



AGENDA

Accountability, Performance & Finance Committee meeting Tuesday, 8 October 2024

**I hereby give notice that an Accountability, Performance & Finance
Committee meeting will be held on:**

Date: Tuesday, 8 October 2024

Time: 9.30am

**Location: Tauranga City Council
Ground Floor Meeting Rooms 1 & 1b
306 Cameron Road
Tauranga**

*Please note that this meeting will be livestreamed and the recording will be publicly available on
Tauranga City Council's website: www.tauranga.govt.nz.*

**Marty Grenfell
Chief Executive**

Terms of reference – Accountability, Performance and Finance Committee

Common responsibility and delegations

The following common responsibilities and delegations apply to all standing committees.

Responsibilities of standing committees

- Establish priorities and guidance on programmes relevant to the Role and Scope of the committee.
- Provide guidance to staff on the development of investment options to inform the Long Term Plan and Annual Plans.
- Report to Council on matters of strategic importance.
- Recommend to Council investment priorities and lead Council considerations of relevant strategic and high significance decisions.
- Provide guidance to staff on levels of service relevant to the role and scope of the committee.
- Establish and participate in relevant taskforces and working groups.
- Engage in dialogue with strategic partners, such as SmartGrowth partners, to ensure alignment of objectives and implementation of agreed actions.
- Confirmation of committee minutes.

Delegations to standing committees

- To make recommendations to Council outside of the delegated responsibility as agreed by Council relevant to the role and scope of the Committee.
- To make all decisions necessary to fulfil the role and scope of the committee subject to the delegations/limitations imposed.
- To develop and consider, receive submissions on and adopt strategies, policies and plans relevant to the role and scope of the committee, except where these may only be legally adopted by Council.
- To consider, consult on, hear and make determinations on relevant strategies, policies and bylaws (including adoption of drafts), making recommendations to Council on adoption, rescinding and modification, where these must be legally adopted by Council.
- To approve relevant submissions to central government, its agencies and other bodies beyond any specific delegation to any particular committee.
- To appoint a non-voting Tangata Whenua representative to the Committee.
- Engage external parties as required.

Terms of reference – Accountability, Performance and Finance Committee

Membership

Chairperson	Deputy Mayor Jen Scoular
Deputy chairperson	Cr Mikaere Sydney (and during his leave of absence Mayor Mahé Drysdale)
Members	Cr Glen Crowther Cr Marten Rozeboom Cr Rick Curach <i>Mayor Mahé Drysdale (ex officio)</i>
Non-voting members	(if any)
Quorum	<u>Half</u> of the members present, where the number of members (including vacancies) is <u>even</u> ; and a <u>majority</u> of the members present, where the number of members (including vacancies) is <u>odd</u> .
Meeting frequency	Five weekly

Role

The role of the Accountability, Performance and Finance Committee is:

- To provide leadership and advice to Council with regard to Council's financial position and its prudent financial management practices.
- To provide leadership and advice with regard to significant strategic and financial opportunities including, but not limited to, potential city or regional deals with the government.
- To monitor the financial and non-financial performance of Council.
- To monitor the performance of the Chief Executive.

Scope

- Consider strategic financing and funding risks and opportunities and report to Council on such for final decision-making.
- Provide oversight on the preparation of the Annual Report and other external financial reporting required by legislation.
- Review and make appropriate recommendations to Council on the adoption of key accountability documents (including, but not limited to, the Long-term Plan, Annual Plan, and Annual Report).
- Oversee Council's investments, debt management, and funds and liaison with key advisors on these matters.
- Act on Council's behalf for all matters related to the Local Government Funding Agency, including all statutory duties as a result of that organisation being a council-controlled organisation.

- Develop and review Council's Treasury Strategy.
- Review regular financial and non-financial performance reporting, including reporting against strategic outcomes, the Long-term Plan, the Annual Plan, and other strategic and implementation documents (including, for instance, action and investment plans adopted as part of Council's strategic framework, Our Direction).
- Lead the Chief Executive's performance review process and report on such to Council.

Power to Act

- To make all decisions necessary to fulfil the role, scope and responsibilities of the Committee subject to the limitations imposed.
- To establish sub-committees, working parties and forums as required.

Power to Recommend

- To Council and/or any standing committee as it deems appropriate.

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- 1 OPENING KARAKIA**
- 2 APOLOGIES**
- 3 PUBLIC FORUM**
- 4 ACCEPTANCE OF LATE ITEMS**
- 5 CONFIDENTIAL BUSINESS TO BE TRANSFERRED INTO THE OPEN**
- 6 CHANGE TO ORDER OF BUSINESS**

7 CONFIRMATION OF MINUTES

7.1 Minutes of the Accountability, Performance & Finance Committee meeting held on 2 September 2024

File Number: A16768354

Author: Caroline Irvin, Governance Advisor

Authoriser: Coral Hair, Manager: Democracy and Governance Services

RECOMMENDATIONS

That the minutes of the Accountability, Performance & Finance Committee meeting held on 2 September 2024 be confirmed as a true and correct record.

ATTACHMENTS

- 1. Minutes of the Accountability, Performance & Finance Committee meeting held on 2 September 2024**



MINUTES

Accountability, Performance & Finance Committee meeting Monday, 2 September 2024

Order of Business

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**MINUTES OF TAURANGA CITY COUNCIL
ACCOUNTABILITY, PERFORMANCE & FINANCE COMMITTEE MEETING
HELD AT THE BAY OF PLENTY REGIONAL COUNCIL CHAMBERS,
1 ELIZABETH STREET, TAURANGA
ON MONDAY, 2 SEPTEMBER 2024 AT 9.30AM**

MEMBERS PRESENT: Deputy Mayor Jen Scoular (Chairperson), Mayor Mahé Drysdale (Deputy Chairperson), Cr Marten Rozeboom, Cr Rick Curach, Cr Glen Crowther

ALSO PRESENT: Cr Steve Morris, Cr Kevin Schuler and Cr Rod Taylor

LEAVE OF ABSENCE: Cr Mikaere Sydney

IN ATTENDANCE: Marty Grenfell (Chief Executive), Paul Davidson (Chief Financial Officer), Barbara Dempsey (General Manager: Community Services), Nic Johansson (General Manager: Infrastructure), Christine Jones (General Manager: Strategy, Growth & Governance), Alastair McNeill (General Manager: Corporate Services), Sarah Omundsen (General Manager: Regulatory and Compliance), Gareth Wallis (General Manager: City Development & Partnerships), Jeremy Boase (Manager: Strategy & Corporate Planning), Sheree Covell (Treasury and Financial Compliance Manager), Josh Logan (Team Leader: Corporate Planning), Caroline Lim (CCO Specialist), Ceilidh Dunphy (Community Relations Manager), Sam Fellows (Manager: City Partnerships), Coral Hair (Manager: Democracy & Governance Services), Anahera Dinsdale (Acting Team Leader: Governance Services), Caroline Irvin (Governance Advisor) and Aimee Aranas (Governance Advisor).

EXTERNAL: Warwick Lampp (Chief Electoral Officer, Electionz.com)

1 OPENING KARAKIA

Coral Hair opened the meeting with a karakia.

2 APOLOGIES

APOLOGY

COMMITTEE RESOLUTION APF1/24/1

Moved: Cr Marten Rozeboom

Seconded: Cr Rick Curach

That the apology for absence received from Cr Mikaere Sydney be accepted.

CARRIED

3 PUBLIC FORUM

Nil

4 ACCEPTANCE OF LATE ITEMS

Nil

5 CONFIDENTIAL BUSINESS TO BE TRANSFERRED INTO THE OPEN

Nil

6 CHANGE TO ORDER OF BUSINESS

Nil

7 DECLARATION OF CONFLICTS OF INTEREST

Nil

8 BUSINESS

8.1 Outline Work Programme for Accountability, Performance and Finance Committee for the 2024/25 Financial Year

Staff Paul Davidson, Chief Financial Officer

Key points

- This was to be treated as a live document that changes could be made to where and when necessary as the year progressed.

Discussion points raised

The Committee requested the following:

- Financials and non-financials should be separate groups of work.
- The 'monitoring of Council against its stated objectives and policies' was a performance issue that should come back to this Committee.
- It was requested that the stewardship of Council resources be part of the work plan.
- The monitoring the implementation of policy by the Chief Executive was also a performance measure that needed to be brought back to this Committee.
- A third recommendation needed to be added to enable the work plan to be amended and brought back to the Committee.

COMMITTEE RESOLUTION APF1/24/2

Moved: Cr Glen Crowther

Seconded: Cr Marten Rozeboom

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Outline Work Programme for Accountability, Performance and Finance Committee for the 2024/25 Financial Year".
- (b) Notes the outline work programme for the Committee as per Attachment One of this report.
- (c) Notes that this Work Plan may be amended and those amendments will be reported back to this Committee.

CARRIED

8.2 Six Monthly Treasury Strategy Update

Staff Paul Davidson, Chief Financial Officer
Sheree Covell, Treasury and Financial Compliance Manager

Key points

- This report was brought to Council every six months. This particular report was an information paper that outlined what was in the Treasury Strategy.
- A number of resolutions would be brought back to the next Committee meeting which were required for hedging policies and maturities.

In response to questions

- Staff had been very conscious about water reforms and what that meant in terms of Council's hedging profile.
- In terms of the interest rate decrease cycle now and looking at longer term debt, longer term maturities had been targeted with the Local Government Funding Agency (LGFA) and forward start swaps. Once the interest rates came down more, longer term debt would be looked at.
- Work was being undertaken at the moment in terms of the water reforms and shadow ratings which were expected within the next month.

COMMITTEE RESOLUTION APF1/24/3

Moved: Cr Glen Crowther

Seconded: Cr Rick Curach

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Six Monthly Treasury Strategy Update".

CARRIED

8.3 2023/2024 Interim Audit Report from Audit NZ

Staff Paul Davidson, Chief Financial Officer
Sheree Covell, Treasury and Financial Compliance Manager

Key points

- The Chief Financial Officer provided a summary of the report.

In response to questions

- It was not possible to fully or exactly monitor all staff Bee Card activity due to it working on an honesty system. This was being further investigated.
- The timelines for providing information for the audit could sometimes be impacted due to staff working through programmes, for example accounting issues that needed to be worked through. Statutory deadlines were always key dates that were worked towards.
- Council had an formal induction process in place for Councillors, parts of which were still to be implemented. Feedback was welcomed from Councillors in terms of any information support they required.
- The Annual Report effectively reported back on what had been set through the Long Term Plan (LTP) or an Annual Plan (AP). Performance measures were set through the consultation process for these documents and signed off by Council at the time.
- There had been no specific consultation on what the community would like to see in the Annual Report or on what they felt had not been covered.

Discussion points raised

The Committee requested the following:

- Could staff follow up with Audit New Zealand in terms of closing some of the outstanding recommendations.
- Feedback from Councillors regarding Council's induction process would be very helpful.
- It was important that feedback on what the community would like to see in the Annual Plan was sought.

COMMITTEE RESOLUTION APF1/24/4

Moved: Cr Marten Rozeboom

Seconded: Mayor Mahé Drysdale

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "2023/2024 Interim Audit Report from Audit NZ".
- (b) Notes the recommendations contained within the report to Council by Audit New Zealand including recommendations from previous audits.
- (c) Notes the management responses and supports the on-going implementation of improvements as required.

CARRIED

8.4 Tauranga City Council - Draft Annual Report

Staff Paul Davidson, Chief Financial Officer
Christine Jones, General Manager: Strategy, Growth & Governance
Josh Logan, Team Leader: Corporate Planning
Sheree Covell, Treasury and Financial Compliance Manager

Key points

- The Chief Financial Officer and the General Manager: Strategy, Growth & Governance, provided a summary of the report.

In response to questions

- Generally, people were most interested in particular projects or initiatives in their local areas during the consultation process.
- Council drew on feedback received from the community through a range of methods, particularly through updated methods that were being actioned now.
- From a total of 100 performance measures, 66% had been achieved which was seen as a good result, reflective of the measures. Measures were set that were achievable but still a challenge. Staff were aware changes were needed and there were different performance measures in the LTP 2024-34. Staff continuously looked at improvement plans that involved reviewing processes and systems.
- Depreciation, impacts on the budget and the large increases in costs/renewing assets were brought to Council as part of the Annual Plan or LTP to look to achieve a balance from an affordability and asset replacement lens perspective.
- Affordability was a part of the consultation process through the AP and LTP and what the community sought in terms of spending by Council.
- The issue with rates and affordability was that it was a blunt instrument across a lot of rate payers and what might be affordable for some groups was not affordable for others.
- Council Controlled Organisations (CCO's) produced their own separate annual reports which came back to Council. A summary performance only was included in this report.
- Council had contracted outside services such as vegetation, walkways and arborists for decades and had then made a decision two years ago to start bringing those services in house. The largest increase in staff was primarily in this area. This was more cost effective in terms of service delivery. Depots were situated at Mount Maunganui and Tauriko.

- Legislation required Council to produce a balanced budget however, there had been a change in terms of how these were being treated which meant that some differences would show quite dramatically. Section two of the Annual Report 'Year in Review' had a financial highlight section where information was added that was not legislatively required to be disclosed.
- In terms of city-wide development contributions, the water supply was predominantly the Waiari project, and the significant investment made was charged at a city wide level. Water and wastewater were generally the biggest component of city-wide development contributions.
- The draft report was now a public document and as a result of today's meeting staff could go out into the community and seek feedback on the shape, content and flavour of it.
- A monthly report came to management where a deep dive was undertaken into the various areas of KPI measures to understand what was and was not being achieved and why. This was then reported back to Governance on a quarterly basis.

Discussion points raised

The Committee requested the following to be brought back to either the October or November Accountability, Performance & Finance Committee meetings:

- How Council might consult on performance measures going forward.
- That staff obtain feedback from Tauranga people regarding the Annual Report.
- That the Committee put forward suggestions for performance measures they would like to see put in place and reported back in the Annual Report.
- That staff expand on the Annual Report debt services benchmark to show everything it did include as opposed to what it did not.
- Confirmation of dates regarding staff remuneration bands and clarity regarding what positions related to which annual remuneration band.
- Further explanation of assets written off per property plant and equipment note.
- Clarification around the figure of the sale of 90 Devonport Road.
- That a full breakdown of costs was provided when significant capital projects were completed, e.g. Cameron Road Stage 2.
- A report on the building consents started, processed and completed over the last three years.
- That the Committee be provided with the City Operations Business Group report that showed which Council department had had the largest increase in terms of employees.
- That clarity be provided to the Committee on the figures for the Bay Venues Limited Grants, including providing capital and operational grants figures.
- That a separate report regarding Section Two of the Annual Report 'Year in Review' providing more clarity around what was being talked about in terms of a balanced budget be brought back to the November Committee meeting.
- That more context and break down was provided in terms of the number of rating units.

Further comments:

- The significant question was how Council ensured its Annual Report was an easy to understand document for ratepayers and how could it consult with the people of Tauranga about this.
- More reporting was needed around increases to employee salaries and rates increases.

COMMITTEE RESOLUTION APF1/24/5

Moved: Cr Glen Crowther

Seconded: Cr Marten Rozeboom

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Tauranga City Council - Draft Annual Report".
- (b) Notes that the attachments provided are subject to changes as a result of review and audit and further inclusions of taxation and consolidated accounts.

- (c) Notes that the full year financial performance will be reported to the Accountability Performance and Finance Committee on 8 October 2024.
- (d) Notes that a full, designed version of the annual report will also be presented to the 8 October 2024 Accountability, Performance and Finance Committee meeting for further review.

CARRIED

8.5 Final Statement of Intent 2024/25 to 2026/27 for the Local Government Funding Agency

Staff Gareth Wallis, General Manager: City Development & Partnerships
Kathryn Sharplin, Manager: Finance
Caroline Lim, CCO Specialist
Sheree Covell, Treasury and Financial Compliance Manager

Key points

- The Manager: Finance provided summary of the report.

