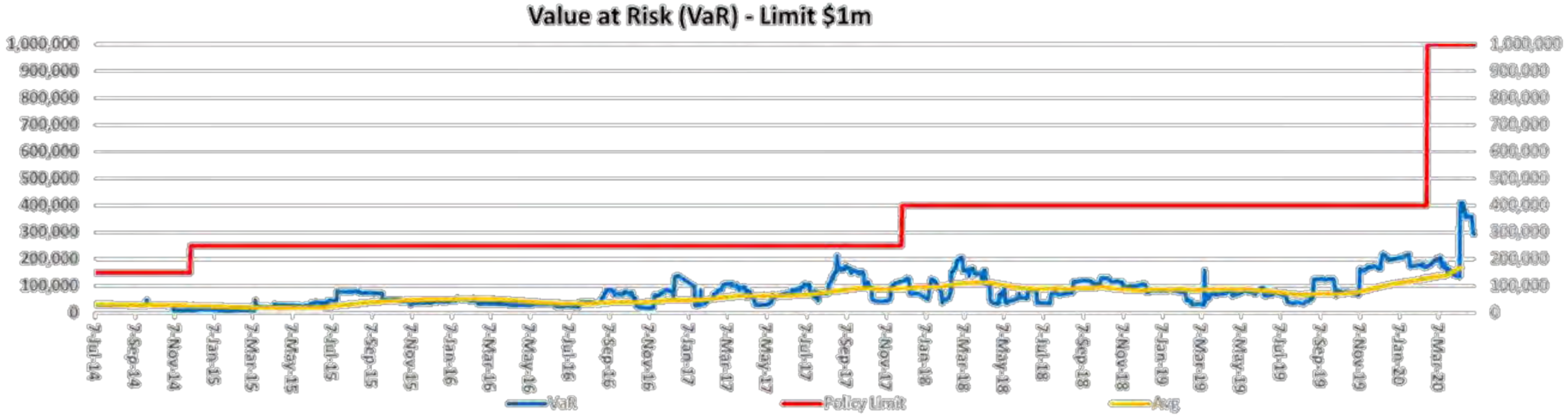
Liquidity position as at 1 May 2020	NZ$ million
Cash and cash equivalents	$88.1
Deposits and Marketable Securities	$772.7
NZ Government Liquidity Facility (amount available)	$700.0
Total	**$1,560.8**

