AGENDA

Supplementary Attachments
Ordinary Council meeting
Tuesday, 10 June 2025

Date:	**Tuesday, 10 June 2025**
Time:	**9.30am**
Location:	**Tauranga City Council Chambers Level 1 - 90 Devonport 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

Order of Business

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11.1 Council Meeting 10 June 2025 - Attachments to Item 11.2: Ratepayer Assistance Scheme

ATTACHMENTS

1. **Risk Assessment - A18375607** ⇩
2. **Rates Assistance Scheme - A18375602** ⇩
3. **2023 Council Report - Ratepayer Assistance Scheme - A18488158** ⇩

RAS - risk analysis

RAS - risk analysis

Overview

- We summarise remaining key risks + associated impacts, mitigants and residual risk ratings
- The key risks are discussed on the following two pages and considered in two categories:
  - **Establishment phase** – risks to successfully 'standing up' the RAS
  - **Operational phase** – post establishment phase / on-going operational risks

Establishment phase – key risks
1. RAS achieves credit rating materially below target
2. Central Govt not supportive
3. Required legislation not passed
4. Fewer LAs than expected choose to 'join' RAS
5. Officer of the Auditor General ("**OAG**") views RAS debt as 'on balance sheet' for LAs / Central Govt
6. CCCFA and AML exemptions declined

Operational phase – key risks
1. Ratepayer uptake below forecasts
2. Major operating costs (especially IT) materially higher than forecast
3. Ratepayer loan defaults
4. Bond tender failure
5. IT security failure
6. Inflation

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RAS - risk analysis during establishment phase

RAS establishment phase – key risks and mitigants

#	Risk	Impact	Mitigants	Residual risk rating
1	**RAS achieves a credit rating materially below target**	• Increased RAS financing costs	• Conservative capital adequacy levels (set with reference to LGFA, S&P and RBNZ guidance) • Comprehensive shareholder support (including guarantees, uncalled capital and DMO support); proximity to Central Govt • RAS liquid assets portfolio • S&P shadow rating pre RAS formation	**Low**
2	**Central Govt not supportive / required legislation not passed this electoral cycle**	• RAS establishment not possible (or significantly delayed)	• Central Govt support will be required to move to establishment (the Governance Group will determine what level of assurance is acceptable) – stop / go decision in Q4 25 • Various key legislative 'principles' required for RAS (e.g. 'taxation without representation') already included in IFFA, LGBA	**Medium**
3	**Insufficient LAs prepared to subscribe for RAS shares**	• RAS establishment not possible	• Governance Group to decide whether to proceed to establishment and presumably will subscribe for shares • Founding shareholders will enter into a Heads of Agreement prior to establishment	**Low**
4	**Fewer LAs than expected choose to 'join' the RAS as members**	• Reduced 'addressable market'	• Positive LA sector feedback received to date • Governance group LAs required to fund final development are expected to underpin market size (together representing >50% of NZ's population) • Marketing / awareness programme to highlight opportunity to LAs will be undertaken • Membership requirements to be standardised and minimised • LAs able to join post establishment (as per LGFA experience)	**Low**
5	**OAG / Rating Agencies view RAS debt as 'on balance sheet' for LAs / Central Govt**	• Potential for material reduction in LAs' debt headroom • RAS may not be feasible	• PwC advice provides guidance to achieve 'off balance sheet' assessment for LAs / Central Govt shareholders • Preliminary discussions with S&P suggests no issue with 'off credit ' treatment	**Low**
6	**CCCFA and AML exemptions declined**	• Moderate RAS opex increases • Potentially reduced ratepayer 'ease of use' • Breakeven delayed	• Exemptions available to LAs already • Russell McVeagh advice that CCCFA affordability test and AML exemptions are likely • Margin contingency built into Business Case	**Low**
6	**Establishment costs exceed budget**	• Costs exceed committed funding • Additional equity required to fund initial operating losses	• Majority of development costs informed by advisor proposals • IT system cost estimates informed by IT providers' feedback • Some advisors able to agree to fee caps • 20% contingency factored into budget	**Medium**

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RAS - risk analysis once operational