In response to questions

- The Local Government Funding Agency (LGFA) reported quarterly to its shareholders and provided a very good online report.

COMMITTEE RESOLUTION APF1/24/6

Moved: Cr Rick Curach

Seconded: Mayor Mahé Drysdale

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Final Statement of Intent 2024/25 to 2026/27 for the Local Government Funding Agency".
- (b) Receives the Local Government Funding Agency's Final Statement of Intent 2024/25 to 2026/27 (Attachment 1) and the Letter to Shareholders (Attachment 2).

CARRIED

11:16am The meeting adjourned

11.26am The meeting reconvened

8.6 Election 2024

Staff Christine Jones, General Manager: Strategy, Growth & Governance
Coral Hair, Manager: Democracy & Governance Services
Ceilidh Dunphy, Community Relations Manager

External Mr Warwick Lampp, Electionz.com

Key points

- The General Manager: Strategy, Growth & Governance provided a summary of the report.

Mr Warwick Lampp, Electionz .com, provided the following comments:

- This was an election where there were no incumbents involved which created a different dynamic as there was no situation of candidates versus incumbents.

- It was felt Council's campaign to promote the election was one of the best experienced and was a 'gold standard' campaign. It gained a lot of attention in terms of national media coverage and there was a lot of talk about it in the local community.
- Voter turnout was about the same it had always been. This was a multi-faceted issue.
- A highlight of the campaign was the candidate videos. They provided candidates with a very good format and structure to have their say. There were 45 thousand views of the candidate videos.
- The orange bins for collection of voting papers worked very well, with 86% of votes returned through orange bins.

In response to questions

Mr Lampp responded to the following questions:

- Online voting was a matter that needed to be considered by the Government as it had to be a parliamentary decision. At this point in time, it was not wanted as it was felt there were significant concerns around security. Lobbying support from Local Government New Zealand and the local Members of Parliament could be sought to gain traction on this.
- New Zealand legislation did not allow for voter forms to be uploaded and sent via email in local body elections at this point in time. This was however being looked into.
- The research report would analyse anonymised data and provide demographic statistics on age group and ethnicity. This would show trends in voting and would be provided within the next few weeks. It would be confirmed whether gender data was available.
- Council's campaign had provided plenty of information on how single transferable voting worked and how to rank candidates.
- 'Meet the Candidate' events were political by nature and were held within the political/campaigning space. The advice was that councils did not get involved in these events because it was in their best interest to remain apolitical.
- There was awareness that 'Its in the Ballot' organised events in each of the wards, as well as many other community groups. TCC advertised all these meetings on its website and made premises available to respective organisations if they wished to run them.
- It was standard practice for community groups who had an interest in their ward to arrange their own meet the candidate meetings. Most of these communities had groups that were well entrenched in doing this.
- Ward boundary lines were a decision made by Council through its representation review. There would be an opportunity to review these boundary lines before the next election.
- It was felt TCC's election awareness campaign was very good. There was not quite so much media attention around this campaign, particularly around the mayoral candidates.
- There had recently been a change in the legislative election time frame which extended the voting period from three weeks to four which would provide further opportunities for the election in 2028.
- Polling booths were not seen as an option due to it only being a one day event, being very manual and adding significant cost to the process. Polling booths did not raise voter turnout.
- Council put out media releases advising of voter time frames and what was happening with the return. It was thought there would be a bigger 'late surge' in voters to raise the numbers, which did not happen. More media advertising around getting people to vote earlier could be undertaken for the next election.
- Candidates had a 150 word statement to talk about themselves and what they were intending to do. They were provided with guidelines, however, it was up to candidates as individuals to determine what they put in this statement.

Staff responded to the following questions:

- Staff looked at data in terms of harder to reach communities and voter turnout. Younger age groups were tougher to engage in terms of increasing their voting numbers.

- More engaging content was created for a younger demographic through Council's digital campaign. An Instagram page was launched, paid promotions targeted specific demographics and harder to reach groups. Advertising through Moana radio in Te Reo as well as multi-cultural advertising was undertaken.
- The total campaign cost did not include staff salaries but included overtime payments for work such as special voting. All marketing work was carried out in-house.
- Staff could provide elected members with specific numbers on how many people viewed the candidate videos and Council's campaign information videos.
- The Chief Executive advised that, looking at the trend of voter turnout over the last 25 years, it had been consistently average in Tauranga and by comparison, average across the country. TCC's campaign, promotion and advertising for this election, which also tried to attract a good pool of candidates, was successful. The balance and diversity appeared much better than seen previously. It was up to the voter to vote for who they wanted to represent them. There were a range of factors that Council only had a certain amount of control and/or influence over.
- The outgoing Commission were provided with election information in the form of a pre-election report but did not have any input into this.

Discussion points raised

The Committee requested the following:

- It would be useful for Council to utilise the data in the lead up to the next election from 'It's in the Ballot' that showed how single transferable voting influenced decisions.
- The Committee would like staff time allocation included when being provided with the cost of events and activities.
- It would be preferable for the next election when putting out messaging for the campaign to make sure it referred to the call to action that was wanted.
- The Committee would like Council to consider carrying out a survey after the next election that gathered information and provided feedback regarding people's awareness of the election, use of Council information and reasons for voting or not voting.
- It was felt the report provided to the Committee was very operational and needed more about how Council could improve on the next election.
- It was felt the report presented to the Committee today was from an operational perspective only. The Committee would like a second report to be brought to the next Committee meeting that answered the questions asked today such as the facilitation of the next election, fostering better representation and substantial elector participation, and what Council could do differently going forward starting from now.
- It would be helpful if media releases and photos of events were made available 'live' if possible or as soon as possible.

A motion was put forward for a second report to be brought back to the Committee to answer questions raised at this meeting along with the election research report.

COMMITTEE RESOLUTION APF1/24/7

Moved: Deputy Mayor Jen Scoular

Seconded: Cr Glen Crowther

That the Accountability, Performance & Finance Committee:

- (a) Requests that a new report be provided to answer questions raised at this meeting along with the election research report.

CARRIED

9 DISCUSSION OF LATE ITEMS

Nil

10 CLOSING KARAKIA

Coral Hair closed the meeting with a karakia.

The meeting closed at 12.39pm.

The minutes of this meeting were confirmed as a true and correct record at the Accountability, Performance & Finance Committee meeting held on 8 October 2024.

.....
Deputy Mayor Jen Scoular
CHAIRPERSON

8 DECLARATION OF CONFLICTS OF INTEREST

9 BUSINESS

9.1 Accounting and Funding Operational Expenditure and Implications for Balanced Budget

File Number: A16598673

Author: Kathryn Sharplin, Manager: Finance
Tracey Hughes, Financial Insights & Reporting Manager

Authoriser: Paul Davidson, Chief Financial Officer

PURPOSE OF THE REPORT

1. The purpose of this report is to outline the accounting and funding of operating expenditure (opex) and revenue and its implications for the 2023/24 actual deficit, the current year (2024/25) budget, and options to be considered as part of the 2025/26 Annual Plan.

RECOMMENDATIONS

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Accounting and Funding Operational Expenditure and Implications for Balanced Budget".
- (b) Notes that the operating deficits recorded for 2023/24 and budgeted for 2024/25 include items for which operational funding is intended to be phased back in over the 2024-34 Long Term Plan, returning Council to a surplus by 2028/29.
- (c) Notes that within the overall operating deficit there is a rates deficit of \$1.6m (0.6% of budget) which is funded by unbudgeted borrowing.

EXECUTIVE SUMMARY

2. Council's Revenue and Financing Policy was agreed as part of the 2024-34 Long-term Plan (LTP). It sets out the funding sources for Council's activities and the rationale for these choices. The balanced budget principle suggests operational expenditure should be funded by operational revenues unless Council decides it is not prudent to do so. Loan funding should not be used unless Council specifically decides that the benefits of the expenditure are long term and that it should be loan funded.
3. Tauranga City Council (TCC) financial statements are prepared in accordance with New Zealand Generally Accepted Accounting Practice and Public Benefit Entity requirements. A key financial statement to review the balanced budget is the Statement of Comprehensive Revenue and Expenses (SOCRE).
4. In recent years (2022/23 and 2023/24) there has been a significant increase in the operating deficit in the SOCRE that relates to expenditure associated with creating assets or providing a long term (more than one year) benefit. Some of this represents a change from past accounting practice arising from a change in accounting standards (digital expenditure), while the rest represents costs associated with new areas of investment related to the city centre and growth and infrastructure planning, where Council has approved loan funding of this expenditure as it provides a long-term benefit and is not considered regular day to day operating expenditure to provide Council services. The Tauriko West infrastructure funding agreements result in short term surplus and deficit balances in the SOCRE due to timing

variations in these cashflows related to development contribution collection timing (\$7m deficit in 2023/24).

5. Council resolved that the 2023/24 annual plan should remain broadly within rates increases proposed for year 3 of the 2021-31 LTP (overall 6%) and therefore not consult on the annual plan, but instead focus staff resources and community consultation on the 2024-34 LTP where significant changes and investments were proposed. This decision to limit rates increases in 2023/24 contributed to an increased SOCRE deficit due to non-funded depreciation.
6. The 2023/24 total deficit reported in the Annual Report SOCRE is \$85m of which \$49m relates to loan funding of expenditure that provides a long-term benefit and the Tauriko West timing of revenue. The remaining \$36m relates to non-funding of depreciation expenses of \$29m, the general rating deficit for the year of \$1.6m, and expenditure in Wastewater and the Airport funded from reserves \$5m.
7. The 2024-34 LTP records significant deficits in the SOCRE through the first two years of the LTP, before reducing in later years as underfunding of depreciation is reversed and further debt retirement is undertaken to address past loan-funding of opex. The operating deficit is budgeted in the LTP to progressively improve and become an operating surplus by 2028/29. Options can be identified through the Annual Plan to reduce the deficit further over the next two years.
8. Net deficits in some ring-fenced cash balance (user-fee funded) activities will be addressed as part of the Annual Plan.
9. Adjustments have been made to the presentation of the SOCRE to reflect more accurately the day-to-day operating revenue and expenditure by excluding some of the loan-funded costs.

BACKGROUND

Policies and Practices Applied to the Balanced Budget Principle and Loans Funding OPEX

10. Council's Revenue and Financing Policy, which is agreed as part of the LTP sets out the funding sources for council's activities and the rationale for these choices. The policy, which is guided by sections 100 and 101 (3) of the Local Government Act 2002 (LGA), proposes that each year's projected operating revenues be set at a sufficient level to meet the year's projected operational costs, except in limited situations where Council considers it prudent not to do so.
11. The policy also notes that loans will not be used to fund opex, unless it is otherwise resolved by Council. Council may resolve to use loans to fund opex where the expenditure provides benefits outside the year of operation, such as grants paid to community organisations for delivery of assets.
12. The Statement of Comprehensive Revenue and Expenses (SOCRE) requires Total Revenue to include asset revenue. In TCC's SOCRE, "Total Revenue" is divided into "Operating Revenue" and "Asset Revenue", which identifies the revenue received to fund capital expenditure through development contributions, vested assets, and capital grants.
13. For operating expenditure there is no such separate sub-heading in the SOCRE. This is because most "asset expenditure" is identified as capital expenditure excluded from the SOCRE. However, under current accounting standards, the treatment of some of the expenditure to deliver "assets" has changed over time and now cannot be capitalised. It is therefore accounted for as operating expenditure in the SOCRE. The most significant recent change in accounting treatment has been in TCC's software development associated with implementing software as a service (SaaS). The development of SAP, TCC's ERP system, is caught in these rules (for instance).

Loans for OPEX with Long-term Benefit and Annual Rates Collected to Retire Debt

14. In TCC's capital reporting to Council, operating expenditure with long term benefits is included as "operating expenditure of a capital nature". It is budgeted as loan-funded opex with rates-funded debt retirement included to clear the debt over the period that the benefit is likely to be received. Accounting for it in this way contributes to an operating deficit in the SOCRE.
15. Over time there has been a significant increase in expenditure that has been identified as loan-funded opex with a long-term benefit including:
 - (a) Delivery of city centre investment.
 - (b) Digital projects.
 - (c) Wastewater pond desludging
 - (d) Growth and infrastructure planning.
 - (e) Tauriko West Infrastructure delivered and owned by NZTA (timing differences between revenue and expenditure).
16. Expenditure associated with development of the city centre, including Te Manawataki o Te Papa (TMoTP), has been budgeted as loan-funded opex over the last two years, with retirement of the loans through rates-funded debt retirement. This approach was included in the budgets for the 2023/24 Annual Plan and the 2024-34 LTP.
17. Wastewater pond desludging involves significant one-off expenditure and has been approved as loan funded.
18. Digital expenditure was budgeted as capex in 2022/23 and 2023/24 annual plans, but has been recorded in the respective annual reports as operating costs funded by loans. Rates-funded debt retirement had not been put in place for those two years but is budgeted to commence during the 2024-34 LTP. It is proposed to seek a specific Council resolution to loan fund this digital expenditure as part of adoption of the Annual Report.
19. Rates funding debt retirement on the above opex was \$3.5m in 2023/24, budgeted to increase to \$10.5m in 2024/25. Attachment 1 summarises the key activities where loan-funded opex is in place.

Forward Funding of Periodic Expenditure through Reserves

20. There are planned expenditures that occur periodically throughout the life of activities (e.g. biosolids removal from wastewater treatment facilities) for which a contribution is collected each year and recorded in a reserve from which the planned periodic expenditure is funded. The annual collection of funds recorded in the reserve creates a surplus in operating revenue in most years, except in the year the expenditure occurs. In that year the SOCRE will show a deficit as the expenditure is funded from the reserve.
21. The stormwater levy was established after a weather event in 2011 caused significant flooding in established areas of the city. Annual targeted rates are placed in reserve to be paid out for capital expenditure in relation to works to reduce future flooding risk. Most of this work is capital in nature. The balance of all reserves are reported in the notes to accounts in the annual report (note 31).
22. A risk management reserve has been established to provide funding for unexpected events. Through the 2023/24 Annual Plan and into the LTP an annual contribution of \$1m is rated for. This funding contributes a surplus in operating revenue each year, but will show a deficit in years that funds are paid out from the reserve.

Other Rating for Debt Retirement

23. There is a significant amount of debt within TCC's accounts that arises from unbudgeted payments. These include weathertight settlements and "write-offs" of capital expenditure, e.g., Harington Street carpark. These expenditures have been loan-funded but there is no

cash collected through depreciation to retire this debt. The 2024-34 LTP commenced retirement of this debt as follows:

- (a) In 2024/25 commenced retirement of debt in the weathertight reserve which has a deficit balance of \$54m.
- (b) In 2026/27 to commence debt retirement in the unfunded liabilities reserve (primarily Harington Street carpark and Bella Vista) which has a deficit balance of \$22m.
- (c) In 2023/24 there was rates funded debt retirement of \$3.4m in community activities to address general debt levels. This debt retirement was removed in the LTP because the IFF levy for TMoTP was assumed as an alternative that took future debt off TCC's balance sheet.