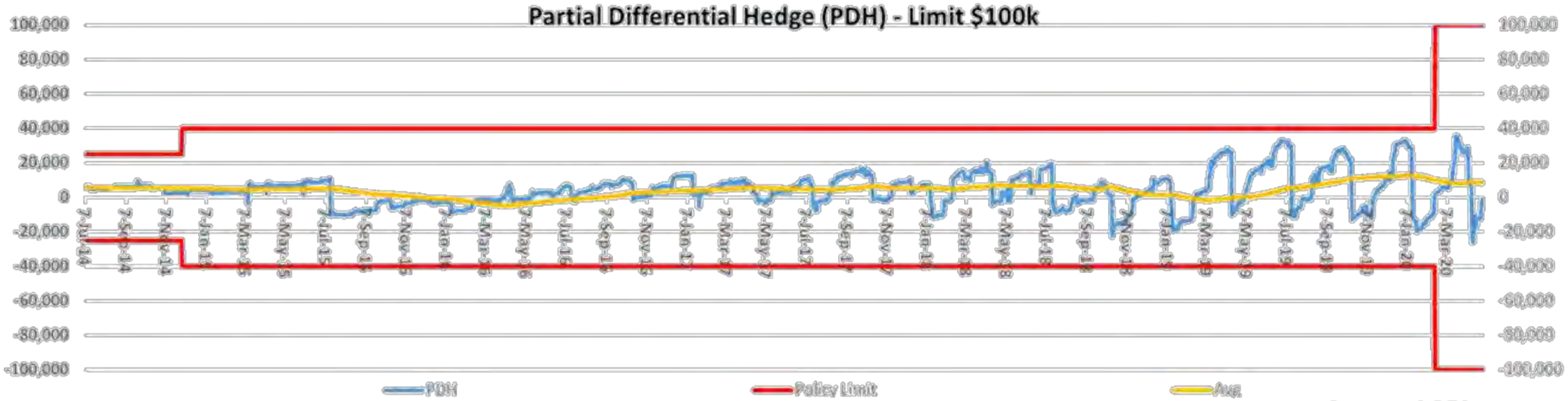
Source: LGFA

14

MINIMAL VaR AND PDH EXPOSURES

LGFA
NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE





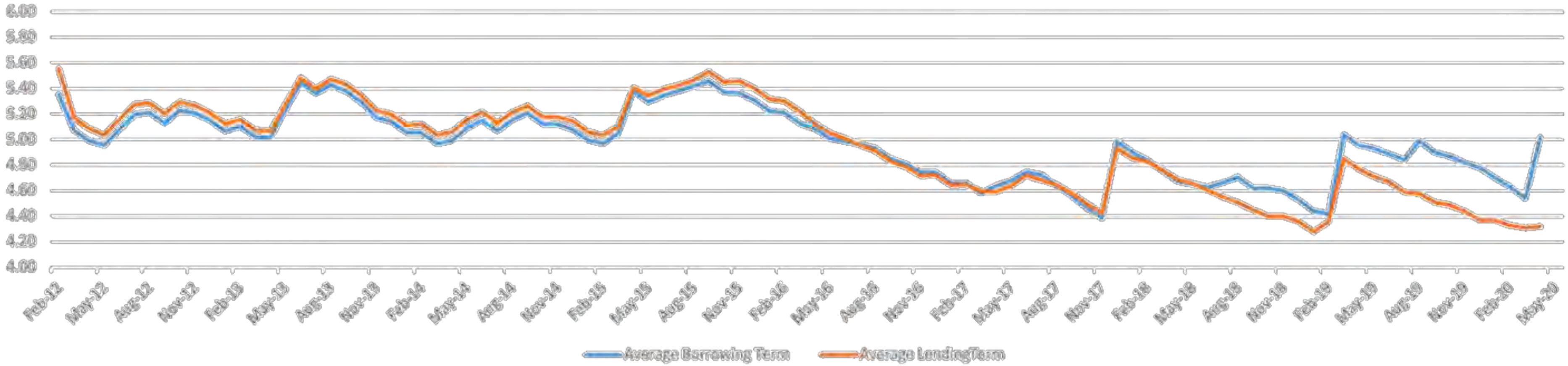
Source: LGFA

15

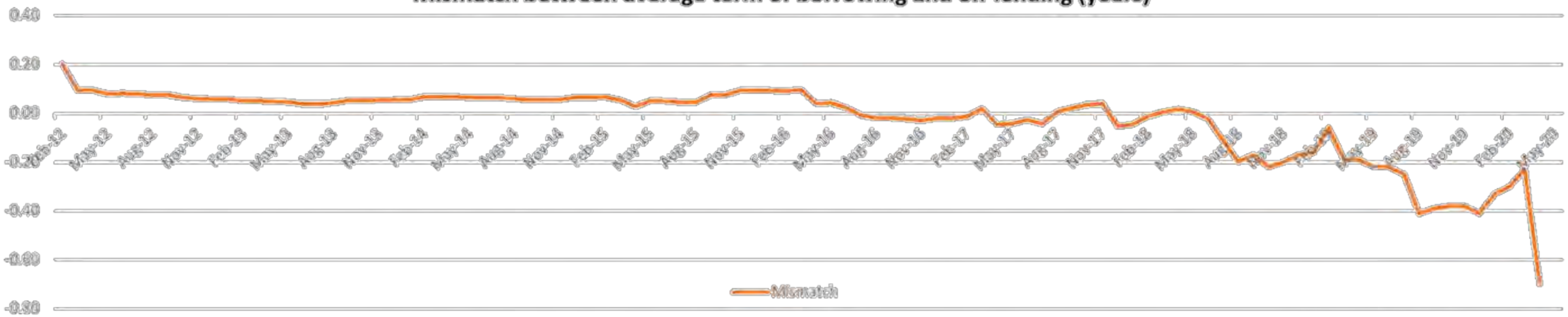
MISMATCH BETWEEN LGFA BONDS AND LOANS

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Average term of LGFA bonds outstanding and on-lending (years)



Mismatch between average term of borrowing and on-lending (years)



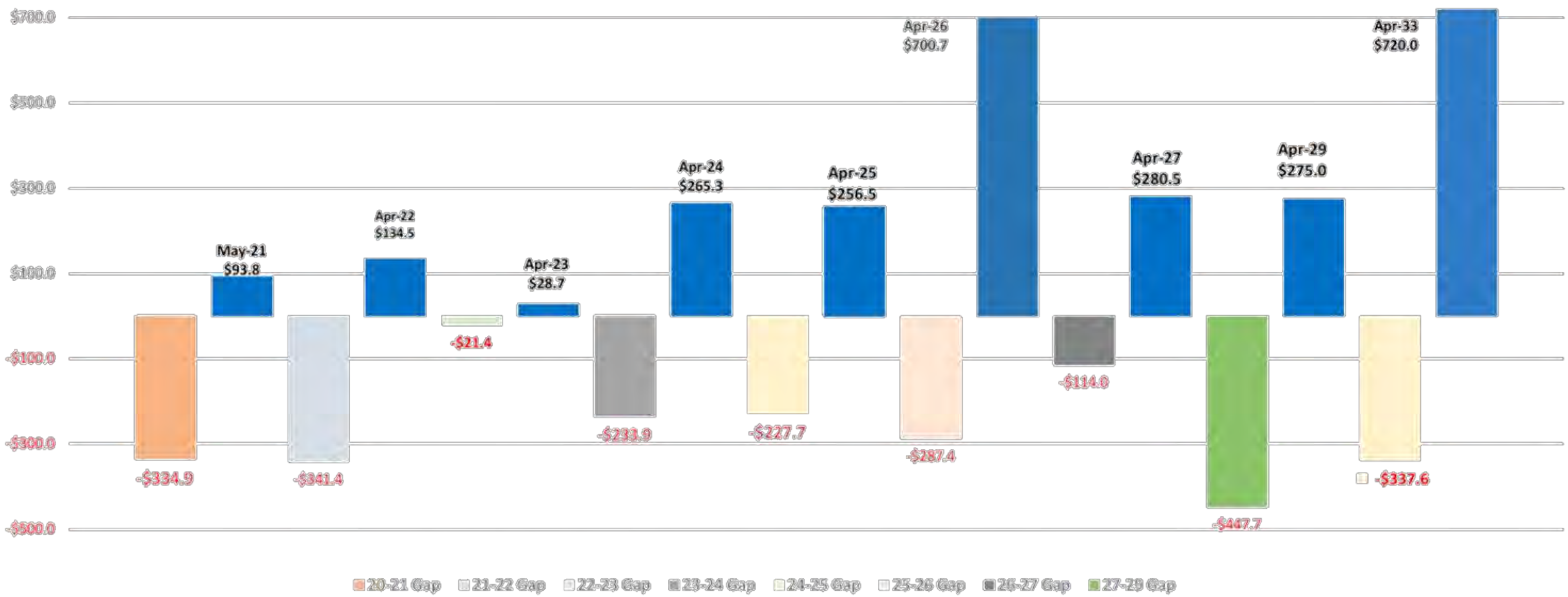
Negative = longer term of bond issuance than on-lending

Source: LGFA

16

ASSET LIABILITY MISMATCHES

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE



The asset liability mismatch is the difference between LGFA bonds issued and loans to Councils for each date or period. The positive outcomes show more LGFA bonds have been issued than loans made to Councils for that date or period. The negative outcomes show loans made to Councils with maturity dates between LGFA bond maturities.

As at 1 May 2020

Source: LGFA

17

LGFA LENDING AND GUARANTEE BREAKDOWN

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

Council Borrower	Amount Borrowed (NZ$ million)	% of Total Borrowing
Auckland Council	$2,757	25.5%
Christchurch City Council	$1,920	17.7%
Wellington City Council	$635	5.9%
Tauranga City Council	$515	4.8%
Hamilton City Council	$480	4.4%
Wellington Regional Council	$400	3.7%
Rotorua District Council	$217	2.0%
Hutt City Council	$216	2.0%
Kapiti Coast District Council	$200	1.8%
Bay of Plenty Regional Council	$191	1.8%
57 other member councils	$3,290	30.4%

Council Borrowing	Volume (NZ$ million)
Short Term (loan terms less than 12 months)	$420
Long Term	$10,399
Total	**$10,820**

Borrower Type	Number of councils	Amount Borrowed (NZ$ million)	% of Total Borrowing
Guarantors	54	$10,687	98.8%
Non guarantors	13	$132	1.2%
Total	**67**	**$10,820**	**100%**

Note:
Auckland Council borrowing is capped at 40% of total LGFA lending
Three member councils have yet to borrow from LGFA

Guarantee contains provisions apportioning share to each council based upon their relative share of total rates revenue of all guarantors. A council's obligation under the guarantee is secured against rates revenue.

Council Guarantor	% share of Guarantee
Auckland	31.6%
Christchurch City	8.7%
Wellington City	5.4%
Hamilton City	3.2%
Tauranga City	2.9%
Wellington Regional	2.9%
Hutt City	1.9%
Canterbury Regional	1.8%
Whangarei District	1.7%
Palmerston North City	1.7%
44 other council guarantors	38.1%

As at 1 May 2020
Source: LGFA

16

CREDIT QUALITY OF THE LENDING BOOK

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

- 90.1% of LGFA loans to councils with credit ratings
- 89.1% of LGFA loans to AA- rated councils or better
- Average credit quality is above AA-
- Improving trend in underlying credit quality of local government sector over the past seven years
  - 9 councils on positive outlook (NZ$1.77 billion or 17.5% loan book)
  - no councils on negative outlook
- Not all councils have credit ratings due to cost of obtaining a rating vs benefits
  - Average total lending to unrated councils is NZ$29 million per council
  - NZ$45 million of debt is approximate breakeven for a borrower to obtain a credit rating
- LGFA undertakes detailed credit analysis of all member councils separate to the external credit rating process performed by S&P, Fitch and Moody's
- Unrated councils are assessed by LGFA as having in general, better credit quality than those councils with credit rating