RAS operational phase – key risks and mitigants

	Risk	Impact	Mitigants	Residual risk rating
1	**Ratepayer uptake below forecasts**	• RAS breakeven delayed • Reduced social benefits	• LAs / Central Govt policy and marketing / awareness support will drive uptake • Various data points support Business Case forecast uptake (discussed in Business Case) • Market testing possible during next stage of RAS development • Ratepayer loan interest rates below private sector alternatives • RAS specialisation / tailored IT system supports 'seamless' application process	**Medium / High**
2	**Major operating costs (esp. IT) materially higher than forecast**	• RAS breakeven delayed	• Independent review of IT system scope and cost estimates planned for next stage • IT procurement will be completed pre RAS establishment (including confirming / contracting future IT cost drivers) • Non-IT cost estimates supported by LGFA and BC Scheme precedent data + Governance group 'Business Case team' input / review	**Medium**
3	**Ratepayer loan defaults**	• Potential RAS financial distress • Negative community sentiment towards RAS	• Full recovery of RAS ratepayer loans is almost certain. Individual ratepayer loan protections include: minimum property equity requirements; property insurance requirements; RAS levy charges rank (pari passu with rates); default recovery process alignment with LAs • BC Scheme experience – very low default rates	**Low**
4	**Bond tender failure**	• Inability to refinance maturing bonds and / or new ratepayer loans	• RAS capital structure / external support – ensures RAS has very strong liquidity • LGFA track record and management of RAS's bond issuances) • RAS bonds expected to be RBNZ repo eligible (enhancing RAS bonds' attractiveness in uncertain market conditions)	**Low**
5	**IT security failure**	• Financial loss • Reputational risk – market / LA sector	• IT consultant to be engaged • Security capability / track record will be a key consideration in formal IT procurement process	**Low**
6	**Inflation**	• Cost increases	• Inflationary environment is likely to support demand for RAS products and increase ratepayer loan size	**Low**

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Attachment A: Background Reading

RAS

LOCAL GOVERNMENT

Ratepayer Assistance Scheme

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme

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

Kō tātou. LGNZ.

RATEPAYER ASSISTANCE SCHEME

THE OPPORTUNITY FOR LOCAL GOVERNMENT

Executive summary and contents

RAS is a local government initiative that will significantly enhance LAs' funding and financing toolbox - providing flexibility to LAs as to how they charge and ratepayers in how they pay

- The Ratepayer Assistance Scheme (RAS) supports local government funding and financing by:
  - Converting multi-year Local Authority (LA) charges to ratepayers into efficient upfront payments to LAs
  - Effectively lending to ratepayers at very low cost
- The RAS would be owned by LAs, off-balance sheet and can be used to finance Development Contributions / Levies, Property Improvement Loans and Rates Postponement
- The Minister for Local Government has confirmed that he is supportive of the RAS and has recommended that local government undertakes further, final development work
- To undertake final development requires additional funding commitment from the sector of $2.5 million (without this the RAS will not proceed) and there is the opportunity for councils to be part of the group of funding councils
- This document sets out details of the RAS opportunity and support sought from councils as follows

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1. The RAS Opportunity

The RAS has been developed by LGNZ, LGFA, a group of metro councils and Cameron Partners to support councils and ratepayers to address a range of economic and social issues

- The economic and social disruption from the cost-of-living crisis, an ageing population plus the investment requirements to meet infrastructure, health & safety and environmental resilience is affecting all New Zealanders
- The local government sector is responding with policies to address these issues, but it needs additional tools to ensure these policies can be financed, administered efficiently and are effective
- Local Government New Zealand (LGNZ), along with a group of Metro councils, the New Zealand Local Government Funding Agency (LGFA), Rewiring Aotearoa (RA) and Cameron Partners have been working on an innovative financing scheme, the RAS
- The purpose of the RAS is to facilitate and enhance the effectiveness of a range of existing and prospective government and local government policies by:
  - Addressing ratepayer affordability concerns
  - Incentivising ratepayers to take advantage of, and comply with policies through providing ratepayers with flexibility to decide when to pay local government charges and/or very competitive finance terms
- The RAS is very flexible with multiple applications possible – to date the focus has been on three applications:
  1. **Deferred Development Contributions (DCs) / Development Levies (DLs)** which enables developers to convert upfront DC / DL payments into annual payments over ~30 years while ensuring local authorities still receive full payment upfront
  2. **Property Improvement Loans (PILs)** to encourage investment in properties that has both private and public benefits, for example installation of solar panels and home insulation / heating
  3. **Rates Postponement (RP)** providing relief to ratepayers by using equity in their homes to defer payment of general rates (and could in-principle include all LA charges) until their house is sold

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1. The RAS Opportunity

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme
LGFA New Zealand Local Government Funding Agency Te Pūtea Kāwanatanga ā-rohe
Kō tātou. LGNZ.