Depreciation Expense and Depreciation Reserves

- 24. Depreciation is a significant element of TCC's operating expenditure, and it is increasing as the value of TCC's assets increase. Property, Plant and Equipment in the 2024 annual report is \$7.2bn, rising to \$13.1bn in the last year of the LTP as a result of the large capital programme. Depreciation was 18% of total operating expenditure in 2023/24, rising to 28% of projected total operating expenditure in the final year of the LTP.
- 25. Depreciation expense is impacted by a number of elements, including:
 - (a) Additional assets resulting from the capital programme;
 - (b) Revaluation of existing assets (inflation); and
 - (c) Changes to the useful lives of assets.
- 26. Through LTP and Annual Plan budgets, TCC accounts for depreciation on additional assets, and also for revaluation (based on inflation assumptions). The balanced budget approach assumes fully funding depreciation expense through rates and user charges, with that revenue transferred to reserves to fund future renewals and debt retirement. The major exception is we do not fund the proportion of roading depreciation that we expect to receive NZTA funding for when assets are renewed.
- 27. In the last three years, revaluations of roading assets and waters assets have exceeded the inflation expectations in our annual and long term plans, generating large depreciation impacts. In order to smooth the impact on rates, additional unfunded depreciation in Waters and Roading was built into the 2023/24 Annual Plan and the first year of the 2024-34 LTP. The move to fully funded depreciation has been phased in over three years of the LTP.
- 28. Due to the timing mismatch of planning and revaluation cycles, a very large depreciation overspend has been recorded in 2023/24 contributing \$28.5m of the operating deficit.
- 29. Council operates depreciation reserves for each activity of Council. Balances change over time with annual funded depreciation expense flowing into the reserve, and renewals and debt retirement (at the average life of assets in that activity) flowing out of the reserve each year. Interest is recorded against the balance in the account. The balance of depreciation reserves and ability to fund renewals was assessed as part of the 2024-34 LTP.

2023/24 Financial Deficit

- 30. Council resolved for the 2023/24 Annual Plan that rates would remain broadly within rates increases proposed for year 3 of the 2021-31 LTP (at 6% overall) and therefore not consult on the annual plan. This provided an opportunity to focus internal resources and community consultation on the 2024-34 LTP where significant changes and investments were proposed. The 2023/24 year included additional expenditure particularly across three waters, spaces and places, transportation and city centre. The maintenance of the lower rates increase despite rising costs was achieved in part by not fully funding depreciation across the above activities and restoring funded depreciation and the balances within depreciation reserves through the LTP.

31. The full year results for 2023/24 show an operating deficit in the Annual Report SOCRE of \$85m. However, this deficit includes the timing impacts of funding Tauriko West, as well as Council agreed loan-funded opex.
32. Operating results have been reframed to exclude items that are capital in nature but are reported as operating income and expenditure for the purpose of the annual report.
33. The SOCRE deficit in the Annual Report is \$85m. However, after the above adjustments to reframe the SOCRE the core operating deficit is \$35.8m against a budgeted deficit of \$38.3m.
34. The operating deficit consists of:
 - (a) Unfunded depreciation expenditure \$29m.
 - (b) Rates funding deficit for the year, which is the rates collected to fund rates funded expenditure. The actual rates funding deficit overall is \$1.6m for the year (0.6% of budget).
 - (c) Funding for Wastewater and Airport activities from reserves \$5m.
 - (d) Within ring fenced cash balance activities there are deficits in some activities, largely offset by surpluses in other activities. Activities in deficit along with user fees will be looked at as part of the annual plan.
35. The reframed SOCRE is shown in attachment 2. This attachment also shows the Tauriko West revenue and expenditure, digital, and other loan funded expenditure separately.

STATUTORY CONTEXT

36. This report is for monitoring and information purposes as well as for the consideration of recommendations to Council.

OPTIONS ANALYSIS

37. This report is for information.

FINANCIAL CONSIDERATIONS

38. This report provides information relevant to understanding the financial results for 2023/24 as reported in the Annual Report and to provide background to inform the annual planning process.

LEGAL IMPLICATIONS / RISKS

39. There are no specific legal implications or risks arising from this report.

CONSULTATION / ENGAGEMENT

40. This report is for information and no consultation is required.

SIGNIFICANCE

41. The Local Government Act 2002 requires an assessment of the significance of matters, issues, proposals and decisions in this report against Council's Significance and Engagement Policy. Council acknowledges that in some instances a matter, issue, proposal or decision may have a high degree of importance to individuals, groups, or agencies affected by the report.
42. In making this assessment, consideration has been given to the likely impact, and likely consequences for:
 - (a) The current and future social, economic, environmental, or cultural well-being of the district or region
 - (b) Any persons who are likely to be particularly affected by, or interested in, the matter.

- (c) The capacity of the local authority to perform its role, and the financial and other costs of doing so.

43. In accordance with the considerations above, criteria and thresholds in the policy, it is considered that the matter is of low significance.

ENGAGEMENT

44. Taking into consideration the above assessment, that the matter is of low significance, officers are of the opinion that no further engagement is required prior to Council making a decision.

NEXT STEPS

45. If the Committee recommends Council approves loan funding digital opex that is of a capital nature this resolution will be included in the Annual Report adoption report.
46. Options to further reduce budgeted deficits in 2025/26 will be presented as part of the annual plan process.
47. Quarterly monitoring of financial performance to this committee will separate the impact of Tauriko West timing and operational expenditure of a capital nature from the summary of operational performance to budget.

ATTACHMENTS

1. **Attachment 2 - Reframed Operating Deficits - A16736252** [↓](#) 
2. **Attachment 1 Balanced Budget Loan Funded Operational Expenditure - A16737241** [↓](#) 

Attachment 2

Reframed Statement of Comprehensive Revenue and Expense for the year ended 30 June 2024			
	Actual revised 2024 \$'000	Annual Plan revised 2024 \$'000	Variance 2024 \$'000
Operating Revenue			
Rates	284,009	280,325	3,684
Fees & Charges	62,916	61,360	1,556
Grants & Subsidies	21,733	14,185	7,548
Finance Revenue	10,686	4,878	5,808
Total Operating Revenue	379,344	360,748	18,596
Operating Expenditure			
Depreciation and Amortisation expense	95,472	80,034	(15,438)
Personnel Expenses	103,660	103,506	(154)
Finance Expenses	49,355	43,676	(5,679)
Other Operating Expenses	166,702	171,813	5,111
Total Operating Expenditure	415,189	399,029	(16,160)
Operating surplus/(deficit) before gains and losses	(35,844)	(38,281)	2,437

Impacts on Operating Deficit of Capital Items			
	Actual	Budget	Variance
Annual report Operating deficit	(85,118)	(51,570)	(33,548)
BVL Capital items operating impact	1,837	1,596	241
Digital Saas operating impact	22,118	0	22,118
Tauriko West Enabling Works operating impacts	7,817	4,922	2,895
City Development operating impacts	7,710	2,748	4,962
Other loan funded items less debt retirement	9,792	4,023	5,769
Reframed Operating deficit	(35,844)	(38,281)	2,437

Attachment 2

Statement of Comprehensive Revenue and Expenditure 2024

Revised for items of a capital nature

Year to June 2024

	Actual							Budget						
	Revised 2024	BVL Capital	Digital Saas	Tauriko West	City Centre Development	Other Loan Funded	Annual Report 2024	Revised 2024	BVL Capital	Digital Saas	Tauriko West	City Centre Development	Other Loan Funded	Annual Report 2024
Operating Revenue														
Rates	284,009	4,096	0	0	0	6,911	295,016	280,325	4,096	0	0	0	6,341	290,762
Fees & Charges	62,916	1,108	0	0	0	0	64,024	61,360	738	0	0	0	0	62,098
Grants & Subsidies	21,733	0	0	15,123	0	0	36,856	14,185	0	0	23,623	0	0	37,808
Finance Revenue	10,686	0	0	0	0	0	10,686	4,878	0	0	0	0	0	4,878
Total Operating Revenue	379,344	5,205	0	15,123	0	6,911	406,582	360,748	4,835	0	23,623	0	6,341	395,546
Operating Expenditure														
Depreciation and Amortisation expense	95,472	0	0	0	0	785	96,257	80,034	0	0	0	0	0	80,034
Personnel Expenses	103,660	0	3,223	0	0	0	106,883	103,506	0	0	0	0	0	103,506
Finance Expenses	49,355	0	0	0	0	804	50,159	43,676	0	0	0	0	0	43,676
Other Operating Expenses	166,701	7,041	18,895	22,940	7,710	15,114	238,401	171,813	6,430	0	28,545	2,748	10,364	219,900
Total Operating Expenditure	415,188	7,041	22,118	22,940	7,710	16,703	491,700	399,029	6,430	0	28,545	2,748	10,364	447,116
Operating surplus/(deficit) before gains and losses	(35,844)	(1,837)	(22,118)	(7,817)	(7,710)	(9,792)	(85,118)	(38,281)	(1,596)	0	(4,922)	(2,748)	(4,023)	(51,570)

1. **Attachment 1 Loan Funded Operational Expenditure by Activity**

Activity	Loan Funded Opex 2023-24 \$m	Closing Loan Balance \$m	Debt Retirement 2023-24 \$m	Budgeted Debt retirement 2024-25 \$m
Digital projects to implement Saas mainly SAP & GIS/ CPAD	22.1	33.5	0	4.3
City Centre to support city centre capex	9.2	11.1	0.1	0.7
Three waters mainly periodic pond cleaning	4.2	6.8	0.7	0.9
City Infrastructure & Planning city and growth area planning	1.5	7.1	0.8	1.1
Spaces & Places & Community various grants and expenditure	3.1	5.1	1.0	1.9
Transportation mainly Tauriko West	11.2	21.2	0.6	1.4
Other – Various activities	8.2	24.00	0.3	0.5
Total	53.8	108.8	3.5	10.8

9.2 Draft Annual Report

File Number: A16375663

Author: Sheree Covell, Treasury & Financial Compliance Manager
Kathryn Hooker, Corporate Planner

Authoriser: Paul Davidson, Chief Financial Officer

PURPOSE OF THE REPORT

1. The purpose of this report is to provide the committee with the draft presentation of the full 2023/24 Annual Report.

RECOMMENDATIONS

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Draft Annual Report ".

EXECUTIVE SUMMARY

2. This report and accompanying attachments are presented to the Accountability Performance and Finance Committee for review and feedback on the attached sections of the draft Annual Report.
3. Section five (Groups of Activities) and section seven (Financials) were provided to this committee on 2nd September 2024. This provided the committee a chance to view the financial and non-financial results for 2023/24 financial year.
4. The attached documents encompass all sections of the Annual Report and updated financials which now include tax and consolidation of Council Controlled Organisations (CCOs).
5. The information contained within this report and attachments is still subject to change as a result of the final audit review. Audit NZ has requested that Council obtain external accounting advice on the accounting treatment of the Marine Precinct divestment. The results of this may change the results presented in the Statement of Comprehensive Revenue and Expenditure and the Statement of Financial Position as well as certain notes to accounts.

BACKGROUND

Purpose and Presentation of the Annual Report

6. The Tauranga City Council (Group) Annual Report is prepared consistent with requirements of the Local Government Act 2002 (LGA).
7. The purpose of the annual report is to report back to the community on the performance of the Council against its levels of service, budgets and capital programme agreed in year three of the LTP. It also promotes accountability to the community for the decisions made during the year.

8. The front sections of the document provide a review of the year and aim to tell the story of the Council's operations and other key events in a way that is readable by the community. It is an opportunity to discuss the highlights, opportunities and challenges of the year and provide a bridge to the future including the issues and investments included in the LTP.
9. The detailed financial accounts and notes to the accounts are presented at the back of the document.

Non-Financial

10. The full highlights, challenges and opportunities can be viewed in full in the attachment. A summary of the key highlights, challenges, and opportunities for 2023/24 are summarised under Council's community outcomes below:

(a) Tauranga Mataraunui – An Inclusive City

- (i) Active Reserves & Bay Venues including – improvements to facilities at Mercury Baypark, Blake Park, and Gordon Spratt Reserve Sports Pavilion, new community centres commenced in Merivale and Gate Pa, completion of the world-class destination skatepark at Mt Maunganui, a new indoor court facility on Cameron Road, and new coastal walkways for Marine Parade and Pāpāmoa.
- (ii) The sale of the Marine Precinct this year at Sulphur Point guarantees its future, promising significant economic benefits by encouraging investment in both the city and our marine sector.
- (iii) Working in partnership with local hapū Ngāti Hangarau, we completed the Ōmanawa Falls Safe Access Project and reopened the area to the public.
- (iv) Return to democracy - On 20 July 2024 a local election was held bringing democracy back to the city of Tauranga.

(b) Tauranga Taurikura – A city that values, protects and enhances our environment

- (i) Continued work on multiple initiatives to strengthen our infrastructure and inform planning decisions to better protect our communities from the impacts of natural hazards and our changing climate.
- (ii) Through our Kerbside waste collection service, Tauranga residents recycled and composted more household waste than they dumped in landfill this year, our Resource Wise Programme engaged with 53 schools, and plans are underway to upgrade the Te Maunga transfer station.
- (iii) Improving Nature and Biodiversity – we've now planted 300,000 plants and native vegetation as part of the Kopurererua River wetland restoration, and held our inaugural Free Tree Day, giving away native trees to more than 1000 Tauranga residents to enhance the city's native tree canopy coverage.

(c) Tauranga Tātai Whenua – A Well Planned City

- (i) Planning for growth - working to ensure Tauranga has enough land available for housing and development to meet our future growth needs through intensification and progressing new greenfield urban growth areas in:
 - **Tauriko West** - Building the new community at Tauriko West (4000 homes) requires changes to the Tauranga City Plan, as the land within Tauriko West is zoned rural. We are in the process of working through variation 1 to Plan Change 33 to allow us to rezone Tauriko West Urban Growth Area for urban development. The public notification and submission process has now been completed, with the final decision making scheduled for December 2024.
 - **Keenan Road (Pyes Pā)** - The plan is for an estimated 2,500-3,000 new homes staged over the next 20-30 years. This area also requires rezoning. Following the first two stages of public consultation in September 2023 and

April 2024, we are progressing the proposed structure plan for the new Keenan Road community.

- **Te Tumu (Pāpāmoa)** - In December 2023, Council confirmed that Te Tumu remains a priority growth area for the city, and that rezoning is critical to addressing the housing shortage facing Tauranga. Council has directed staff to prioritise all work relating to this project to allow for notification of a plan change for rezoning by early 2026. Rezoning of land to support urban development within Te Tumu is complex and requires careful consideration of a range of matters.
 - **Pōteriwahi/Parau Farms** - In late April 2024, Council endorsed staff to continue further planning for Pōteriwahi based on the mixed-use concept plan developed. In early May 2024, Council submitted the Pōteriwahi project to be considered as part of the Fast-track Approvals Bill. The addition of this project in the bill would assist Tauranga in addressing its significant housing shortages and enable approximately 200-300 homes to be brought to market in a much shorter timeframe.
- (ii) Transformation of our city centre – the Te Manawataki o Te Papa programme is in full swing with construction underway for the new library and community hub, designs are being finalised for the Memorial Park Aquatic Centre, works on the City Centre Waterfront Development are nearing completion, and the new Council headquarters at 90 Devonport Road is on track for completion early 2025.
- (iii) Waters – we're working towards the Government's new three waters initiative 'local water done well', we've upgraded our stormwater treatment, particularly in high traffic areas, to reduce contaminants discharging into our harbour, and we've invested in wastewater infrastructure for current and future growth in Pāpāmoa and the Te Maunga Treatment Plant.
- (iv) Our Emergency Management team commissioned a successful earthquake and tsunami virtual reality (VR) module to educate our community about the impacts of a large magnitude earthquake and subsequent tsunami.

(d) Tauranga Ara Rau – A city that we can move around easily

- (i) Improving transport options – We completed Cameron Road stage one this year, construction began on the Pāpāmoa East Interchange, upgrades to SH29 are underway to enable the Tauriko West growth area, and plans for Fifteenth Ave to Welcome Bay Road, as well as the Connecting Mount Maunganui project, are in development.
- (ii) Smart trip – variable road pricing – we're exploring the use of road charging to partially fund transport projects and reduce congestion on our roading networks.
- (iii) The Government Policy Statement for Land Transport (GPS) for 2024/25 has signalled a different direction in terms of future funding, which has led to a few challenges in the current year.