External Credit Rating (S&P, Fitch)	Lending (NZ$ millions)	Lending (%)	Number of Councils
AA+	$170	1.6%	3
AA	$5,929	54.8%	18
AA-	$3,494	32.3%	8
A+	$106	1.0%	1
Unrated	$1,121	10.4%	37
Total	**$10,820**	**100%**	**67**

As at 1 May 2020 **Source: LGFA**

Note: Three member councils have yet to borrow from LGFA (includes long and short term lending)

19

LGFA MEMBERS (As at 1 May 2020)

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

Shareholders	Total Shares (NZ$)	Shareholding (%)	Amount borrowed (NZ$ million)	Borrowing (%)	Share Guarantee (%)
New Zealand Government	5,000,000	11.1%			
Auckland Council	3,731,960	8.3%	2,757.0	25.5	31.6
Christchurch City Council	3,731,960	8.3%	1,919.5	17.7	8.7
Wellington City Council	3,731,958	8.3%	634.5	5.9	5.4
Tauranga City Council	3,731,958	8.3%	515.0	4.8	2.9
Hamilton City Council	3,731,960	8.3%	480.0	4.4	3.2
Wellington Regional Council	3,731,958	8.3%	400.0	3.7	2.9
Kapiti Coast District Council	200,000	0.4%	200.0	1.8	1.1
Hutt City Council	200,000	0.4%	216.0	2.0	1.9
Bay of Plenty Regional Council	3,731,958	8.3%	191.4	1.8	0.9
Tasman District Council	3,731,958	8.3%	182.8	1.7	1.3
Waimakariri District Council	200,000	0.4%	160.1	1.5	1.0
Hastings District Council	746,392	1.7%	150.0	1.4	1.4
Whangarei District Council	1,492,784	3.3%	152.0	1.4	1.7
Palmerston North City Council	200,000	0.4%	142.0	1.3	1.7
New Plymouth District Council	200,000	0.4%	139.5	1.3	1.5
Horowhenua District Council	200,000	0.4%	106.1	1.0	0.7
Taupo District Council	200,000	0.4%	115.0	1.1	1.2
South Taranaki District Council	200,000	0.4%	101.0	0.9	0.7
Marlborough District Council	400,000	0.9%	100.3	0.9	1.2
Whanganui District Council	200,000	0.4%	101.5	0.9	1.1
Western Bay of Plenty District Council	3,731,958	8.3%	90.0	0.8	1.2
Manawatu District Council	200,000	0.4%	77.0	0.7	0.6
Whakatane District Council	200,000	0.4%	67.0	0.6	0.8
Waipa District Council	200,000	0.4%	57.6	0.5	1.0
Gisborne District Council	200,000	0.4%	58.6	0.5	1.1
Thames-Coromandel District Council	200,000	0.4%	61.0	0.6	1.1
Masterton District Council	200,000	0.4%	50.0	0.5	0.5
Hauraki District Council	200,000	0.4%	44.0	0.4	0.5
Selwyn District Council	373,196	0.8%	35.0	0.3	1.0
Otorohanga District Council	200,000	0.4%	3.0	0.0	0.2
Total	45,000,000		9,307.0	86.0	80.2

As at 1 May 2020

Source: LGFA

20

LGFA MEMBERS continued (As at 1 May 2020)

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Borrowers and Guarantors	Amount borrowed (NZ$ million)	Borrowing (%)	Share of Guarantee (%)
Ashburton District Council	42.0	0.4	0.6
Canterbury Regional Council	54.0	0.5	1.8
Far North District Council	76.7	0.7	1.6
Gore District Council	22.5	0.2	0.3
Hawke's Bay Regional Council	2.5	0.0	0.4
Hurunui District Council	35.0	0.3	0.3
Manawatu-Whanganui Regional Council	44.0	0.4	0.8
Invercargill City Council	92.7	0.9	0.9
Kaipara District Council	44.0	0.4	0.6
Matamata-Piako District Council	26.5	0.2	0.6
Nelson City Council	65.0	0.6	1.3
Porirua City Council	131.5	1.2	1.1
Queenstown-Lakes District Council	115.1	1.1	1.3
Rotorua District Council	216.6	2.0	1.6
Ruapehu District Council	25.0	0.2	0.4
Tararua District Council	35.0	0.3	0.4
Taranaki Regional Council	4.0	0.0	0.2
Timaru District Council	89.6	0.8	0.9
South Wairarapa District Council	21.9	0.2	0.2
Stratford District Council	15.5	0.1	0.2
Upper Hutt City Council	51.0	0.5	0.7
Waikato District Council	100.0	0.9	1.5
Waikato Regional Council	32.0	0.3	1.6
Waitomo District Council	38.1	0.4	0.4
Total	1380.3	12.8	19.8

As at 1 May 2020

Source: LGFA

21

LGFA MEMBERS continued (As at 1 May 2020)

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Borrowers Only	Amount borrowed (NZ$ million)	Borrowing (%)	Share of Guarantee (%)
Buller District Council	20.0	0.2	Nil
Central Hawkes Bay District Council	20.0	0.2	Nil
Carterton District Council	0.0	0.0	Nil
Clutha District Council	9.0	0.1	Nil
Grey District Council	19.0	0.2	Nil
Kaikoura District Council	7.0	0.1	Nil
Northland Regional Council	9.6	0.1	Nil
Mackenzie District Council	0.0	0.0	Nil
Opotiki District Council	8.5	0.1	Nil
Rangitikei District Council	3.0	0.0	Nil
Wairoa District Council	9.0	0.1	Nil
Westland District Council	19.6	0.2	Nil
West Coast Regional Council	7.6	0.1	Nil
Total	132.3	1.2	Nil
Total Borrowing from LGFA	10,819.6	100.0	100.0

As at 1 May 2020

Source: LGFA

22

LGFA INTERNAL CREDIT RATINGS

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

LGFA undertakes its own internal credit assessment and rating process for all member councils using most recent annual reports (June 2019)

Primary Criteria

- Debt levels relative to population – affordability
- Debt levels relative to asset base
- Ability to repay debt
- Ability to service debt – interest cover
- Population trend

LGFA member councils by internal rating category

LGFA Internal Ratings	2012	2013	2014	2015	2016	2017	2018	2019
AA+	1	2	2	4	4	6	7	8
AA	12	12	12	10	12	13	19	17
AA-	13	13	16	15	19	17	19	23
A+	8	6	3	11	10	12	13	10
A	6	10	11	6	6	3	4	4
A-	5	2	1	1	0	2	2	2

Secondary Criteria

- 30 Year Infrastructure Strategy
  - Quality of Assets
  - Capital Expenditure Plan
- Risk Management
  - Insurance
- Governance
- Financial flexibility
- Cashflow
- Budget performance (balanced budget)
- Affordability of rates / Deprivation Index
- Natural hazards
- Group activities (CCO's)

Source: LGFA internal models

As at 30 June each year

23

LGFA FINANCIAL COVENANTS – MEMBER COUNCIL OUTCOMES FOR JUNE 2019 YEAR

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

LGFA Financial Covenants – Councils as at 30 June 2019 with an external credit rating (29)