Central government has confirmed it is supportive and recommended further development – this requires local government to confirm its support and funding

- In many respects, the RAS is similar to the LGFA – it:
  - Utilises the strength of local government rates charge to provide security
  - Achieves scale by aggregating requirements across the sector in order to access very efficient and flexible financing from the capital markets
  - Is then able to pass on these financing efficiencies to ratepayers
- An important distinction between the RAS and LGFA is that the RAS will lend directly to individual ratepayers whereas the LGFA lends to local authorities
- The RAS would be a new entity owned by LAs, providing a national shared service available to all LAs – it would:
  - Undertake all administrative functions in regard to the services it provides (in many cases removing this from councils)
  - Importantly, be off-balance sheet for LAs so that there is no impact on council financing capacity
- The Minister for Local Government has confirmed that he is supportive of the RAS, has instructed his officials to commence policy work on the RAS in August 2025 and has recommended that local government undertakes further detailed development work to enable a final stop / go decision in late 2025
- To move forward, the local government sector needs to confirm its support for the RAS and sufficient funding commitment to fund final development
- The opportunity is for councils to be part of the funding group that supports final development of the RAS and ultimately establishment of the RAS – without further funding support the RAS will not proceed

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2. Deferred DCs / DLs

Deferred DCs / DLs will spread the cost over say, 30 years, supporting development. It will be easier for LAs to charge the full allowable cost and receive payment upfront

- LAs charge ratepayers / developers DCs for new developments to contribute to the costs of supporting infrastructure
  - DC costs are significant (one-off charges are on average ~$20k to $30k per property but can be $60k+)
  - 2026 annual plans forecast over $700 million revenue to be raised from DCs nationally
- The proposed Development Levy System (DLS) is expected to expand the scope of DLs to enable LAs to fully recover development growth costs and raise more revenue to fund growth infrastructure
- BUT the DLS combined with supply chain issues and inflation pressures means developers will need to pay more – the affordability of these increased charges and risk to the very developments that the charges are intended to support are critical considerations
- The RAS will be able to effectively convert upfront DCs / DLs into series of annual payments over say 30 years
- Under a Deferred DC / DL scheme, LAs would continue to do what they do now and invoice DCs / DLs at appropriate milestones (e.g. issue of 224c certificate or Code of Compliance) but developers would have the option to either:
  - Pay DCs / DLs in full; or
  - Choose to defer DCs / DLs through the RAS
- In the case of deferred DCs / DLs, the RAS would pay the upfront DC / DL to the LA and the current and future owners of the properties, would repay these upfront DCs / DLs (+ interest) as annual RAS levies:
  - Importantly, future owners would expect to pay less for properties with deferred DCs / DLs to reflect the RAS levies that will be charged in future on an annual basis
  - In any event, the purchaser of a property will have the option to require the outstanding RAS levies to be repaid by the seller of the property prior to them taking ownership (although new purchasers may decide that they prefer to pay less upfront for the property and take advantage of the attractive financing rates applied by the RAS)

2. Deferred DCs / DLs

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme | LGFA New Zealand Local Government Funding Agency Te Pūtea Kāwanatanga ā-rohe | Kō tātou. LGNZ.

The new DLS will facilitate increased LA charges to property developers to more fully fund the costs of growth-related infrastructure

- DCs are a substantial revenue source for LAs (~$700 million nationally) and this is expected to increase considerably under the DLS
- The increased costs will drive demand for alternative payment arrangements such as deferred DCs / DLs, underpinning the ability for RAS to achieve a breakeven financial position in a reasonable timeframe
- Auckland Council estimates 50% of its DC revenue is from small developments (under four houses), including a significant number of 'mum and dad' developers undertaking developments such as subdividing their existing property

Average DC	Some DCs are much larger	Under the DLS charges are expected to be larger individually and in aggregate
$20k – 30k	$60k+	

- Some developers highlight DCs as a factor that impedes development and encourages land banking and in response, some LAs end up discounting DCs
- A range of private and public sector options are available for property developers and LAs - these options typically do not support:
  - Development; and/or
  - LAs recovering the full allowable DC charge

Don't develop	Development Finance	Fully charge DCs / DLs	LA Deferred DCs / DLs
DCs / DLs can inhibit development	*Development loans are expensive*	*Affordability, risk to development*	*Admin and impact on LA debt capacity*

Stan and Jess, with their children Rebecca and Josh, have a home with a large backyard in Auckland

Stan and Jess are considering building an additional house on their section to initially provide accommodation for Jess' parents and then, in time their children. At some point they are likely to sell the property to help fund their own retirement. The DC that would be triggered by their development is a barrier to them developing the property