(e) Tauranga a te kura – A city that supports business and education

- (i) Management of Business Land – Plan change 38 – We are in the early stages of updating the Tauranga City Plan, a large and complex plan change, to help better manage the city's business land and ensure there is enough industrial land across the city for development of retail, offices and community facilities.
- (ii) Tauriko Business Estate - The existing Tauriko Industry Zone land is close to reaching capacity and the developers of the Business Estate are seeking to extend the Zone.

- (iii) A state-of-the-art marine research and education facility for Marine Park, Sulphur Point - Council and the University of Waikato have signed an agreement to lease a site at Marine Park to establish the new facility.

11. The baseline data for measuring progress towards our community outcomes and the implementation of Our Direction has also been included for the first time in this year's annual report under section 2 – Year in Review. These outcome measures will continue to be included in subsequent annual reports.

Financials

12. There have been no material changes to the financial results since they were presented to this committee on 2nd September 2024. The below table of key financial metrics remains the same.

Key Financials (\$m)	2024 Draft Actuals	2024 Annual Plan	Variance
Capital Programme	418	397	21
Net Debt	1,067	1,050	17
Operational Revenue	407	396	11
Operational Expenditure	492	447	45
Debt to revenue ratio**(funding adjusted)	218%	223%	-5%
Financial Limit on Borrowing (debt to revenue ratio)	290%	290%	0%
Total Rates ***	295	291	4
Total Assets	7,765	7,462	303

13. While there have been no material changes to the financial results, staff have made the following changes to format or presentation to incorporate feedback from committee members:

(a) Total cost of completed projects

The total project costs, including budget and funding information for projects completed in the 2023/24 financial year have been included on page 67 (section 2).

(b) Breakdown of revenue by rating category

The assessed rates for the 2023/24 financial year have been split by rating category and are now included in the rating base information page (page 256, section 7) as follows:

2024 Residential: \$113.1m

2024 Commercial: \$46.3m

It should be noted that this is presented as rates assessed rather than rates revenue in note 2 of the financials.

(c) Staff cost information

A disclosure has been added to page 73 (section 2) to show actual and budgeted staff costs and Full Time Equivalent numbers for 2023/24 and previous two years.

14. Audit NZ are progressing through the final audit with one potential material change identified to date. This relates to the presentation of the divestment of Marine Precinct. At Audit NZ's request, Council has engaged PWC to review the accounting treatment and provide a formal opinion. The results of this are expected in early October 2024.

STATUTORY CONTEXT

15. The annual report is a public document that reports to the community on the Council's performance and achievements against what was planned, for both financial and non-financial performance. The annual report must be prepared each year in accordance with International Public Sector Accounting Standards and compliant with the requirements of the Local Government Act 2002.

STRATEGIC ALIGNMENT

16. This contributes to the promotion or achievement of the following strategic community outcome(s):

	Contributes
We are an inclusive city	✓
We value, protect and enhance the environment	✓
We are a well-planned city	✓
We can move around our city easily	✓
We are a city that supports business and education	✓

17. While approval of this recommendation itself does not go towards achieving the outcomes, within Attachment 1 it describes how Council contributes to achieving the strategic community outcomes. All outcomes are covered in this respect.

OPTIONS ANALYSIS

18. There are no options presented in this report. The committee is able to provide feedback on the presentation of the annual report at this meeting.

FINANCIAL CONSIDERATIONS

19. The financial statements and information presented is for the financial year ended 30 June 2024. The presentation of the financials section is guided by the requirements of the Local Government Act 2002, accounting standards (International Public Sector Accounting Standards (IPSAS)) and generally agreed accounting policies. It is audited by Audit New Zealand. The financial statements and note to accounts are prepared on a going concern basis and any incidence or allegations of fraud, non-compliance or misstatement should be disclosed.

LEGAL IMPLICATIONS / RISKS

20. The Local Government Act 2002 requires the annual report to be adopted within four months of balance date. The planned adoption date is 29 October 2024 which is two days before the legislative cut off.

TE AO MĀORI APPROACH

21. While in the final draft of the annual report in section two - year in review there will be information disclosed under the heading "partnership with tangata whenua." This will be presented to this committee on 8 October 2024 and will refer to elements reflecting Council's approach to Te Ao Māori. However, the information covered by this report is not directly impacted by that approach.

CLIMATE IMPACT

22. Similarly, the information that will be covered on the 8 October 2024 in the year in review section under the heading "sustainability approach - Te Ahunga Toitū" will refer to but is not directly impacted by Council's approach to climate impact. Again, the information covered by this report is not directly impacted by that approach.

CONSULTATION / ENGAGEMENT

23. The annual report will be made publicly available after adoption. The 2021-31 Long Term Plan which the years results are measured against was consulted on before being adopted. There is no consultation on the annual report itself.

SIGNIFICANCE

24. The Local Government Act 2002 requires an assessment of the significance of matters, issues, proposals and decisions in this report against Council's Significance and Engagement Policy. Council acknowledges that in some instances a matter, issue, proposal or decision may have a high degree of importance to individuals, groups, or agencies affected by the report.
25. In making this assessment, consideration has been given to the likely impact, and likely consequences for:
- (a) the current and future social, economic, environmental, or cultural well-being of the district or region
 - (b) any persons who are likely to be particularly affected by, or interested in, the matter.
 - (c) the capacity of the local authority to perform its role, and the financial and other costs of doing so.
26. In accordance with the considerations above, criteria and thresholds in the policy, it is considered that the matter is of medium significance.


ENGAGEMENT

27. Taking into consideration the above assessment, that the matter is of medium significance, officers are of the opinion that no further engagement is required prior to Council making a decision.

NEXT STEPS

28. The final Annual Report will be presented to Council for adoption on 29 October 2024.

ATTACHMENTS

1. **Draft Annual Report 2023/24 - A16728483 (Separate Attachments 1)** 

9.3 Consolidated Performance Measures Framework

File Number: A16621579

Author: Josh Logan, Team Leader: Corporate Planning

Authoriser: Christine Jones, General Manager: Strategy, Growth & Governance

PURPOSE OF THE REPORT

1. To provide a summary of the process for, and decision-making on, performance measures through the 2024-2034 Long-term Plan process and other measures of performance tracked by Council.

RECOMMENDATIONS

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Consolidated Performance Measures Framework".

EXECUTIVE SUMMARY

2. The process to consider performance measures through the 2024-2034 Long-Term Plan ("LTP") commenced with staff reviewing their current measures in March 2023 and concluded with Council decisions in April 2024.
3. Reports on LTP performance measures were considered by Council on multiple occasions before a draft framework was consulted on in late 2023.
4. Following consultation with the community, Council made final decisions on the suite of LTP performance measures. The formal adoption of the performance measures was part of the LTP adoption in April 2024. New and amended performance measures became effective on 1 July 2024.
5. Council also has a number of other ways that it collects data and measures performance. These methods are also discussed in this report.
6. The final part of this report provides information on how Council is planning to monitor and report on the implementation of "Our Direction" (Council's strategic framework), and the associated performance measures.

BACKGROUND

Origin of this report

7. The Committee Chair has requested a report providing background to the performance measures adopted through the LTP process, including formal reporting to Council that ultimately led to decision-making on the LTP performance measures.

Statutory basis for LTP measures

8. The Local Government Act 2002 (LGA) requires councils to include within the LTP performance measures and targets that *"the local authority considers will enable the public to assess the level of service for major aspects of groups of activities"*. Performance measures need not be in place for every activity in the Council; instead, our focus should be on the major aspects that significantly contribute to the overall performance narrative for the community.

9. To ensure a baseline level of common reporting among councils, the Act also requires that LTPs include measures required by the Secretary for Local Government, taking advice from the Department of Internal Affairs ("DIA"), covering:
- Water supply;
 - Sewerage and the treatment and disposal of sewage;
 - Stormwater drainage;
 - Flood protection and control works; and
 - The provision of roads and footpaths.
10. There are 23 of these "DIA measures" each of which are clearly labelled as such in the LTP and subsequent annual reports.
11. In terms of reporting, Subpart 2 of Part 6 of the LGA requires that Annual Reports compare the actual activities and the actual performance of the local authority in the year with the intended activities and the intended level of performance as set out in the LTP. The Act does not require in-year regular reporting against LTP measures, as is the practice at Council (six monthly). However, note that Council Control Organisations (CCOs) are required to report twice yearly.¹

Introduction to the 2024 LTP Performance Measures Framework

12. Council's performance measures enable us to monitor and report against our outcomes and service performance. In previous Long-term Plans, performance measures were grouped under each activity area of Council which enabled us to provide activity specific information and performance. In the 2024 LTP all performance measures are grouped together under either Strategic Measures which measures our achievement of each of Council's community outcomes and then also against our stated levels of service. This clearly identifies linkages between what we do and why we do it, with the ultimate goal of working towards Our Direction, comprising our five community outcomes interwoven with our three approaches of:



An inclusive city – Tauranga Matarauui

Tauranga is a city that celebrates our past, is connected in our present and invested in our future. Where people of all ages, beliefs, abilities and backgrounds are included and feel safe, connected and healthy.



A city that values, protects and enhances our environment – Tauranga Taurikura

Tauranga is a city that values our natural environment and outdoor lifestyle, and actively works to protect and enhance it.



A well-planned city – Tauranga - Tātai Whenua

Tauranga is a city that is well planned with a variety of successful and thriving compact centres, resilient infrastructure, and community amenities.



A city we can move around easily – Tauranga Ara Rau

Tauranga is a well-connected city, easy to move around in and with a range of sustainable transport choices.



A city that supports business and education – Tauranga a te kura

Tauranga is a city that attracts and supports a range of business and educational opportunities, creating jobs and a skilled workforce.

¹ <https://www.legislation.govt.nz/act/public/2002/0084/167.0/DLM171896.html>

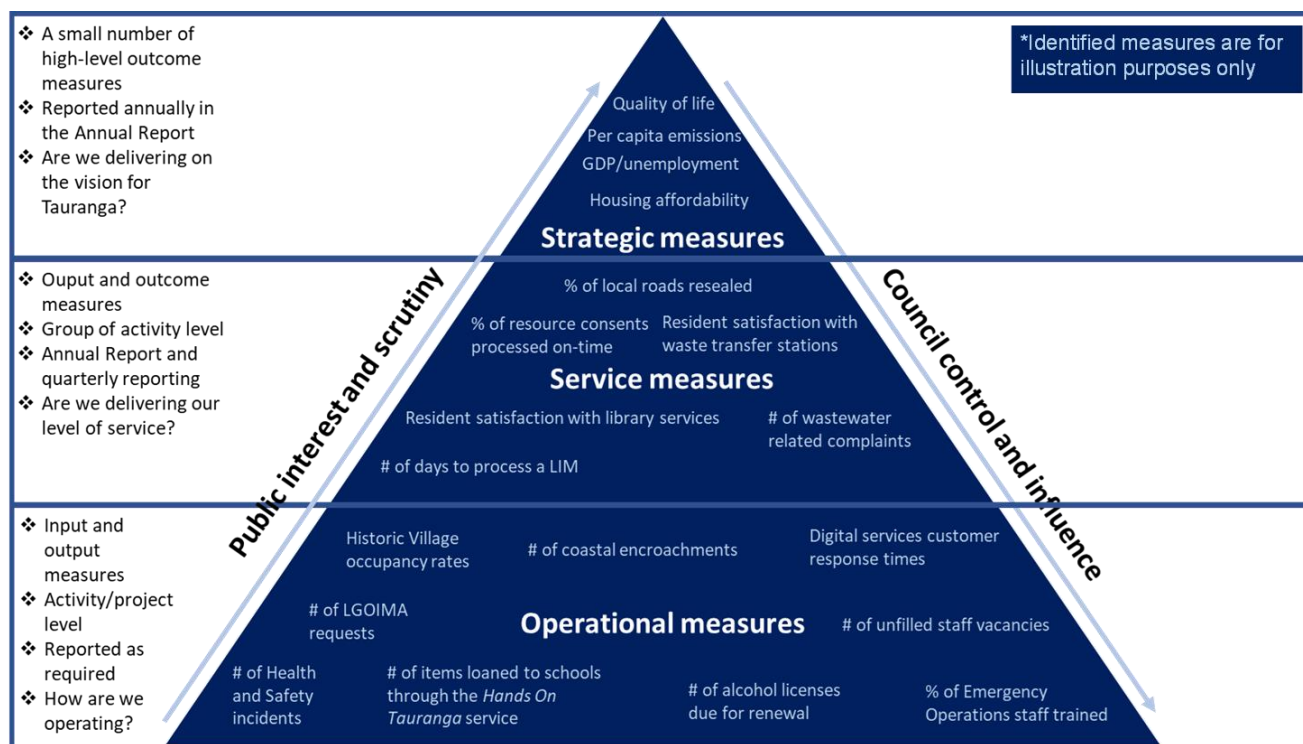


Organisational capability – our Approaches to Te Ao Māori, Sustainability, and Working Beyond Tauranga

Council's approaches are about how we work and together are embedded in our community outcomes, consistently running through and supporting everything we do. Overall, these approaches commit us to thinking broadly and long-term, seeking and managing interconnections and relationships for better outcomes.

13. To realign the LTP performance measures with their intended purpose, it was proposed that Council implement a performance management framework where LTP performance measures constitute only one element. The proposed framework is figure 1 below. With the Our Direction measures sitting in the strategic part of the triangle and the Statement of Service Provision measures sitting in the service measures.

Figure 1 - Tauranga City Council Performance Management Framework



PART 1: PREPARATION OF PERFORMANCE MEASURES IN THE 2024-2034 LTP

14. At its 7 August 2023 meeting, the Strategy, Finance and Risk Committee considered a paper that provided an overview of the performance measures proposed for inclusion in the LTP.
15. The report can be found on Council's website here:
https://infocouncil.tauranga.govt.nz/Open/2023/08/SFR_20230807_AGN_2522_AT_WEB.htm (see item 9.8).
16. The report outlines proposed revisions to the performance measures for LTP. The primary aim was to streamline the number of measures for better focus and comprehension while ensuring a balance between output and outcome measures. Measures were set to align with Council's responsibilities under the Local Government Act 2002 and with Council's strategic framework. A reduction in service measures from the 2021 LTP was proposed. Also proposed was a broader performance management framework.

17. The attachment to that report, which provides details of the review of the measures, is republished as **Attachment 1** to this report.

Draft performance measures for the 2024 LTP

18. Following decision-making at the 7 August 2023 Council meeting, staff prepared a new performance measures framework by community outcome for consultation purposes. Under each community outcome, measures are further separated into two categories, Our Direction Measures (strategic measures) and Service Measures (measures audited by Audit New Zealand).
19. This approach allows readers, including our communities, to easily understand the performance measures in terms of how they connect with, and contribute to, high level outcomes and the existing pillars of the Council's Vision and Strategic Direction, and with service delivery. It aligned with feedback received at the 7 August Strategy, Finance and Risk Committee.
20. This was considered by Council at its meeting of 11 September 2023. A copy of that report can be found on Council's website here:
https://infocouncil.tauranga.govt.nz/Open/2023/09/CO_20230911_AGN_2563_AT_WEB.htm
(see item 11.5).
21. The full set of draft performance measures was published separately to the main agenda and can be found on Council's website here:
https://infocouncil.tauranga.govt.nz/Open/2023/09/CO_20230911_ATT_2563_EXCLUDED.PDF
(see pages 226 to 256).