Foundation Policy Covenant	Net Debt / Total Revenue <250%	Net Interest / Total Revenue <20%	Net Interest / Rates <30%
Range of Councils' compliance	-149.8% to 180.3%	-5.9% to 9.4%	-9.6% to 19.4%

LGFA Financial Covenants – Councils as at 30 June 2019 without an external credit rating (35)

Lending Policy Covenant	Net Debt / Total Revenue <175%	Net Interest / Total Revenue <20%	Net Interest / Rates <25%
Range of Councils' compliance	-92.6% to 121.0%	-1.0% to 5.0%	-1.9% to 8.3%

Source: LGFA using data from individual council annual reports

- **Note some negative outcomes due to some councils having negative Net Debt i.e. financial assets and investments > borrowings**

- LGFA Councils operating within financial covenants
- Ranges highlight the differences between Councils
- Sufficient financial headroom for most Councils
- Improvement from 2013 for most Councils
  - Revenue increased
  - Interest rates lower
  - Capex and debt constrained

Source: LGFA

24

PERFORMANCE UNDER LGFA COVENANTS

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

LGFA Councils with an external credit rating (29 in 2019, 26 in 2018, 23 in 2017, 22 in 2016, 20 in 2015 and 17 in both 2014 and 2013)

Financial Covenant	2019	2018	2017	2016	2015	2014	2013
Net Debt to Total Revenue	68.8%	76.0%	86.0%	87.9%	96.4%	104.7%	111.8%
Net Interest to Total Revenue	3.5%	4.0%	5.3%	6.1%	6.8%	6.6%	7.3%
Net Interest to Annual Rates Income	5.5%	6.1%	8.1%	9.1%	10.0%	9.6%	11.1%

LGFA unrated Councils (35 in 2019, 29 in 2018, 29 in 2017, 28 in 2016, 25 in 2015, 26 in 2014 and 21 in 2013)

Financial Covenant	2019	2018	2017	2016	2015	2014	2013
Net Debt to Total Revenue	30.0%	32.3%	29.9%	32.4%	38.2%	42.6%	52.5%
Net Interest to Total Revenue	1.7%	1.9%	1.8%	2.2%	2.4%	2.9%	3.2%
Net Interest to Annual Rates Income	2.8%	2.9%	2.6%	2.9%	3.1%	4.0%	4.1%

Calculated by simple average of Councils in each group

Source: LGFA using data from individual Council annual reports

LGFA CREDIT RATINGS

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

❑ Fitch Ratings - November 2019 / January 2020

Local Currency AA+ / Stable/ F1+ Foreign currency rating AA / Positive / F1+

Fitch notes:

- strong links to the sovereign – classified as a credit linked Public Sector Entity;
- deemed to be of strategic importance;
- sound underlying asset quality of its shareholders, local councils;
- long-term rating is capped by the ratings of the sovereign;
- support of a joint and several liability guarantee.

Long-term foreign-currency Issuer Default Rating placed on positive outlook on 27th January 2020

S&P Global Rating's – February 2020

Local Currency AA+ / Positive / A-1+ Foreign Currency AA / Positive / A-1+

Both long-term ratings placed on "positive outlook" on 4th February 2019

Strengths:

- dominant market position as source of funding for New Zealand local government;
- high credit quality of underlying lending;
- extremely strong likelihood of support from the New Zealand Government in a stress scenario;
- robust and experienced management and governance.

Weaknesses:

- highly concentrated loan portfolio;
- modest risk adjusted capital ratio;
- reliance upon domestic market funding.

Rating Agency	Domestic Currency	Foreign Currency	Date of Report
STANDARD & POOR'S	AA+ (positive outlook)	AA (positive outlook)	27 February 2020
FitchRatings	AA+ (stable outlook)	AA (positive outlook)	27 January 2020

Source: S&P, Fitch, LGFA

26

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

- ❑ Important Notice and Disclaimer
- ❑ COVID-19 Update
- ❑ LGFA Risks
- ❑ **Proposed Changes to Foundation Policy**
- ❑ Appendices

FOUNDATION POLICY

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

Clause 5.1 of the LGFA Shareholders' Agreement and comprises various policies

Any changes to Foundation Policies requires shareholder approval

Lending policy

Local authorities when borrowing from LGFA must

- provide security when borrowing
- comply with own internal borrowing policies
- comply with LGFA financial covenants
- be a party to the Deed of Guarantee and Equity Commitment Deed if borrowings or entered into facility agreement with LGFA with commitments exceeding NZ$20 million

Auckland Council exposure limited to no more than 40% of LGFA total local authority assets

Limit on a local authority or CCO borrowing no more than the greater of NZ$ 100 million or 33% of its borrowing from LGFA maturing in any 12 month period

Outlines requirements for a CCO to borrow from LGFA. Process for allowing CCOs to borrow from LGFA underway but not yet completed.

Other policies within the Foundation Policies

Cash and liquid investment
Derivatives
Market risk (PDH and VaR limits)
Foreign exchange risk
Operational risk
Dividend

A copy of the current Foundation Policies is available here
lgfa.co.nz/about-lgfa/governance

Source: LGFA

38

FOUNDATION POLICY – FINANCIAL COVENANTS

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Current Financial Covenants

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

Proposed Financial Covenants

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

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

Proposed change to Foundation Policy covenant

These apply to councils with a long-term credit rating of 'A' equivalent or higher

- Increase Net Debt / Total Revenue to 300% for financial year to June 2021 and June 2022
- Taper back to 280% by financial year ending June 2026

Note there are no proposed changes to

- Lending policy covenants (for councils without a credit rating or with a long-term credit rating lower than 'A' equivalent)
- Net Interest / Total Revenue covenants
- Net Interest / Annual Rates Income covenants
- Liquidity covenants

Source: LGFA

28

RATIONALE FOR PROPOSED CHANGES

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

- Only applies to current 30 council borrowers who have a long-term credit rating of 'A' equivalent or higher
- All council borrowers have headroom under current Foundation policy covenants so starting position is strong
- Increase covenant limit then a taper to a level higher than the current level is a conservative approach to allowing greater borrowing capacity to sector
  - Recognises short term COVID-19 impact
  - Recognises structural changes to local government sector since 2011 with regard to
    - Council requirements to meet additional growth infrastructure due to increased population growth
    - Council response to climate change
    - Council response to water quality issues
- Provide flexibility for councils to co-invest alongside Central Government in infrastructure going forward
- Provide short term comfort to councils with short term revenue declines
- LGFA has undertaken analysis on impact on additional council borrowing headroom under a revenue shortfall scenario
- Higher Net Debt / Total Revenue limit of 280% does not add significant additional risk to council borrowers, guarantors or LGFA
  - Sufficient mitigants to ensure probability of default is low
  - Council lending backed by security of rates
  - Even if a default occurred the probability of recovery is high so becomes a timing issue for LGFA
  - Central Government and Local Government have become closer to COVID-19 situation
  - LGFA obligations backed by security of guarantee from guarantors
- S&P Global Ratings and Fitch Ratings have been consulted on these proposed changes