Adoption of the draft performance measures

22. At its meeting of 6 November 2023, as part of the process to adopt the LTP consultation document, Council formally adopted the suite of documents that form the 'supporting information' for that consultation document. In effect, these include many of the elements of a full draft LTP.
23. Within that suite, Council formally adopted the draft performance measures. A copy of the report to the 6 November meeting can be found on Council's website here:
https://infocouncil.tauranga.govt.nz/Open/2023/11/CO_20231106_AGN_2515_AT_WEB.htm
(see item 11.4).
24. A separate attachment to that report including the draft performance measures (pages 138 - 171), can be found on Council's website here:
https://infocouncil.tauranga.govt.nz/Open/2023/11/CO_20231106_ATT_2515_EXCLUDED.PDF

Consultation

25. The draft performance measures were included in the supporting documentation consulted on separately alongside the LTP consultation document.
26. References to the supporting documents that were used to develop the LTP were outlined in the LTP consultation document on page 65 under the heading "Other supporting information." The LTP consultation document can be found on Council's website here:
https://www.tauranga.govt.nz/Portals/0/data/council/long_term_plans/2024-34/files/ltp-2024-34-consultation.pdf.
27. Consultation took place between 15 November and 15 December 2023.
28. During that period, engagement on the wider LTP, including the performance measures included as supporting documentation, was led by the Commissioners and included a wide range of public events supported by radio, print and digital channels.
29. In total, 2,202 formal submissions were received on the LTP. Of these, none expressed a view on the proposed performance measures.

Final decisions

30. As there were no submissions on the performance measures, there was nothing to consider in Council's deliberations on the LTP. The performance measures remained unchanged and proceeded to the final audit of the LTP document.

Adoption

31. The 2024-2034 LTP was adopted by Council on 22 April 2024. This included the adoption of the performance measures. The adoption cover report included slight amendments to three of the performance measures as a result of the audit of the LTP.
32. The full adoption report (item 11.1) can be found on Council's website here:
https://infocouncil.tauranga.govt.nz/Open/2024/04/CO_20240422_AGN_2581_AT_WEB.htm
33. The performance measures as adopted at that meeting can be found on Council's website here (pages 129 to 158):
https://infocouncil.tauranga.govt.nz/Open/2024/04/CO_20240422_ATT_2581_EXCLUDED.PDF
34. The full set of performance measures, broken down by outcome, and as an Our Direction measure or service measure, are included in the LTP and is included as **Attachment 2** to this report.

PART 2: OTHER MEASURES WITHIN COUNCIL OUTSIDE OF THE LTP

35. Outside of the LTP framework, a range of methods of performance measurement are undertaken by Council, including the following:

Annual Residents' Survey

36. Each year, Council seeks feedback from its residents regarding their perception on various aspects of Council-provided services and initiatives. This survey is carried out by independent research company Key Research over four waves during the year and is collated into an annual report.
37. Survey results help Council staff assess the performance of the Council against a set of pre-determined actions and performance levels, including those outlined in the LTP.
38. The Annual Residents' Survey forms part of a wider set of information we have around engagement with the Tauranga community and their wants, needs and perceptions of Council and of Tauranga as a place to live.
39. The most recent annual report of the survey (see item 8.3) was reported to the Community, Transparency and Engagement Committee on 10 September 2024, a link to the report on council's website is here:
https://infocouncil.tauranga.govt.nz/Open/2024/09/CTE_20240910_AGN_2660_AT_WEB.htm
40. A copy of the survey questions for the 2024/25 survey are attached to this report as **Attachment 3**.
41. The report of the annual residents' survey wave one is due to the Community, Transparency and Engagement Committee on 18 November 2024.

Quality of Life Survey

42. The 'Quality of Life' survey is a partnership between Auckland Council, Hamilton, Tauranga, Wellington, Porirua, Hutt, Christchurch and Dunedin City Councils and Waikato Regional Council. These are large urban areas and account for over half of New Zealand's total population.
43. The survey was initiated over 20 years ago in response to concerns about the impacts of urbanisation on the wellbeing of residents and communities. It occurs every two years.

44. Information obtained from the survey is used to help inform local government policy and to undertake monitoring of progress towards strategic social, cultural, environmental and economic goals.
45. The latest published report (2022) can be found at the project's website at: https://www.qualityoflifeproject.govt.nz/wp-content/uploads/2022/10/FINAL-QOL-8-City-Topline-Report_17-October-2022.pdf and the technical report (which also contains the questions asked) can be found at: <https://www.qualityoflifeproject.govt.nz/wp-content/uploads/2022/10/20220929-QOL-Technical-Report-2022-Final.pdf>
46. The next iteration of the survey for 2024 is being undertaken by IPSOS New Zealand, an independent research company. At the time of writing the survey fieldwork has been complete and preparation of the reports is currently being undertaken (estimated to be complete by November 2024).

Whakahou Taketake Vital Update – Tauranga

47. "Whakahou Taketake Vital Update – Tauranga" is a research project centred on understanding the people and communities in Tauranga, and what their needs, wants and aspirations are for their neighbourhoods and the wider city.
48. Following the inaugural community research project that Council, the Acorn Foundation, TECT Community Trust and Bay Trust undertook in 2020, in 2023 Council and their partners worked together again on 'Whakahou Taketake Vital Update – Tauranga', facilitated by independent research company Key Research.
49. The latest published report (2023) and online dashboards can be found on Council's website at: <https://www.tauranga.govt.nz/community/community-services/vital-update-tauranga-2023>

Measures from Our Direction Strategies and Action and Investment Plans

50. The Our Direction (strategic framework refresh) project began in its current form in mid-2021. The project sought to ensure that Council's strategic direction is clear and coherent, and to enable a clear line of sight between the Council's day-to-day operations and what we are aiming to achieve for our communities, now and in the future.
51. Key project milestones were:
 - 13 June 2022 – Council endorsed and adopted the community's vision for Tauranga, the short-form of which is: 'Tauranga, together we can prioritise nature, lift each other up, and fuel possibility'².
 - 12 December 2022 – Council adopted Our Direction, its strategic framework and high-level direction.
 - 21 August 2023 – Council adopted two new primary strategies, Tauranga Matarauui – Inclusive City Strategy and Tauranga Taurikura – Environment Strategy, and nine new Action and Investment Plans (AIPs) to fill existing gaps in the strategic framework.
52. All information regarding 'Our Direction' can be found on Council's website at: <https://www.tauranga.govt.nz/our-future/our-direction>
53. Included in the new strategies and AIPs are measures of success. These measures let us know how we are doing regarding meeting our goals. A list of all measures of success from the new documents are attached to this report as **Attachment 4**.
54. There is a known cross over with some of the measures already mentioned above in other documents. A piece of work is about to be undertaken that will cross reference these measures of success from the strategies and AIPs and see what is already covered in other reporting. Then for any measures that are not, an exercise in confirming the data source to measure and report on these will be undertaken within the next 12 months.

² Vision for Tauranga: <https://www.tauranga.govt.nz/our-future/our-direction/vision-for-tauranga>

Reporting on Our Direction

55. At its 4 December 2023 meeting, Strategy, Finance and Risk Committee considered a paper (see item 9.4) that closed out the Our Direction (strategic framework refresh) project, and outlined and endorsed the monitoring, reporting and review processes that are now being undertaken with some still in development.
56. The report can be found on Council's website here:
https://infocouncil.tauranga.govt.nz/Open/2023/12/SFR_20231204_AGN_2525_AT_WEB.htm
57. Council's Corporate Planning team is leading development of the monitoring, reporting and review processes for Our Direction. These new processes will become part of the organisation's standard planning, monitoring and reporting suite of processes, managed by the Corporate Planning team with content input from relevant teams within Council.
58. Important elements of the reporting processes, noted in that report are included below, together with relevant updates since that report:
- (a) Outcome measures:
 - (i) Our outcome measures come from our community outcomes and primary strategies, and some (but not all) are now included in our LTP as Our Direction measures.
 - (ii) A one-off baseline report was prepared and reported to Strategy, Finance and Risk Committee on 11 June 2024. The link to that report can be found at: https://infocouncil.tauranga.govt.nz/Open/2024/06/SFR_20240611_AGN_2590_AT_WEB.htm. The baseline report is attached as **Attachment 5** to this report.
 - (iii) Our future annual reports will include all LTP measures (outcome and performance measures), with outcome measure baselines having been established by the 11 June 2024 report described above.
 - (iv) A new report for the Council, due to be produced in June 2026, which will be a three-yearly outcomes report, to track overall progress towards Our Direction.
 - (b) Performance measures:
 - (i) Our LTP performance measures include some AIP measures but are mostly measuring how well we are delivering our ongoing services (i.e. our everyday core services, which by definition aren't included in our AIPs).
 - (ii) *Frequency of reporting*—progress against our new LTP performance measures is reported six-monthly, with the second report continuing to be provided by the Annual Report.
 - (iii) The first report in March 2024 (**Attachment 6**) enabled us to test our LTP performance measures (even though that LTP period had not yet started) and check that we have got them right. Doing a trial run prior to LTP adoption enabled us to improve any measures that weren't providing the information needed, and incorporate these tweaks into our final LTP, and into the final post-LTP updates to our new AIPs.
 - (iv) As seen on another report to this committee it should be noted that the 2023/24 Annual Report will still include the current 2021-2031 Long-term Plan measures (as is required by legislation). However, as the outcome measures baseline report was delivered in this financial year the decision was made to include the Our Direction measures in the front (and unaudited) section of this Annual Report.
 - (c) The future monitoring and reporting timeframes for Our Direction are shown in the table below:

Reporting and monitoring (by Community Outcome)	Frequency	Timeframes
LTP outcome measures – baseline report	One-off	Jun 2024 (Complete)
Current year performance measures	6-monthly ³	Mar 2024 (Complete), Feb 2025, etc
LTP outcome measures <u>and</u> non-financial performance measures	Annually	Annual Report 2024/25
Current year AIP actions	6-monthly	Oct 2024, April 2025 etc
Actions from LTP decision-making	6-monthly	Oct 2024, April 2025 etc
Triennial Outcomes Report	3-yearly	By June 2026 (to inform the next LTP)

STATUTORY CONTEXT

59. The statutory context of the performance measures for the LTP has been covered above in paragraphs eight to eleven.

STRATEGIC ALIGNMENT

60. This contributes to the promotion or achievement of the following strategic community outcome(s):

	Contributes
We are an inclusive city	✓
We value, protect and enhance the environment	✓
We are a well-planned city	✓
We can move around our city easily	✓
We are a city that supports business and education	✓

61. Council's performance measures enable us to monitor and report against our community outcomes and service performance. This clearly identifies linkages between what we do and why we do it, with the ultimate goal of working towards Our Direction, comprising our five community outcomes interwoven with our three approaches (Te Ao Māori, Sustainability, and Working Beyond Tauranga).

OPTIONS ANALYSIS

62. This report is for information only and no decisions are sought. As such, no options are included.

FINANCIAL CONSIDERATIONS

63. There are no specific financial considerations associated with this report.

LEGAL IMPLICATIONS / RISKS

64. Legislative issues are considered in the Background section to this report.

CONSULTATION / ENGAGEMENT

65. Consultation on the 2024-34 LTP performance measures is detailed in paragraphs 25-29 above.

³ Each year's Annual Report provides the second six-monthly report on non-financial performance measures, so only one separate report is provided each financial year.

SIGNIFICANCE

66. The Local Government Act 2002 requires an assessment of the significance of matters, issues, proposals and decisions in this report against Council's Significance and Engagement Policy. Council acknowledges that in some instances a matter, issue, proposal or decision may have a high degree of importance to individuals, groups, or agencies affected by the report.
67. In making this assessment, consideration has been given to the likely impact, and likely consequences for:
 - (a) The current and future social, economic, environmental, or cultural well-being of the district or region
 - (b) Any persons who are likely to be particularly affected by, or interested in, the matter.
 - (c) The capacity of the local authority to perform its role, and the financial and other costs of doing so.
68. In accordance with the considerations above, criteria and thresholds in the policy, it is considered that the matter of performance measurement is of medium significance. However, as this report is for information only, the decision to receive this report is of low significance.







ENGAGEMENT

69. Taking into consideration the above assessment, that the matter is of low significance, officers are of the opinion that no further engagement is required prior to Council making a decision.

NEXT STEPS

70. The intent of this paper is to give the Committee an opportunity to consider Council's performance framework and all performance measures in detail and provide their feedback.
71. If there are any proposed amendments or new measures suggested by committee members at this meeting, then staff will seek to come back to the next committee with a plan of how best to incorporate these into the performance framework.

ATTACHMENTS

1. **Appendices 1-14 - LTP performance measures - A16660131 (Separate Attachments 2)** 
2. **2024 - LTP Performance Measures - A16660119 (Separate Attachments 2)** 
3. **TCC Annual Resident's Survey Questions 2024_2025 - A16664504 (Separate Attachments 2)** 
4. **Strategy and AIP Measures List - A16696575 (Separate Attachments 2)** 
5. **Our Direction Outcome Measures - Baseline Report June 2024 - A16008602 (Separate Attachments 2)** 
6. **Six Monthly Report - Non-Financial Performance - PDF - A15943204 (Separate Attachments 2)** 

9.4 Treasury Strategy Update

File Number: A16485910

Author: Sheree Covell, Treasury & Financial Compliance Manager

Authoriser: Paul Davidson, Chief Financial Officer

PURPOSE OF THE REPORT

1. This report provides an update on the performance and status of Council's treasury function and seeks approval for strategies for treasury risk management activities, debt issuances, investments, foreign exchange exposures and interest rate hedging activities.

RECOMMENDATIONS

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Treasury Strategy Update".
- (b) Approves the issuance of long and short term debt on a wholesale basis to manage cashflows.
- (c) Approves maintenance of a minimum of \$15m of cash and short term investments to manage cashflows.
- (d) Approves hedging of all significant foreign exchange exposures.
- (e) Approves hedging activities required to maintain within policy limits

EXECUTIVE SUMMARY

2. This report outlines all significant treasury operational activities and seeks confirmation of existing strategies and approvals for planned strategies.
3. Treasury strategy is an important element of sound financial management and allows Council to efficiently manage its funding and associated risks.

BACKGROUND

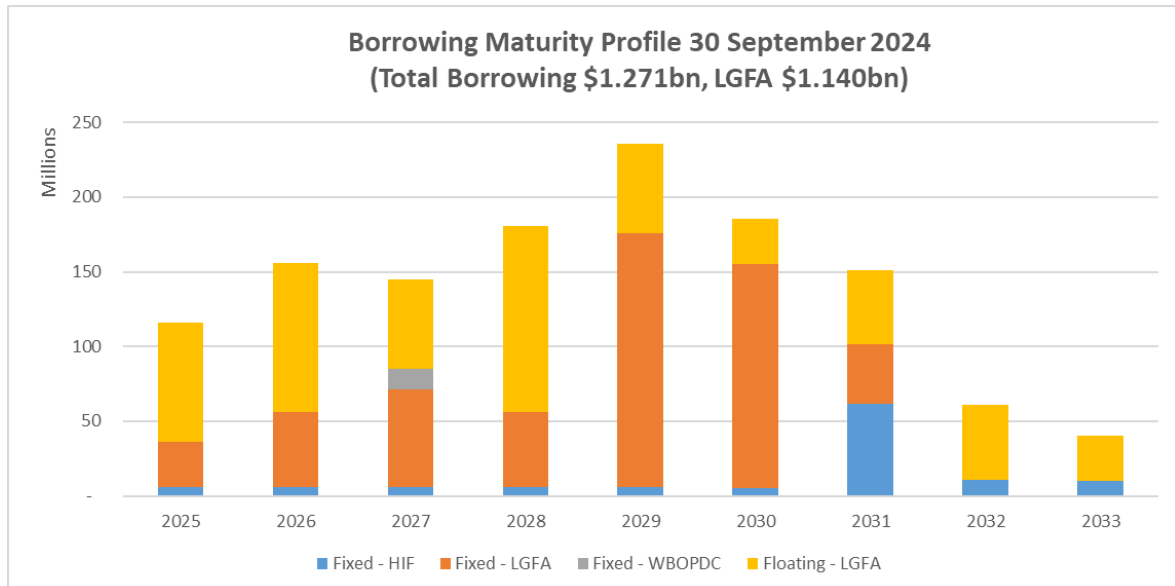
4. The June 2024 results of metrics of the treasury function was presented to this committee on 2nd September 2024. This report provides an update on the main metrics and seeks approval for strategies for treasury risk management activities, debt issuances, investments, foreign exchange exposures and interest rate hedging activities.

Debt Management

5. Council has a large investment in infrastructure assets which have long economic lives and long-term benefits. Debt is used to fund infrastructure and it is recognised as an efficient mechanism to allocate the cost of infrastructure to the community.
6. Core external debt and working capital requirements are managed by issuing a combination of long- and short-term debt. The maturity dates for any new debt issuance are assessed under the following criteria:
 - Borrowing margins for the short versus long term debt;
 - Local Government Funding Agency (LGFA) or other wholesale margins/maturities offered;

- Compliance with LGFA covenants;
- Housing Infrastructure Fund (HIF) drawdowns;
- Existing maturity profile; and
- Available undrawn bank facilities.

7. The graph below shows the current debt maturity profile as at 30 September 2024.



8. As at 30 September 2024 outstanding debt was \$1.271bn of which \$100m has been issued in the 2024/25 financial year.
9. The 2024/25 borrowing limit was set at the adoption of the 2024-2034 Long Term Plan. Total borrowing approved for the 2024/25 financial year is \$385m which covers capital spend and debt maturities. A further \$54m was approved at Council on 19 August 2024 to cover the 2024/25 spend that would have been funded by Infrastructure Funding & Financing.
10. Debt maturity in the 2024/25 is \$116m of which \$100m of LGFA debt will mature in April 2025 and the remaining \$6m of HIF debt will mature in June 2025. There is currently \$95m of prefunding in place. The remaining will be invested as cash surpluses arise. Prefunding is used to minimise credit risk and mitigate refinance risk.

Sustainable Lending

11. Council currently have one green loan with LGFA for the Kopurereua river realignment project. The approved loan is \$10m of which \$6m has been drawn. The final \$4m is expected to be drawn in the 2024/25 financial year when the final planting on the project is completed. This loan has the benefit of a 5-basis point reduction in borrowing costs.
12. In April 2024 Council was approved for Climate Action Loan status with the LGFA. This provides a 2-basis point discount on any loans issued post 1 July 2023. This is linked to Council's emission reduction plan and targets.

Bank Facilities

13. Access to liquid funding by way of committed bank facilities and/or liquid investments is required in order to manage liquidity risk.
14. Both Council's Treasury Policy and LGFA financial covenants require a level of undrawn committed bank facilities or liquid investments or a combination of both. The key objective is to maintain adequate liquidity in the context of managing debt maturities and debt servicing on a 12-month rolling basis.

15. Bank facilities are currently \$200m. The ANZ \$100m facility will mature in October 2026 and the Westpac facility (also for \$100m) will mature in April 2029. Generally, the maturity date is extended by one year each year. It is planned to maintain the facilities within the two-to-five-year maturity band.
16. In general, bank facilities are available to be drawn down at short notice provided that if they are drawn, they are repaid on a quarterly basis.
17. It is important to note that any funds drawn from bank facilities would need to be managed within the existing debt to revenue ratio. The limit for the debt to revenue ratio for the 2024/25 financial year is 285%. The forecasted ratio in the 2034-2034 LTP is 277%. This is being monitored during the year to monitor the impact of funding and spend decisions are updated.

Liquidity Risk

18. The Treasury policy outlines the management framework for funding, liquidity and credit risks. Liquidity risk primarily focuses on ensuring that there are sufficient funds available to meet obligations in an orderly manner.
19. The key liquidity risk management indicators are:
 - (a) The primary debt maturity limit requires external debt committed bank facilities and cash/cash equivalents to be maintained above 100% above 12th month peak forecasted net external debt.
 - (b) No more than 25% of debt to be refinanced in any rolling 12-month period.

Local Government Funding Agency (LGFA)

20. The LGFA is an agency specialising in financing of the local government sector. LGFA was established to raise debt on behalf of councils on terms that are more favourable than if they raised the debt directly.
21. LGFA was incorporated as a limited liability company under the Companies Act 1993 on 1 December 2011 following the enactment of the Local Government Borrowing Act 2011. As LGFA is majority owned by Councils it constitutes a Council Controlled Organisation (CCO) under the Local Government Act 2002.
22. LGFA's debt obligations are guaranteed by Council shareholders and any other Council's that borrow in excess of \$20m. The New Zealand Government does not guarantee LGFA. Any call under the guarantee will be allocated across all guarantors on a pro rata basis in relation to their rates revenue.
23. Fixed rate borrowing rates from LGFA for an A+ rated council are:

24. Term	LGFA rate (A+)*
2027	4.21%
2029	4.45%
2033	4.99%
2037	5.34%

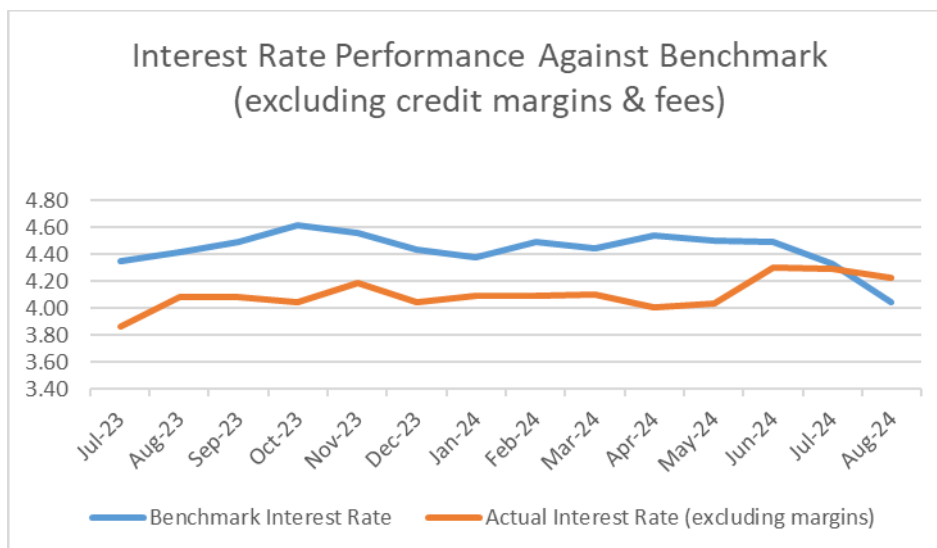
*Rates are current at 23 September 2024

Security

24. Generally, debt will be issued under existing Council Debenture Trust Deed (DTD) which offers rates revenue as security to attract lower borrowing margins. Councils Trustee appointed under DTD is Covenant Trustee Services Limited. All debt obligations are registered with Link Market Services Limited.

Interest Rate Management

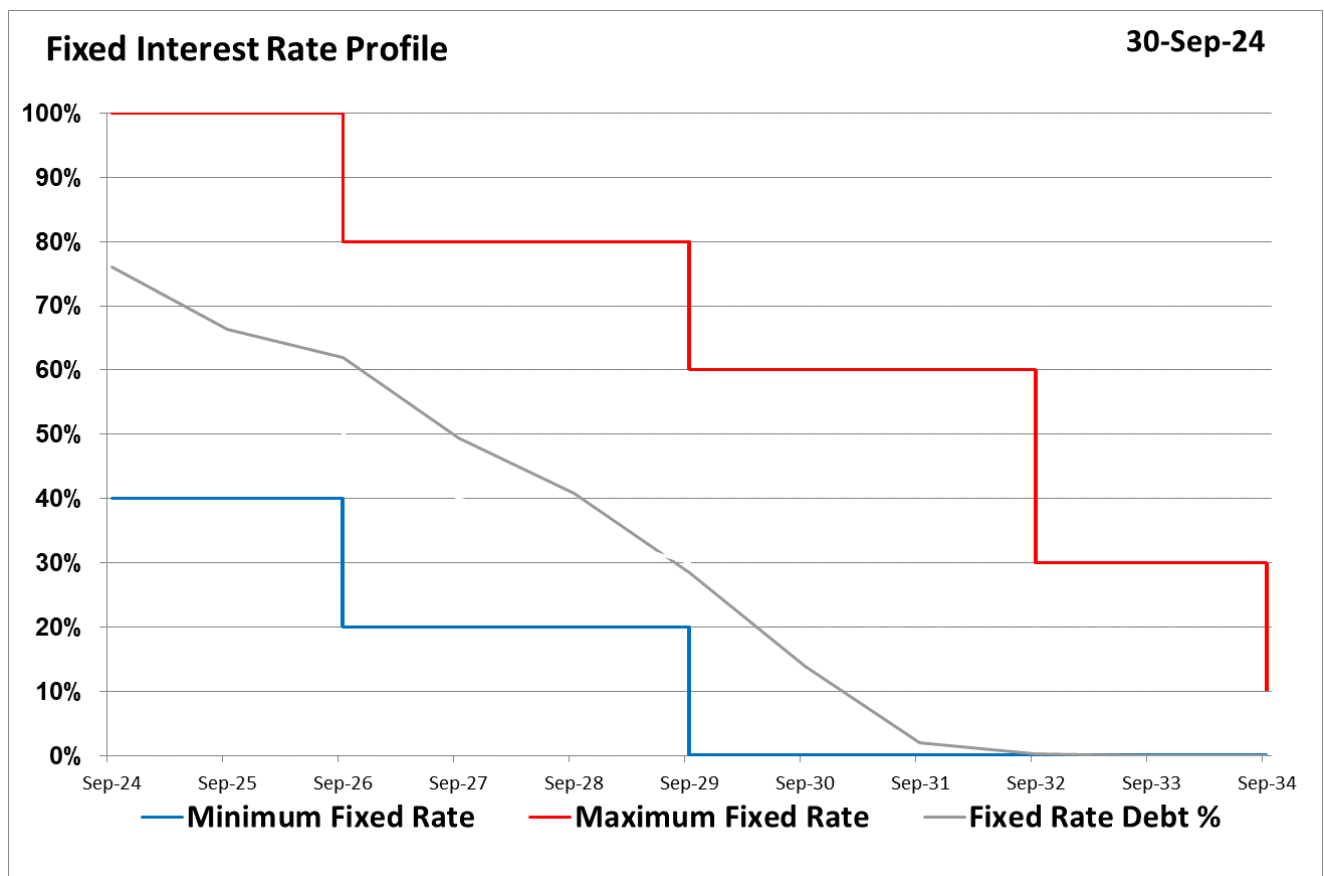
25. The overall objective of the interest rate risk management strategy is to:
- Minimise the average net cost of borrowings over the long term;
 - Minimise large concentrations of interest rate risk;
 - Increase duration of the interest rate re pricing profile; and
 - Maintain an appropriate mix of floating and fixed rate exposures.
26. Council is exposed to interest rate fluctuations on existing and future borrowings. Interest rate risk is minimised by managing floating and fixed exposures within the Treasury Policy limits framework. The overall outcome of interest rate risk management is reflected in the average interest rate on borrowings which is 4.82% (including margins) at 31 August 2024. The below graph shows TCC's average cost of borrowing, including and excluding margins against the treasury policy benchmark which reflects an averaging of 90 day to 15-year swap rates.
27. Note that August 2024 has been used as the benchmark for this report as month end swap rates for September are not yet available.



28. As at 30 September 2024 the total amount of debt on fixed interest rates (including hedging) was \$985m which was 76% of total debt. This includes \$118m of Housing Infrastructure Funding (HIF) loans which have a 0% interest rate.

Fixed Debt Profile

29. The treasury policy outlines the framework for interest rate management activities. Interest rate risk is managed with minimum and maximum fixed debt percentages by time bands. These minimum and maximum levels by time bands are designed to minimise interest rate re-price risks.
30. The chart below shows the fixed interest rate positions relative to forecast debt over time. This is based on the 2024-2034 LTP debt forecasts and the current actual fixed debt and interest rate swaps in place at 30 September 2024.



31. During the 2024/25 financial year \$100m of swaps have been executed to continue to move the fixed rate debt position closer to the middle of the policy bands. Analysis of debt levels and associated interest rate hedging positions are reviewed on a monthly rolling basis.

Investments

32. From a short-term working capital management perspective, it is proposed to maintain a minimum liquid investment balance of \$10-\$15m on which investment rates aligning to OCR have been negotiated with our two of our transactional bankers (ANZ and Westpac). This level of working capital is sufficient to manage the net cashflows during an average month.
33. As at 30 September 2024 there is forecast to be \$20m in cash and \$155m on deposit. The funds on deposit are on short terms which align with our cashflow forecast and debt maturity profile in the coming months.

Retentions

34. New legislation requires Council to hold any retention monies on contracts entered into or amended after 5 October 2023 in a separate bank account or retention instrument. The amount of retentions held under this new legislation at 30 September 2024 is forecast to be \$1.9m.

Foreign Exchange

35. Under the treasury policy upon approval of expenditure, all significant commitments for foreign exchange are hedged. Generally foreign exchange exposure above \$100,000 is regarded as significant.
36. Currently there are no outstanding foreign exchange contracts. The last foreign exchange contract was in 2020. In the past, Council used foreign exchange hedging for purchase of plant and equipment for projects such as Southern Pipeline, the travel lift at marine precinct, and some playground equipment.

Upcoming matters

37. There are announcements from central government that should be noted by this committee as they will have a significant impact on Council going forward.

Waters Entities:

38. Waters entities will be able to borrow from LGFA. The borrowing limit for these entities is likely to 500% of revenue subject to further covenants and conditions which will be advised in due course. Borrowing costs will be closely aligned to Council's own credit rating margins.

Growth Council Debt Limits

39. LGFA shareholders will vote at the November 2024 AGM to increase the borrowing limit for growth councils from 280% of revenue to up to 350%. Tauranga City Council is considered a growth council under the DIA definitions and LGFA have confirmed the same. It is expected that Tauranga City Council will be able to apply for this increase to borrowing limits if the change is voted in.
40. Both of these changes to borrowing limits will likely have impacts on credit rating and borrowing costs which are currently being considered by staff.
41. While the information from the relevant stakeholders is still to be finalised, Council is supportive of these changes and will provide further information and options in due course.

STATUTORY CONTEXT

42. The treasury strategy is an important element of sound financial management and allows Council to efficiently manage its funding and associated risks. These strategies ensure compliance with Treasury Policy limits.

STRATEGIC ALIGNMENT

43. This contributes to the promotion or achievement of the following strategic community outcome(s):

	Contributes
We are an inclusive city	✓
We value, protect and enhance the environment	✓
We are a well-planned city	✓
We can move around our city easily	✓
We are a city that supports business and education	✓

44. The treasury policy and strategy provides financial means for all of Council's projects and initiatives.

OPTIONS ANALYSIS

45. There are no options presented in this report.

SIGNIFICANCE

46. The Local Government Act 2002 requires an assessment of the significance of matters, issues, proposals and decisions in this report against Council's Significance and Engagement Policy. Council acknowledges that in some instances a matter, issue, proposal or decision may have a high degree of importance to individuals, groups, or agencies affected by the report.
47. In making this assessment, consideration has been given to the likely impact, and likely consequences for:

- (a) The current and future social, economic, environmental, or cultural well-being of the district or region.
 - (b) Any persons who are likely to be particularly affected by, or interested in, the decision.
 - (c) The capacity of the local authority to perform its role, and the financial and other costs of doing so.
48. In accordance with the considerations above, criteria and thresholds in the policy, it is considered that the matter is of low significance.

ENGAGEMENT

49. Taking into consideration the above assessment, that the matter is of low significance, officers are of the opinion that no further engagement is required prior to Council making a decision.

NEXT STEPS

50. Implementation of Treasury Strategy within the Treasury Policy framework.

ATTACHMENTS

Nil

9.5 Local Government Funding Agency Final Audited Annual Report 2023/24

File Number: A16451889

Author: Caroline Lim, CCO Specialist
Kathryn Sharplin, Manager: Finance

Authoriser: Gareth Wallis, General Manager: City Development & Partnerships

PURPOSE OF THE REPORT

1. The purpose of this report is to provide the Final Audited Annual Report 2023/24 for the Local Government Funding Agency regarding its financial and non-financial performance for the year 2023/24, as required by the Local Government Act (2002).