Source: LGFA

30

ADDITONAL BORROWING CAPACITY IF COVENANT INCREASED

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Externally Rated Councils Subject to Foundation Policy Covenant (ranked highest to lowest indebted)	No Change to Revenue (all amounts NZ$000)							Impact of 10% revenue decline (all amounts NZ$000)			
	Credit Rating as at 1 May 2020	Net Debt / Revenue at June 2019 <250% limit	Adjusted Revenue at June 2019	Actual Net Borrowing at June 2019	Maximum Borrowing at 250%	Existing Headroom at June 2019	Additional Headroom between 250% and 280%	-10% Revenue Shock	Max Borrowing at 250%	Headroom at June 2019	Additional Headroom between 250% and 280%
Kapiti Coast District Council	AA	180.3%	$81,851	$147,554	$204,628	$57,074	$24,555	$73,666	$184,165	$36,611	$22,100
Auckland Council	AA	173.0%	$3,701,696	$6,405,489	$9,254,240	$2,848,751	$1,110,509	$3,331,526	$8,328,816	$1,923,327	$999,458
Tauranga City Council	AA-	166.7%	$260,082	$433,685	$650,205	$216,520	$78,025	$234,074	$585,185	$151,500	$70,222
Horowhenua District Council	A+	164.1%	$53,385	$87,619	$133,463	$45,844	$16,016	$48,047	$120,116	$32,497	$14,414
Rotorua District Council	AA-	144.4%	$136,394	$196,924	$340,985	$144,061	$40,918	$122,755	$306,887	$109,963	$36,826
Waimakariri District Council	AA	140.6%	$87,485	$122,984	$218,713	$95,729	$26,246	$78,737	$196,841	$73,857	$23,621
Hamilton City Council	AA-	124.3%	$272,428	$338,575	$681,070	$342,495	$81,728	$245,185	$612,963	$274,388	$73,556
Christchurch City Council	AA-	105.9%	$935,009	$990,016	$2,337,523	$1,347,507	$280,503	$841,508	$2,103,770	$1,113,754	$252,452
Wellington City Council	AA-	102.1%	$525,135	$536,214	$1,312,838	$776,624	$157,541	$472,622	$1,181,554	$645,340	$141,786
Hutt City Council	AA	101.3%	$169,677	$171,918	$424,193	$252,275	$50,903	$152,709	$381,773	$209,855	$45,813
Tasman District Council	AA	100.1%	$135,446	$135,544	$338,615	$203,071	$40,634	$121,901	$304,754	$169,210	$36,570
Whanganui District Council	AA	99.9%	$89,081	$88,992	$222,703	$133,711	$26,724	$80,173	$200,432	$111,440	$24,052
Wellington Regional Council	AA	92.9%	$388,641	$360,983	$971,603	$610,620	$116,592	$349,777	$874,442	$513,459	$104,933
Porirua City Council	AA	92.5%	$98,663	$91,291	$246,658	$155,367	$29,599	$88,797	$221,992	$130,701	$26,639
Palmerston North City Council	AA	84.1%	$138,774	$116,737	$346,935	$230,198	$41,632	$124,897	$312,242	$195,505	$37,469
Western Bay of Plenty District Council	AA	81.8%	$96,538	$78,938	$241,345	$162,407	$28,961	$86,884	$217,211	$138,273	$26,065
Hastings District Council	AA	80.9%	$125,574	$101,614	$313,935	$212,321	$37,672	$113,017	$282,542	$180,928	$33,905
Nelson City Council	AA	74.8%	$113,046	$84,569	$282,615	$198,046	$33,914	$101,741	$254,354	$169,785	$30,522
Whangarei District Council	AA	67.3%	$149,801	$100,818	$374,503	$273,685	$44,940	$134,821	$337,052	$236,234	$40,446
Queenstown-Lakes District Council	AA-	58.4%	$143,841	$84,050	$359,603	$275,553	$43,152	$129,457	$323,642	$239,592	$38,837
Ashburton District Council	AA+	38.4%	$62,818	$24,129	$157,045	$132,916	$18,845	$56,536	$141,341	$117,212	$16,961
Timaru District Council	AA-	31.9%	$117,203	$37,428	$293,008	$255,580	$35,161	$105,483	$263,707	$226,279	$31,645
Invercargill City Council	AA+	17.1%	$101,847	$17,375	$254,618	$237,243	$30,554	$91,662	$229,156	$211,781	$27,499
Taupo District Council	AA	16.7%	$92,075	$15,406	$230,188	$214,782	$27,623	$82,868	$207,169	$191,763	$24,860
Waipa District Council	AA-	16.2%	$84,161	$13,618	$210,403	$196,785	$25,248	$75,745	$189,362	$175,744	$22,723
Marlborough District Council	AA	8.0%	$136,024	$10,908	$340,060	$329,152	$40,807	$122,422	$306,054	$295,146	$36,726
South Taranaki District Council	AA-	-47.5%	$68,318	-$32,429	$170,795	$203,224	$20,495	$61,486	$153,716	$186,145	$18,446
Bay of Plenty Regional Council	AA	-57.5%	$131,995	-$75,864	$329,988	$405,852	$39,599	$118,796	$296,989	$372,853	$35,639
Selwyn District Council	AA+	-61.7%	$101,772	-$62,811	$254,430	$317,241	$30,532	$91,595	$228,987	$291,798	$27,478
New Plymouth District Council	AA	-176.2%	$113,615	-$200,187	$284,038	$484,225	$34,085	$102,254	$255,634	$455,821	$30,676
Total			$8,712,375	$10,422,087	$21,780,938	$11,358,851	$2,613,713	$7,841,138	$19,602,844	$9,180,757	$2,352,341
Ten Highest Indebted Councils			$6,223,142	$9,430,978	$15,557,855	$6,126,877	$1,866,943	$5,600,828	$14,002,070	$4,571,092	$1,680,248

Source: LGFA

31

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

- ❑ Important Notice and Disclaimer
- ❑ COVID-19 Update
- ❑ LGFA Risks
- ❑ Proposed Changes to Foundation Policy
- ❑ Appendices

LGFA OVERVIEW

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

SHAREHOLDERS

- Central Government largest shareholder at 20%
- 30 councils hold 80% shareholding
- Can only sell shares to Central Government or local authorities

GOVERNANCE

- Board of six directors with 5 Independent and 1 Non Independent
- Bonds listed on NZX so under listing rules
- Independent Trustee
- Issue of securities under the Financial Markets Conduct Act
- Audited by Audit NZ

GUARANTORS

- 54 guarantors of LGFA
- Guarantors comprise:
  - All shareholders except the NZ Government
  - Any non shareholder who may borrow more than NZ$20 million
- Security granted by each of the guarantors is over their rates income (property taxes)
- Guarantors cannot exit guarantee until
  - Repaid all their borrowings
  - Wait for longest outstanding LGFA bond to mature (currently 2033)
- Changes will be made requiring other councils to join guarantee when LGFA implements lending to CCOs

LIQUIDITY

- NZ$1 billion liquidity facility from NZ Government
- NZ$857 million liquid assets portfolio
- NZ$277 million of Treasury Stock currently available for repo

BORROWERS

- 67 member councils
- Approx. 90% market share
- Under Local Government Act 2002 councils must manage finances prudently – implies must run balanced operating surplus and only borrow for capital expenditure
- Councils borrow secured against rates
- Must meet LGFA financial covenants

CAPITAL STRUCTURE

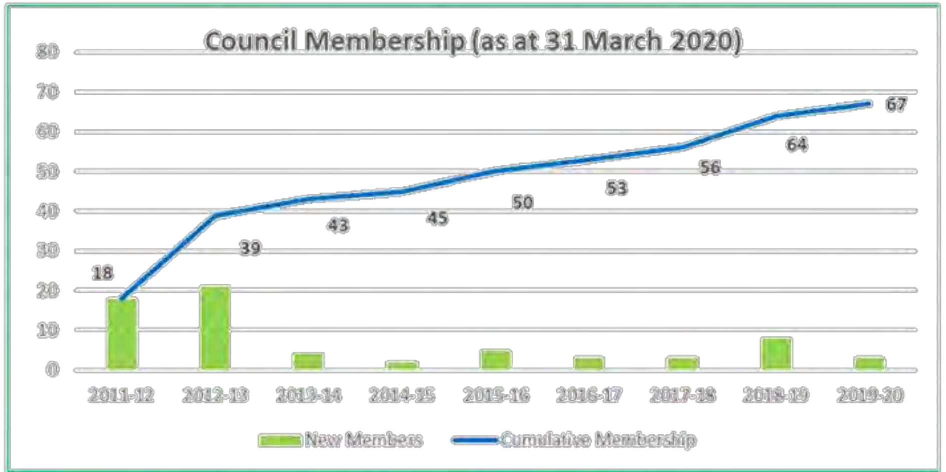
- NZ$25 million paid in capital
- NZ$20 million uncalled capital
- NZ$55 million retained earnings
- NZ$166 million Borrower Notes that can be converted to equity
- Current capital ratio of 2.20% with policy of 2% minimum and target of 3%

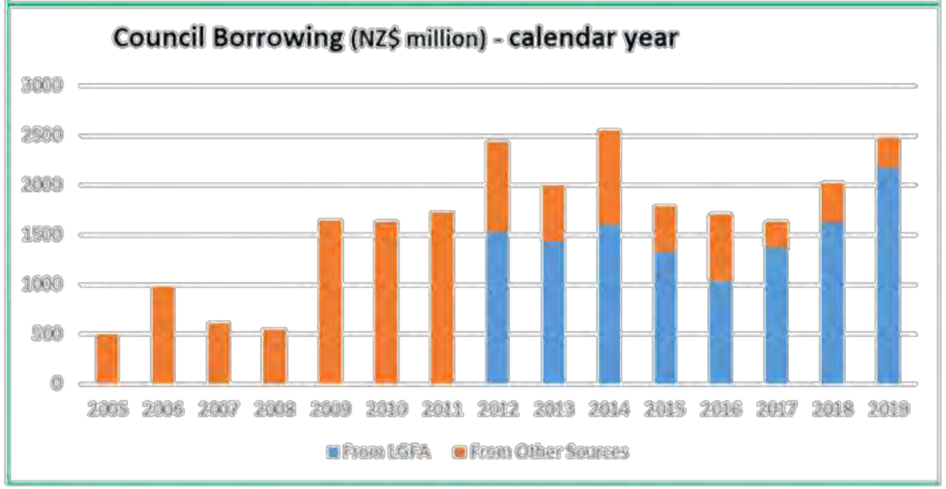
As at 1 May 2020

Source: LGFA

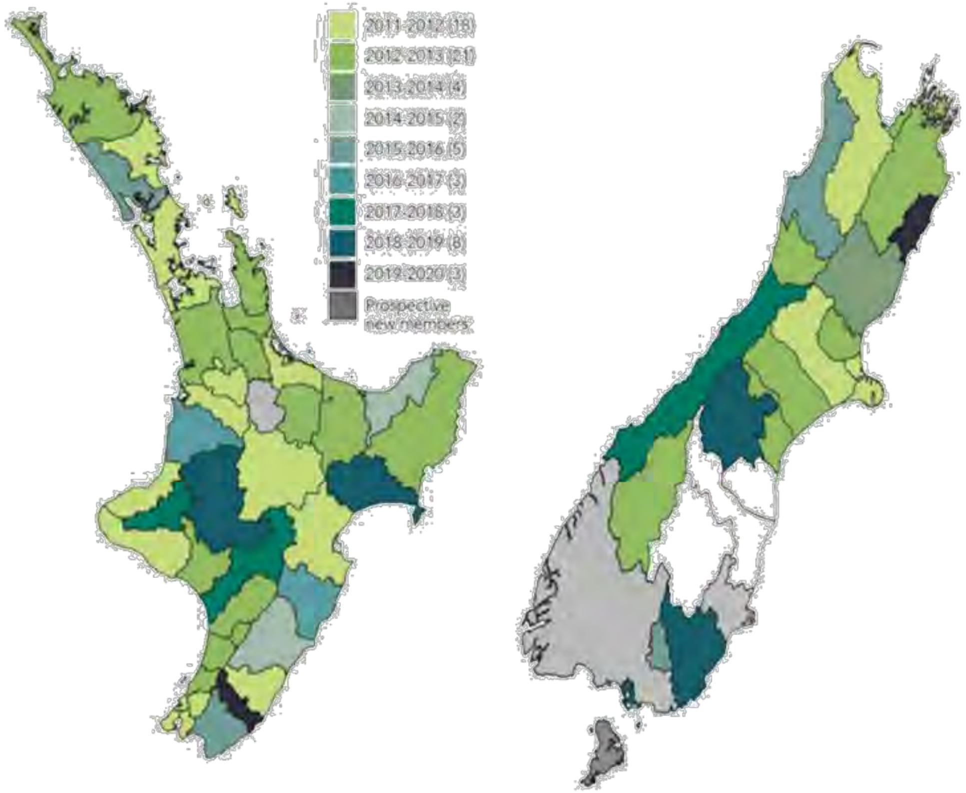
COUNCIL MEMBERSHIP AND BORROWING

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE





LGFA member councils highlighted with year of joining

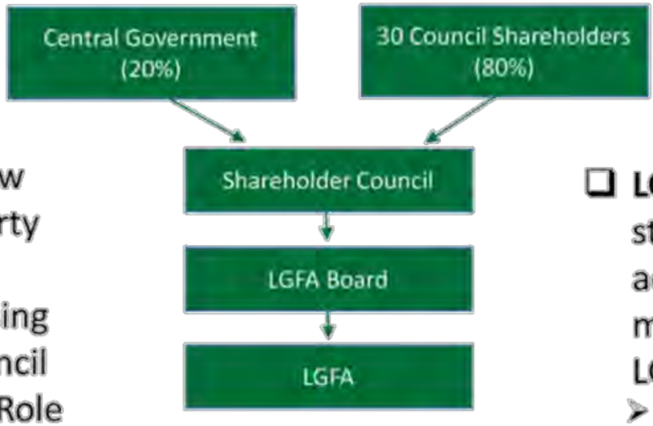


Note there are 11 councils not currently members of LGFA.
Some of these (notably Regional Councils) may overlap on this map.