RECOMMENDATIONS

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Local Government Funding Agency Final Audited Annual Report 2023/24".
- (b) Receives the Local Government Funding Agency's final audited Annual Report on its performance for the year to 30 June 2024 (Attachment 1 of this report) and Letter to Shareholders (Attachment 2 of this report).

EXECUTIVE SUMMARY

2. Tauranga City Council (TCC) has seven Council-Controlled Organisations (CCOs) that are required to provide their audited annual reports to Council regarding their financial and non-financial performance.
3. The Local Government Funding Agency is one of TCC's CCOs, noting that TCC holds an 8.3% shareholding in LGFA, which has a total equity of \$113 million.
4. A summary of the LGFA's performance against the financial and non-financial measures in its Statement of Intent (SOI) is provided in this report.
5. As TCC is one of 31 shareholder members of LGFA, it is not expected that we provide LGFA with letters of expectation or feedback to this CCO's draft SOIs, unless there are areas of significant concern.
6. The Final Audited Annual Report 2023/24 for LGFA was received by TCC on 29 August 2024. This was the next suitable Committee meeting for the final audited annual report of LGFA to be formally received by Council. The annual meeting for LGFA is 19 November 2024 at which these accounts will be received and considered.
7. The core purpose of the LGFA is benefiting communities through delivering efficient financing for the local government sector. The LGFA has 31 shareholder members, 77 council members and five CCOs members. The LGFA's 77 members represent all councils except for Chatham Islands District Council.

BACKGROUND

Requirement to report

8. In accordance with its SOI, and the Local Government Act (2002), LGFA is required to draft annual reports to Council within two months of the end of the financial year (by 31 August

2024). The final audited annual reports are to be provided to Council within three months of the end of the financial year (by 30 September 2024).

9. Annual reports are provided by this CCO to Council as part of its role to ensure its performance is consistent with its Statement of Intent and other accountability documents.
10. Specifically, the Statement of Intent requires that the annual reports include:
 - (i) Statement of Financial Performance (balance sheet);
 - (ii) Statement of Comprehensive Income (income statement);
 - (iii) Statement of Movements in Equity;
 - (iv) Statement of Cash Flows;
 - (v) Disclosure of related party transactions;
 - (vi) Notes to the Financial Statements; and
 - (vii) Such other statements as may be necessary to fairly reflect the financial position of the Company and its subsidiaries, the resources available to the Company and its subsidiaries and the financial results, of the operations of the Company and its subsidiaries.
11. The board of each CCO is also required to provide a board report, including a summary of the financial results, a report of the operations, and a comparison of performance in relation to objectives.
12. Overall, LGFA's audited Annual Report 2023/24 has met the legislative and statement of intent requirements as outlined in the Local Government Act (2002).

Local Government Funding Agency

Summary of LGFA's performance on its financial and non-financial measures (based on its final, audited annual report)

13. The final audited LGFA Annual Report for the year to 30 June 2024 is provided as Attachment 1. A cover letter to shareholders is provided as Attachment 2.

Summary of Financials

14. LGFA has adopted accounting policies that are in accordance with the New Zealand International Financial Reporting Standards and generally accepted accounting practice.
15. LGFA's net operating profit for the year increased 301% to \$10.05 million compared to the previous year of \$2.5 million. The prior year's result was due to the significant rise in interest rates and was unusually low compared with past performance.
16. LGFA's total interest income for the year increased by 59% to \$1,213 million compared to the previous year of \$763.6 million.
17. LGFA's total operating income for the year of \$21.8 million. The SOI target requires the exclusion from operating income of unrealised gains and losses. This gives a result of \$20.9 million, which was \$0.3 million above the SOI budget. This was due to larger than expected lending to its 77 members and higher interest rates than forecast.
18. LGFA's operating expenses for the year was \$1.7 million above the SOI forecast of \$11.8 million at \$13.5 million. This was due to Approved Issuer Levy payments to Central Government for LGFA's offshore issuance and higher NZX and legal fees related to increased levels of bond issuance and lending to members. Both lending and bond issuance were record amounts.
19. LGFA processed over 16,000 transactions with total gross cash flows of \$83 billion.
20. LGFA increased its lending by 56% to a record \$6.1 billion and the CCO provided 90% of borrowing to the local government sector during the year. This share excludes Auckland Council's offshore borrowings.

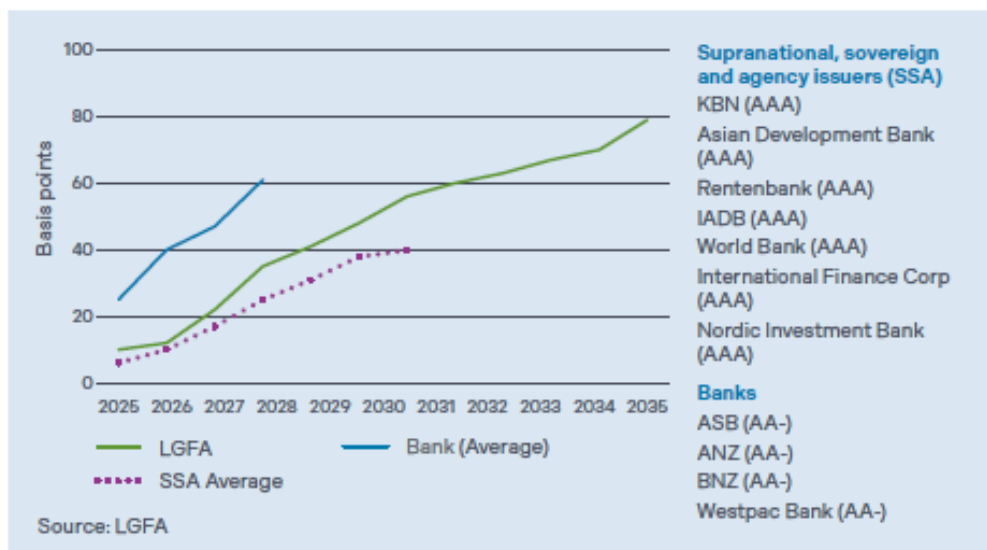
21. LGFA diversified its sources of borrowing into offshore markets to meet the growing financing requirements of the sector, as it has outgrown the domestic bond market. LGFA had \$6.5 billion of issuance (this was a record amount) with an equivalent \$2.9 billion sourced from offshore markets.
22. An increased number of councils utilised LGFA's sustainable lending products (27% of new lending) and two new CCOs were added as members which now provides a blueprint for future lending to Water CCOs.
23. LGFA worked closely with Central Government to provide lending to Water CCO and lending to high growth councils. This was announced post balance date of 30 June 2024.
24. LGFA declared a dividend of \$1,842,500 (7.37%) for shareholders compared to the previous year of \$1,712,500 (6.85%).

Summary of Statement of Intent Performance

25. LGFA superseded 1 out of 18 and achieved 15 out of 18 of its SOI performance targets for the year. The two outstanding targets not achieved were in relation to its total operating expenses of \$11.8 million due to the Approved Issuer Levy payments of AUD bonds and USD Euro Commercial Paper (target was under \$10 million) and one new green, social and sustainability (GSS) loan undertaken (target was two new GSS loans).
26. LGFA has superseded one of its performance targets by providing the final audited annual report based on the new XRB Climate-Related Disclosure (CRD) standards. These new standards replaced previous reporting under the Global Reporting Initiative standards.
27. LGFA has exceeded its total operating income target by \$300,000 to \$20.9 million against a target set of \$20.6 million. This excluded unrealised gains/losses on hedged foreign currency issuance.
28. LGFA's credit ratings remained equivalent to the New Zealand Government for both Standard and Poors (S&P) Global Ratings and Fitch Ratings. Fitch Ratings affirmed LGFA's long-term domestic and foreign currency credit rating at AA+ (positive outlook). S&P Global Ratings affirmed LGFA's domestic currency credit rating at AAA and foreign currency rating at AA+ (stable outlook).
29. LGFA achieved 93% satisfaction score in its annual survey of participating borrowers (annual stakeholder survey) as to the value added by LGFA to the borrowing activities. This satisfaction score exceeded a target set of 85%.
30. Key performance indicators required LGFA to provide interest cost savings relative to alternative sources of financing. LGFA's comparable borrowing margins relative to its market equivalent borrowers are shown in the graph below.

Comparison to other high-grade issuers – secondary market spread to swap (bps)

LGFA's borrowing margins compare favourably to other high-grade issuers in the New Zealand capital markets.



Source: LGFA Annual Report 2023/24

Other Comments

31. LGFA made a commitment to assist its members to finance projects that promote environmental and social wellbeing in New Zealand. An increased number of councils and CCOs utilised LGFA's GSS lending products since it was launched in 2021. LGFA's GSS lending programme provided \$10.3 million of borrowing to TCC in October 2023 towards the Kōpūrerua Valley River Realignment project.
32. The benefits of the Kōpūrerua Valley River Realignment project include significantly increasing community access and connection to the reserve, improving water quality, assisting in flood control and providing climate change resilience. A total of 200,000 plants are being planted to assist with this resilience, alongside the realignment of the river channel, the creation of a wetland and the creation of fish and bird habitats.
33. LGFA made a commitment to incentivise its members to act on climate change and reduce greenhouse gas emissions. Launched in 2022, LGFA's Climate Action Loans (CALs) lending programme provided a total of \$2,746.7 million across seven member councils including TCC. A CAL rewards a borrower through a lending margin discount if a borrower has adopted an Emission Reduction Plan setting out specific Emissions Reduction Targets for their operational greenhouse gas emissions at member council or CCO level.
34. Over the last six years, TCC has significantly focused on reducing its operational emissions. In 2023, TCC committed to a goal to reach net zero by 2050 in its operational emissions and developed an Emissions Reduction Plan. This reduction plan covers emissions from electricity consumption and combustion of fossil fuels within Council operations.
35. LGFA's efforts and achievements were acknowledged through receiving domestic and global awards including *Excellence in Treasury* at the Institute of Finance Professionals New Zealand Inc., and *Editor's T4G Pick* at the Treasury Management International Ltd.
36. LGFA continued to support the local government sector by sponsoring the LGFA Taituarā Local Government Excellence Awards and other Taituarā events.
37. LGFA reported no cyber issues due to best practice cyber risks controls in place.

STATUTORY CONTEXT

38. The Local Government Act 2002 requires council-controlled organisations to provide audited annual reports to their shareholders.
39. The annual reports are helpful when developing Council's letters of expectation for its council-controlled organisations for the following year.
40. Council's partnerships with its council-controlled organisations help successfully deliver our community outcomes and facilitate Tauranga becoming a vibrant city that attracts businesses, people and visitors, is well planned, connected and inclusive.

STRATEGIC ALIGNMENT

41. LGFA contributes to the promotion or achievement of the following strategic community outcome(s):

	Contributes
We are an inclusive city	✓
We value, protect and enhance the environment	✓
We are a well-planned city	✓
We can move around our city easily	✓
We are a city that supports business and education	✓

42. Being part of the 31 LGFA Shareholders' Council ensures that TCC can continue to leverage optimal financing conditions, which will enable Council to better plan and invest in the future infrastructure of the city.

OPTIONS ANALYSIS

43. There are no options as Council is only receiving the Final Audited Annual Report 2023/24 for LGFA.

FINANCIAL CONSIDERATIONS

44. The financial considerations are outlined in the main body of this report and attachments.

LEGAL IMPLICATIONS / RISKS

45. The Final Audited Annual Report 2023/24 meets the legislative requirements for LGFA to provide Council with an overview of its performance against its Statements of Intent on both financial and non-financial measures.

TE AO MĀORI APPROACH

46. The matters addressed in this report are of a legislative nature and there is no need to consider the Te Ao Māori approach.

CLIMATE IMPACT

47. While the matters addressed in this report are of a legislative nature, one of the strategic priorities of the LGFA is ensuring environmental and social responsibility when providing financing to borrowers, to encourage a reduction in greenhouse gas emissions and minimise climate change impact on communities. On an annual basis by 30 September, the LGFA also publishes a Climate Related Disclosure Report.

CONSULTATION / ENGAGEMENT

48. No consultation or engagement is required or planned.

SIGNIFICANCE

49. The Local Government Act 2002 requires an assessment of the significance of matters, issues, proposals and decisions in this report against Council's Significance and Engagement Policy. Council acknowledges that in some instances a matter, issue, proposal or decision may have a high degree of importance to individuals, groups, or agencies affected by the report.
50. In making this assessment, consideration has been given to the likely impact, and likely consequences for:
 - (a) The current and future social, economic, environmental, or cultural well-being of the district or region;
 - (b) Any persons who are likely to be particularly affected by, or interested in, the matter; and
 - (c) The capacity of the local authority to perform its role, and the financial and other costs of doing so.
51. In accordance with the considerations above, criteria and thresholds in the policy, it is considered that the matter is of low significance.

ENGAGEMENT

52. Taking into consideration the above assessment, that the matter is of low significance, officers are of the opinion that no further engagement is required prior to Council making a decision.

NEXT STEPS

53. LGFA will be informed of Council's consideration of this report.
54. LGFA's Final Audited Annual Report 2023/24 will be made public via TCC's website.

ATTACHMENTS

1. **LGFA Final Audited Annual Report 2023-2024 - A16534729 (Separate Attachments 2)** 
2. **LGFA Letter to Shareholders for Annual Report 2023-2024 - A16493814 (Separate Attachments 2)** 

9.6 Local Government Funding Agency Annual Meeting Shareholder Voting

File Number: A16598593

Author: Kathryn Sharplin, Manager: Finance

Authoriser: Paul Davidson, Chief Financial Officer

PURPOSE OF THE REPORT

1. Local Government Funding Agency's Annual Meeting is being held on 19 November 2024. The agreement on resolutions to vote in support of and the agreement to a proxy are requested based on the recommendations of the LGFA Shareholders Council.

RECOMMENDATIONS

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Local Government Funding Agency Annual Meeting Shareholder Voting".
- (b) Notes the recommendations of the Shareholders Council.
- (c) Approves the following resolutions to allow voting by proxy for the Local Government Funding Agency annual meeting:
 - (i) Approve the re-election of Alan Adcock as a non-Independent Director (Proxy Form Resolution 1(a));
 - (ii) Approve the re-election of Craig Stobo as an Independent Director (Proxy Form Resolution 1(b));
 - (iii) Approve the election of Elena Trout as an Independent Director (Proxy Form Resolution 1(d));
 - (iv) Approve the re-election of Auckland Council as a Nominating Local Authority to the Shareholders' Council (Proxy Form Resolution 2(a));
 - (v) Approve the re-election of Wellington City Council as a Nominating Local Authority to the Shareholder's Council (Proxy Form Resolution 2(b));
 - (vi) Approve the following increases in director fees payable with effect from 1 July 2024 (Proxy Form Resolution 3 (a) to (d)):
 - a) The Director acting as chair of the Board of Directors an increase of \$3,720 per annum, from \$124,000 to \$127,720 per annum;
 - b) The Director acting as chair of the audit and risk committee, an increase of \$2,340 per annum, from \$78,000 to \$80,340 per annum;
 - c) Each of the other Directors acting as members of the audit and risk committee, an increase of \$2,190 per annum, from \$73,000 to \$75,190 per annum; and
 - d) Each of the other Directors an increase of \$2,100 per annum, from \$70,000 to \$72,100 per annum.
 - (vii) Approve the changes to the Foundation Policies (Proxy Form Resolution 4);
- (d) Authorise by way of proxy, the Chair of Local Government Funding Agency to vote on behalf of Tauranga City Council.