Source: LGFA, PwC Quarterly Local Government Debt Report 34

GOVERNANCE STRUCTURE

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE



- **31 Shareholders**, comprising the New Zealand Government (20%)[1] and thirty councils (80%).
- **LGFA Shareholders Council**, comprising five to ten appointees from the Council Shareholders and the Government. Role of the Shareholders' Council is to:
  - 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, requiring their approval;
  - Update Shareholders on LGFA matters and to coordinate Shareholders on governance decisions.

[1] **NZ Government shareholding reduces to 11.1% if a call is made on uncalled capital of the 30 council shareholders**

- **LGFA 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:
  - Local Government Act 2002;
  - Local Government Borrowing Act 2011;
  - Companies Act 1993;
  - Financial Markets Conduct Act 2013;
  - LGFA's Constitution;
  - LGFA Shareholder Agreement;
  - LGFA annual Statement of Intent.

  The Board will comprise between four and seven directors with a majority of independent directors appointed by Shareholders.

Source: LGFA

35

COUNCIL FINANCIAL DISTRESS – MITIGANTS

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

- Local Government Framework reduces risk of financial distress – no historical default by a council
- Council have own Treasury Management and borrowing policies – most have independent advice
- Council financial oversight by Office of Auditor General (OAG), Audit NZ and Department of Internal Affairs
- Councils under Local Government (Financial Reporting and Prudence) Regulations 2014 required to report annually on performance against benchmarks including

Rates Affordability | Debt Affordability | Essential Services | Debt Servicing | Debt Control | Operations Control

Six step intervention process possible by Central Government

Request Information → Appoint Crown Review Team → Appoint Crown Observer → Appoint Crown Manager → Appoint a Commission → Call an Election

- Council required to comply with LGFA lending covenants

  Annual attestation by council
  LGFA credit analysis and monitoring performed through the year
  LGFA credit watch-list in place
  LGFA not obligated to lend to council members

- Covenant breach is an Event of Review – after 30 days LGFA can seek repayment of loans

Source: LGFA

36

COUNCIL FINANCIAL DISTRESS – LGFA IMPACT

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

- 30 LGFA member councils have credit ratings (A+ to AA+ range)
- LGFA undertakes detailed credit analysis of each Council if they apply to join LGFA (and ongoing) - not every Council has been accepted as a member
- A Council default becomes a timing issue for LGFA
  - LGFA lending secured against rates revenue under Debenture Trust Deed
  - Unlikely to be other material claimants on rates revenue given LGFA is the dominant lender to Councils
  - Council's Debenture Trustee appoints receiver and a special rate (property tax) levied on all properties in the council region to meet secured obligations when due
  - Property taxes unavoidable and first ranking security over property
- Sources of LGFA liquidity and additional capital

  $1 billion liquidity facility from NZ Government

  Liquid Assets Portfolio

  Issuance of additional LGFA Bills and Bonds

  Conversion of Borrower Notes into equity

  Uncalled capital of $20 million
- Beneficiaries of the Council guarantee (including LGFA bondholders) can also call upon the guarantee from councils
- **Central Government does not guarantee obligations of either LGFA or council members**

Source: LGFA

37

LGFA HISTORIC FINANCIAL PERFORMANCE

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Financials (NZ$ million)	2012	2013	2014	2015	2016	2017	2018	2019
Interest Income	$10.9	$73.7	$149.1	$222.8	$278.2	$320.7	$342.8	$361.1
Interest Expense	$9.9	$68.1	$138.9	$208.9	$262.6	$303.2	$323.9	$342.3
Net Interest Income	$1.0	$5.7	$10.2	$13.9	$15.5	$17.5	$18.9	$18.8
Total Income	**$1.0**	**$5.7**	**$10.2**	**$13.9**	**$15.5**	**$17.5**	**$18.9**	**$18.8**
Operating Expenses	($5.2)	($3.0)	($3.2)	($4.7)	($6.0)	($6.5)	($7.1)	($7.6)
Net Profit	**($4.2)**	**$2.6**	**$7.0**	**$9.2**	**$9.5**	**$11.0**	**$11.8**	**$11.2**
Liquid Assets Portfolio	$52.8	$66.3	$101.7	$107.9	$266.3	$327.5	$482.8	$448.1
Loans to Local Government	$832.7	$2,514.9	$3,742.5	$5,031.9	$6,451.3	$7,783.9	$7,975.7	$9,310.6
Other Assets	$57.5	$107.0	$74.0	$271.9	$539.7	$380.0	$321.1	$610.1
Total Assets	**$943.0**	**$2,688.2**	**$3,918.2**	**$5,411.8**	**$7,257.3**	**$8,491.4**	**$8,779.6**	**$10,382.3**
Bonds on Issue	$908.9	$2,623.6	$3,825.3	$5,247.3	$6,819.7	$7,865.4	$8,101.0	$9,612.4
Bills on Issue	$ nil	$ nil	$ nil	$ nil	$223.9	$348.2	$473.4	$503.2
Borrower Notes	$13.2	$40.7	$61.9	$85.1	$108.4	$131.6	$135.1	$154.2
Other Liabilities	$0.2	$0.6	$2.1	$16.1	$61.0	$92.3	$5.8	$38.5
Total Liabilities	**$922.3**	**$2,664.8**	**$3,889.3**	**$5,375.6**	**$7,213.0**	**$8,437.5**	**$8,715.3**	**$10,382.3**
Shareholder Equity	**$20.8**	**$23.4**	**$28.8**	**$36.3**	**$44.2**	**$53.9**	**$64.3**	**$74.1**

Note: As at 30 June each year or for the twelve month period ending 30 June each year. Source: LGFA Annual Reports

LGFA HISTORIC FINANCIAL RATIOS

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Ratios as at 30 June each year	2012	2013	2014	2015	2016	2017	2018	2019
Liquid Assets / Funding Liabilities	5.7%	2.5%	2.6%	2.0%	3.8%	4.1%	5.6%	4.4%
Liquid Assets / Total Assets	5.6%	2.5%	2.6%	2.0%	3.7%	3.9%	5.5%	4.3%
Net Interest Margin	0.12%	0.23%	0.27%	0.28%	0.24%	0.23%	0.22%	0.18%
Cost to Income Ratio	531.2%	53.6%	31.8%	33.8%	38.7%	37.1%	37.6%	40.4%
Return on Average Assets	-0.45%	0.10%	0.18%	0.17%	0.13%	0.13%	0.13%	0.11%
Shareholder Equity / Total Assets	2.2%	0.9%	0.7%	0.7%	0.6%	0.6%	0.7%	0.7%
Shareholder Equity + Borrower Notes / Total Assets	3.6%	2.4%	2.3%	2.2%	2.1%	2.2%	2.3%	2.2%
Asset Growth	n/a	185.1%	45.8%	38.1%	34.1%	17.0%	13.4%	18.3%
Loan Growth	n/a	202%	48.8%	34.5%	28.2%	20.7%	2.4%	16.7%
Return on Equity	n/a	12.7%	29.8%	31.9%	26.3%	25.0%	21.9%	15.1%
Capital Ratio	18.0%	11.9%	11.6%	11.2%	10.5%	10.9%	10.9%	10.9%

Note: As at 30 June each year or for the twelve month period ending 30 June each year. Source: LGFA Annual Reports

39

HISTORIC & FORECAST FINANCIAL PERFORMANCE

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

Forecast performance based upon assumptions outlined in LGFA Draft SOI 2020-21 available at www.lgfa.co.nz/for-investors/annual-reports-and-statement-of-intent

Note: Based upon nominal values and Draft SOI published 27 February 2020

Source: LGFA Annual Reports and Draft SOI

40

CONTACTS

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Postal Address
P.O. Box 5704
Lambton Quay
Wellington 6145

Street Address Wellington
Level 8
142 Featherston Street
Wellington 6011

Street Address Auckland
Level 5
53 Fort Street
Auckland

Mark Butcher – Chief Executive
Tel: +64 (04) 974 6744
Email: mark.butcher@lgfa.co.nz

Andrew Michl – Senior Manager, Credit & Client Relationships
Tel: +64 (04) 974 6743
Email: andrew.michl@lgfa.co.nz

Neil Bain – Chief Financial Officer
Tel: +64 (04) 974 6742
Email: neil.bain@lgfa.co.nz

Jane Phelan – Operations Manager
Tel: +64 (04) 974 6530
Email: lgfa@lgfa.co.nz

41

REVOCATION OF DELEGATIONS FOR DECISION-MAKING DUE TO COVID-19

Purpose

1. This report asks the Council to revoke the emergency delegations and standing order suspensions that were made at the Emergency Council meeting of 23 March 2020.

Summary

2. At 23 March 2020 Emergency Council meeting Council put in place certain delegations and amendments to standing orders to enable decision making throughout the COVID-19 lockdown (***Emergency Delegations***). At that time Council also agreed that the emergency delegations for decision-making due to COVID-19 would be reviewed when the alert status reverted back to level 2.
3. Given that New Zealand now is at alert level 1, it is appropriate to revoke the Emergency Delegations and revert to Council's normal delegations and Standing Orders for decisions made into the future.
4. It is not intended that the revocation will have any effect on the decisions made and actions taken under those Emergency Delegations.

Recommendation/s

That the Council:

1. Receive the information.
2. Agree to revoke the following Council delegations made to Strategy and Policy Committee at the Emergency Council meeting of 23 March 2020 due to COVID-19 pandemic:
   a. To approve Council strategy, policy and reserve management plans (clause 2(b))
   b. To remove chairpersons of committees and subcommittees and to remove Portfolio Leaders (clause 2(c))
   c. To approve the Local Governance Statement (clause 2(f))
   d. To determine whether or how to fill any extraordinary Council vacancies (Clause 2(g))
   e. To appoint or remove trustees, directors or office holders to Council's Council-Controlled Organisations (CCOs) and Council Organisations (COs), external members to Committees and to other external bodies (clause 2(i))
   f. In respect of the Wellington District Plan: (i) to approve the recommendation of hearings commissioners on a proposed plan, plan change or variation (including private plan change) and (ii) to approve a proposed plan or a change to a district plan under clause 17 of the First Schedule of the Resource Management Act 1991 (clause 2(j))

   g. To promote any legislation or significant amendments to legislation relating to Wellington (e.g. a Local Bill) (clause 2(l))
   h. To exercise any authority which it has delegated to a committee, subcommittee or officer, which is referred to it for decision (clause 2(m)).

3. Agree to revoke the suspension of standing order 6.4 so that the quorum of a committee of a whole is reverted to that of the Council.
4. Note that the Epidemic Preparedness (COVID-19) Notice 2020 passed during COVID alert level 4 (which enabled those attending via audio or audiovisual link to be counted as present for the purposes of the quorum) will lapse on 25 June 2020 (https://gazette.govt.nz/notice/id/2020-go1368) and that standing orders 15.3, 15.4 and 15.5 will then revert to those set out in the Standing Orders.
5. Agree that the quorum for all committees and subcommittees of the Council be reverted to the quorum set out in their terms of reference.
6. Agree to revoke the emergency delegations made to Mayor, Deputy Mayor and every elected member (as alternates) at the Emergency Council meeting of 23 March 2020, which gave all responsibilities, duties and powers of all Council, Council committees, or subcommittees to the above elected members.
7. Note that the revocations contained in this paper will take affect from the date of these resolutions and are not intended to affect the legality of any of the decisions made or actions taken under the Emergency Delegations.

Background

5. On 25 March, New Zealand went into lockdown under alert level 4 in response to the Coronavirus (COVID-19) pandemic. The alert level was lowered to level 3 at 11:59 pm on 27 April, with some lockdown restrictions partially lifted; and down to level 2 at 11:59 pm on 13 May, with no lockdown restrictions other than maintaining physical distancing and gathering size limits. New Zealand moved down to level 1 at 11:59 pm on 8 June, removing all remaining restrictions except border controls.

Options

6. The Emergency Delegations must be reviewed (and revoked) as per the Council resolution on 23 March 2020. While Council could allow the Emergency Delegations to continue, officers believe that given New Zealand is at alert level 1, the changes and delegations enabled under those Emergency Delegations are no longer appropriate.

Next Actions

7. No further action is required after the Council agrees to the recommendations.

Attachments

Nil

Authors	Cyrus Frear, Senior Democracy Advisor Beth Keightley, General Council
Authoriser	Jennifer Parker, Democracy Services Manager Stephen McArthur, Chief Strategy and Governance Officer

SUPPORTING INFORMATION

Engagement and Consultation
Not applicable

Treaty of Waitangi considerations
Not applicable

Financial implications
There are no financial implications.

Policy and legislative implications
There are no legislative implications. It is worth noting however that the amendments that were made to the Local Government Act 2002 will be repealed when the Epidemic Preparedness (COVID-19) Notice 2020 expires or is revoked. The notice expires on 25 June 2020.

Risks / legal
Not applicable

Climate Change impact and considerations
Not applicable

Communications Plan
Not applicable

Health and Safety Impact considered
The attendance via audiovisual link has been incorporated in the meeting delivery services of the Democracy Services team and elected members and members of the public can easily participate in Council and committee meetings via audiovisual link. This addresses any health concerns related to attending gatherings in person.

Absolutely Positively
Wellington City Council
Me Heke Ki Pōneke

3. Committee Reports

REPORT OF THE GRANTS SUBCOMMITTEE MEETING OF 23 JUNE 2020

The Grants Subcommittee meeting on 23 June 2020 is expected to make recommendations to this Council meeting.

As the Grants Subcommittee meeting had not taken place when the agenda for the Council meeting was published, the recommendations from the Subcommittee are not yet known. The Subcommittee's recommendations will be tabled at the beginning of the Council meeting.

The officers' recommendations to the Subcommittee may be viewed online at the following address: https://wellington.govt.nz/your-council/meetings/committees/grants-subcommittee/2020/06/23

Attachments

Nil

4. Public Excluded

Recommendation

That the Council:

1. Pursuant to the provisions of the Local Government Official Information and Meetings Act 1987, exclude the public from the following part of the proceedings of this meeting namely:

General subject of the matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
4.1 Public Excluded Report of the Strategy and Policy Committee Meeting of 11 June 2020	7(2)(h) The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. 7(2)(j) The withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.