EXECUTIVE SUMMARY

2. The Local Government Funding Agency (LGFA) Annual General Meeting provides Council the opportunity to vote on matters covered under the Shareholders agreement s requiring shareholder approval.
3. The Annual Meeting will be held in Wellington on 19 November and voting can be undertaken by proxy. TCC's shareholders' Council representative will attend the SC meeting and the annual meeting, both to be held on 19 November.
4. Council's shareholding in the LGFA is 8.3% (paid up capital).
5. The Shareholders' Council has provided recommendations on:
 - (a) The appointment of directors;
 - (b) Members of the shareholders Council for reappointment;
 - (c) Directors' remuneration adjustments for CPI; and
 - (d) Amendments to the Foundation policies of LGFA.
6. The Shareholders Council letter, the notice of meeting and explanatory notes, along with the proposed foundation policy amendments are attached to this report along with the proxy form to be completed following the decisions from this meeting.

BACKGROUND

7. Under the LGFA Shareholders' Agreement (SHA) the Shareholders' Council (SC) is required to:
 - Make recommendations to Shareholders about the appointment, removal, re-election, replacement and remuneration of Directors.
 - Make recommendations to Shareholders about any matters which require the approval of Shareholders.
8. The SC recommendations on the meeting resolutions are provided in a letter to shareholders attached to this report. The SC recommendations and rationale are supported by TCC staff. TCC is a member of the SC. The resolutions and recommendations are summarised below.

Resolution 1 - Election of Company Directors

9. SC has considered the nominations for election of company directors in the light of the skills required for the LGFA Board and recommends appointment of **both** independent Board nominees and **one** of the two nominated non-independents based on skills required for the Board and recognising the significant changes facing LGFA over the next few years.
10. In summary with respect to resolution 1 the SC recommends:
 - (a) Craig Stobo is re-elected as an independent director for an additional three-year term.
 - (b) Elena Trout is elected as an independent director for a three-year term.
 - (c) Alan Adcock is re-elected as a non-independent director for an additional three-year term.
11. The SC supports the re-appointment of Craig Stobo for a further term as an Independent Director of LGFA. Craig has been Chair of LGFA since its inception and has played a critical role in leading LGFA to its current lending of \$20.5b to 77 councils and 5 CCOs. Craig has played a key role in advising Ministers on the potential role and benefits of LGFA into the future, particularly to support councils and waters CCOs under Local Water Done Well reforms.
12. The SC supports the election of Elena Trout as an independent director. Elena is an experienced company director, board chair, management executive and professional civil

engineer who has held leadership positions in the transport, energy and infrastructure sectors. In terms of Governance of utilities, Elena is a current director of Contact Energy.

13. Elena Trout's appointment will provide valuable additional skills to the Board to assist with management of risk and the development of criteria to be considered by the LGFA Board in assessing higher bespoke borrowing covenants for selected Councils for growth infrastructure, as well as conditions and monitoring of higher lending limits for waters CCOs formed under Local Water Done Well reforms.
14. After considering and interviewing the two nominees for non-independent director, the SC supports the election of Alan Adcock for a second term on the Board.
15. Alan, who is currently the CFO at Whangarei District Council, has strong governance experience combining many years of local government executive leadership and CCO governance experience with an extensive commercial and banking background. His diversity of skills and experience mean he is well-placed to continue to contribute effectively to the LGFA Board through the significant changes expected over the next few years including the impacts of waters reform and lending to CCOs. His second term on the Board is supported given his experience and skills, in the context of the relatively turbulent environment of the next three years of LGFA operation. Both Local Waters Done Well reforms and the increasing pressure of higher debt levels for growth councils will impact on LGFA lending and risk.
16. It is noted that SC supports the proposed reappointments to provide the necessary experience, skills and continuity for the Board in the next couple of years when there will be significant changes for LGFA and the sector. Over that time the Statement of Intent (SOI) for LGFA includes goals for succession planning within the Board.

Resolution 2 - Election of Nominating Local Authorities to the Shareholders Council

17. The SC recommends the **re-election of Auckland Council and Wellington City Council** to the shareholders council. These councils continue to provide a valuable contribution to the SC and the Council wishes to retain its current number of members. There were no other nominations from other shareholding councils.

Resolution 3 - Directors' Remuneration

18. Approval is sought to increase directors' fees by 3% to recognise an inflation adjustment, in a year when a full review is not undertaken. The SC has supported this movement to maintain market parity and avoid the need for more significant adjustments when the full review is undertaken every two years. The resolutions on directors' fees are as follows:
 - (a) With effect from 1 July 2024, the Director acting as chair of the Board, an increase of \$3,720 per annum, from \$124,000 per annum to \$127,720 per annum.
 - (b) With effect from 1 July 2024, each of the other Directors acting as members of the audit and risk committee, an increase of \$2,190 per annum, from \$73,000 per annum to \$75,190 per annum.
 - (c) With effect from 1 July 2024, the Director acting as chair of the audit and risk committee, an increase of \$2,340 per annum, from \$78,000 per annum to \$80,340 per annum.
 - (d) With effect from 1 July 2024, each of the other Directors, an increase of \$2,100 per annum, from \$70,000 per annum to \$72,100 per annum.

Resolution 4 - Changes to LGFA Foundation Policies

19. The SC recommends the proposed amendments to the Foundation policies to:
 - (a) Remove the "A" credit rating requirement for lending to rated councils in favour of relying on other LGFA monitoring of the credit quality of councils.
 - (b) To allow bespoke covenants up to 350% to support high growth councils.

20. As debt increases for councils, particularly for growth councils investing in new infrastructure, council credit ratings would be expected to be lowered. Overall, the LGFA Board intends to maintain its high credit rating (AA+) even though a portion of its borrowing councils would be expected to have credit ratings downgraded as their debt increases. The Board expects that higher bespoke lending to growth councils would not be expected to exceed 20% of LGFA's total lending, and that at these levels it should maintain its strong rating. The conditions applied by the Board when allowing higher bespoke covenants will also ensure its lending risk is managed by the Board. The extent of bespoke lending will be monitored by the SC as part of its performance monitoring of LGFA.

STATUTORY CONTEXT

21. Council's involvement in the LGFA allows access to long-term funding and lower debt servicing costs.
22. The LGFA supports the local authority sector and adds depth to the New Zealand' debt capital markets.

OPTIONS ANALYSIS

Option 1: Approve all resolutions in the Notice of Annual Meeting in accordance with the recommendations of the SC.

23. Council can agree to vote by proxy on all resolutions proposed in the Notice of Annual Meeting. The SC recommends voting in favour of all resolutions in the AM, and has recommended three of the four nominees for Board membership, which is the maximum number of Board members allowed under the Shareholders Agreement.
24. Amendments to the Foundation Policies as proposed provide operational flexibility for the Board to lend to growth councils at bespoke borrowing limits in excess of the 280% debt to revenue limits, and to lend to councils whose credit rating falls below the current A rating (to A-) which is considered a likely longer-term consequence of higher debt to revenue ratios aligned to bespoke covenants. These amendments are supported by the SC.

Option 2: Do not approve all resolutions as recommended by the SC.

25. Council can agree to vote by proxy on all resolutions proposed in the Notice of Annual Meeting but can vote against some or all of the resolutions and recommendations of SC.
26. The main implication for TCC would be if Council chose not to approve amendments to foundation policies of the Shareholders Agreement (SHA) as proposed. If these resolutions are not passed at the Annual Meeting, TCC would not have ability in the future to borrow from LGFA if its debt to revenue ratio increases over time above 280% and/or its credit rating drops to A-.
27. Council has 8.3% of shares in LGFA, which equates to 8.3% of the vote if a poll is called for.

FINANCIAL CONSIDERATIONS

28. Decisions on voting for directors does not directly affect Council borrowing from LGFA.
29. The amendments to the SHA provide more flexibility for LGFA to lend to councils where debt to revenue ratios need to exceed 280% to deliver capital infrastructure for growth. TCC is one of the growth councils intended to benefit from these amendments. If the SHA policies are amended then TCC will have more choices around the level of investment to undertake and less risk of breaching borrowing covenants and therefore no longer able to borrow from LGFA.

LEGAL IMPLICATIONS / RISKS

30. Without approval of SHA amendment proposals there is a risk that over the next few years TCC would not be able to remain within LGFA limits which would require repayment of loans and borrowing from other sources.

CONSULTATION / ENGAGEMENT

31. There is no consultation required on this decision on voting at the LGFA AM.

SIGNIFICANCE

32. The Local Government Act 2002 requires an assessment of the significance of matters, issues, proposals and decisions in this report against Council's Significance and Engagement Policy. Council acknowledges that in some instances a matter, issue, proposal or decision may have a high degree of importance to individuals, groups, or agencies affected by the report.
33. In making this assessment, consideration has been given to the likely impact, and likely consequences for:
- (a) the current and future social, economic, environmental, or cultural well-being of the district or region
 - (b) any persons who are likely to be particularly affected by, or interested in, the matter.
 - (c) the capacity of the local authority to perform its role, and the financial and other costs of doing so.
34. In accordance with the considerations above, criteria and thresholds in the policy, it is considered that the matter is of low significance.






ENGAGEMENT

35. Taking into consideration the above assessment, that the matter is of low significance, officers are of the opinion that no further engagement is required prior to Council making a decision.

NEXT STEPS

36. The voting agreed will be counted at the AM, and decisions will be known after 19 November. If amendments to the foundation policies of the SHA are agreed then the LGFA will further develop the criteria and conditions under which bespoke borrowing limits will be considered.

ATTACHMENTS

1. **2024 09 20 Notice of LGFA Annual Meeting November 2024 - A16705131** [↓](#) 
2. **2024 09 20 LGFA Shareholders' Council Recommendations Letter 2024 - A16705145** [↓](#) 
3. **2024 09 20 Amended LGFA Foundation Policies (2024) Tracked Change - A16705136** [↓](#) 
4. **2024 09 20 Amended LGFA Foundation Policies (2024) - A16705139** [↓](#) 
5. **2024 09 04 Proxy Form - LGFA Annual Meeting November 2024 - A16705141** [↓](#) 



NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED NOTICE OF ANNUAL MEETING

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

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

BUSINESS

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

2. **ELECTION OF COMPANY DIRECTORS**

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

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

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

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

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

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

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

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

(d) Elect **Elena Trout** as an Independent Director, by way of Ordinary Resolution

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

(See Explanatory Note 2)

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

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

Accordingly, to:

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

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

(See Explanatory Note 3)

4. DIRECTORS' REMUNERATION

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

(a) in respect of the Director acting as chair of the Board, an increase of \$3,720 per annum, from \$124,000 per annum to \$127,720 per annum;

(b) in respect of the Director acting as chair of the audit and risk committee, an increase of \$2,340 per annum, from \$78,000 per annum to \$80,340 per annum;

(c) in respect of each of the other Directors acting as members of the audit and risk committee, an increase of \$2,190 per annum, from \$73,000 per annum to \$75,190 per annum; and

(d) in respect of each of the other Directors, an increase of \$2,100 per annum, from \$70,000 per annum to \$72,100 per annum.

(See Explanatory Note 4)

5. **CHANGES TO FOUNDATION POLICIES**

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

6. **QUESTIONS AND COMMENTS FROM SHAREHOLDERS**

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

7. **GENERAL BUSINESS**

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

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

By order of the Board:



Craig Stobo, LGFA Board Chair
20 September 2024

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

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

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

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

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

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

EXPLANATORY NOTE 2 - ELECTION OF DIRECTORS

Clause 3.3 of the SHA was amended by Ordinary Resolution at the 2021 annual meeting of Shareholders to state that a Director must not hold office (without re-election) past the third annual meeting of the Company following the Director's appointment or three years, whichever is longer. A retiring Director shall be eligible for re-election.

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

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

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

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

Elena Trout offers herself for election as an Independent Director.

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

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

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

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

Director election process

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

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

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

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

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

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

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

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

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

EXPLANATORY NOTE 4 – DIRECTORS' REMUNERATION

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

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

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

EXPLANATORY NOTE 5 – CHANGES TO FOUNDATION POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX ONE: DIRECTOR BIOGRAPHIES

ALAN ADCOCK – BIOGRAPHY

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

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

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

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

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

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

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

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

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

CRAIG STOBO – BIOGRAPHY

Education

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

Corporate Career

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

Independent Directorships

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

Private Company Equity Interests and Directorships

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

Pro Bono Work

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

Current Memberships

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

KUMAREN PERUMAL – BIOGRAPHY

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

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

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

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

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

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

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

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

ELENA TROUT - BIOGRAPHY

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

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

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

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

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

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

APPENDIX TWO: FORM OF AMENDED FOUNDATION POLICIES

Attached in separate document

20 September 2024

The Shareholders
NZ Local Government Funding Agency (LGFA)

Dear Shareholder.

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

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

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

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

Resolution 1 - Adoption of Financials

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

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

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

Resolution 2 - Election of Company Directors

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

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

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

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

Craig Stobo

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

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

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

Elena Trout

The Shareholders’ council **supports the election of Elena Trout as an independent director.**

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

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

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

Non-independent directors

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

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

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

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

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

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

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

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

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

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

In summary for Resolution 3 The Shareholders Council recommends:

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

Resolution 4 - Directors' Remuneration

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

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

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

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

Resolution 5 Changes to LGFA Foundation Policies

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

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

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

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

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

The emails of Shareholders' Council representatives are as follows:

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

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

Other Local Authority Members:

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

Yours sincerely



Kathryn Sharplin

Chair, LGFA Shareholders' Council

cc. Mark Butcher, Chief Executive LGFA

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

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

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

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

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

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

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

SCHEDULE 1
Foundation Policies
(Clause 5.1 of the Shareholders' Agreement)

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

Credit Risk

Lending Policy

All Local Authorities that borrow from the Company will:

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

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

- Any Board or Ordinary Resolution approval of bespoke financial covenants will only be provided after a robust credit analysis and any approval must also include bespoke reporting and monitoring arrangements.
- If the principal amount of a Local Authority's borrowings, or the Company's commitment under a facility agreement with a Local Authority, is at any time greater than NZD 20 million, be a party to a deed of guarantee and an equity commitment deed (in each case in a form set by the Company).

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

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

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

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

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

Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.

Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

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

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

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

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

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

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

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- Comply with their own internal borrowing policies.
- Comply with the financial covenants outlined in the following table, provided that:
 - Local Authorities without a long-term credit rating can have bespoke financial covenants that exceed the:
 - Lending policy covenants outlined in the following table with the approval of the Board;
 - Foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution.
 - Local Authorities with a long-term credit rating:
 - will not be required to comply with the lending policy covenants in the following table; and
 - can have bespoke financial covenants that exceed the foundation policy covenants outlined in the following table:
 - with the approval of an Ordinary Resolution; or
 - in respect of the Net Debt / Total Revenue covenant:
 - with the approval of the Board, can have a bespoke Net Debt / Total Revenue covenant of up to 350%; or
 - until the financial year ending 30 June 2026, will not be required to comply with the Net Debt / Total Revenue foundation policy covenant outlined in the following table. Until that date, such Local Authority must comply with the Net Debt / Total Revenue covenant set out in the table entitled "Alternative Net Debt / Total Revenue Covenant" below.

- Any Board or Ordinary Resolution approval of bespoke financial covenants will only be provided after a robust credit analysis and any approval must also include bespoke reporting and monitoring arrangements.
- If the principal amount of a Local Authority's borrowings, or the Company's commitment under a facility agreement with a Local Authority, is at any time greater than NZD 20 million, be a party to a deed of guarantee and an equity commitment deed (in each case in a form set by the Company).

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



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

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

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

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

PROXY FORM



I/We _____

of _____

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

of _____ or failing him/her _____

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

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

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

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

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

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

Signature of Shareholder

Dated: 2024

Notes:

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

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

10 DISCUSSION OF LATE ITEMS

11 CLOSING KARAKIA