Stan and Jess would opt in to use the RAS's Deferred DC / DL product:

- *The Deferred DC / DL removes any potential disincentive of the material upfront DC / DL cost to undertake the development*
- *The RAS would convert the DC into an annual levy payment secured against the property*
- *The LA would receive the full DC / DL payment upfront*
- *Stan and Jess would pay their 'share' of the DC / DL while they own the property (and other owners in due course)*

LAs wish to encourage development but must provide the necessary infrastructure to support this

Some LAs continually face strong developer opposition to paying DCs

We understand that some developers point to LA DCs as an impediment to development

A Deferred DC / DL offering would be a very attractive option for developers:

- *Providing flexible payment terms*
- *Spreading the costs of the infrastructure over a 30-year term*
- *Providing LAs with a constructive response to developers' DC / DL cost concerns*
- *Providing the full DC / DL payment to the LA upfront*

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3. Property Improvement Loans

LAs can currently adopt policies to provide financing to ratepayers that can be repaid via voluntary targeted rates – these arrangements can be financed and administered by RAS

- Current legislation enables LAs to adopt policies to provide financing to ratepayers that can be repaid over a fixed period via a voluntary targeted rate secured against a rateable property
- These policies typically relate to supporting and incentivising ratepayers to invest in their properties to achieve desirable private and public benefits. For example, various councils provide retrofit home insulation loans to ratepayers with loans repaid on a table mortgage basis
- Current PILs usage across most LAs (and therefore private and public benefits) is relatively low:
  - Similar to RP, LAs have been reluctant to offer and promote PILs as they must be financed out of LAs' existing financing capacity
  - In some cases, the interest cost charged to ratepayers has not been sufficiently attractive relative to ratepayers' financing alternatives
  - LAs have encountered operational and regulatory challenges
- RAS could provide PILs for individual and community projects (e.g. home insulation, heat pumps, double glazing windows, earthquake strengthening, solar panels, water tanks, septic tanks, EV chargers, stock exclusion fencing, sea walls) that:
  - Facilitate the growth of safer, healthier, more resilient and environmentally sustainable homes and communities
  - Are voluntary / 'opt-in' for ratepayers
  - Provide ratepayers with competitive financing options (~1% – 1.5% below standard mortgage rates)
  - May reduce or delay LAs' required investment in infrastructure (e.g. private water tanks could reduce the need for additional LA water storage capacity)
  - Are 'off-balance sheet' for LAs, removing the financing impediment for LAs

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3. Property Improvement Loans

PILs support uptake of individual and community property improvements with significant public benefits, furthering LA and government's policy goals

- Private property improvements can have significant private and public benefits (e.g. safer, healthier and more environmentally friendly communities)
- Current legislation enables LAs to offer PILs (repaid via voluntary targeted rates) to further policy objectives, but use by LAs is not widespread – largely due to operational, cost and compliance issues
- Achievement of certain policy objectives / public benefits are limited by the one-off costs that property owners need to pay for the improvements

- A range of private and public sector options are available for property owners and LAs / government
- LAs / government can directly subsidise private property improvements, but these have limited efficiency
- Recent examples of LA provided PILs highlight the administrative and financing challenges

Don't improve	Bank loan	Govt subsidies	LA schemes
Reduced social benefits and policy objectives achieved	*Expense and availability?*	*Public sector vs private sector costs*	*Admin burden and uses LA financing capacity*

Josh, Sophie and baby live in City "X" in an old villa purchased five years ago. They are required under council regulations to either reinforce or remove the two existing chimneys in their home

Josh and Sophie currently heat their home with open fires but have decided it will be best long-term to remove the fireplaces. However, each fireplace costs $8k to remove and they will need to invest in a heat pump costing $2k

Council "X" decides to offer RAS PILs for chimney removal and insulation / heating

Josh and Sophie opt to use the chimney removal and heating PILs:

- *Accessing cheaper finance than the current alternatives*
- *Improving the safety and healthiness of their home*
- *Council "X" moves closer to achieving its seismic resilience targets*

June is looking to buy a new car and is interested in an EV to reduce her emissions and save fuel costs. She is also nervous about power outages

June can just afford the slightly higher purchase price of an EV. However, she is currently unable to also afford the cost of a home Vehicle to Grid (V2G) charger

June opts to use the RAS PILs product as this:

- *Improves the affordability of purchasing an EV*
- *Is cheaper finance than available alternatives*
- *Reduces her emissions while increasing her energy resilience*
- *Unlocks savings in fuel costs and maintenance*
- *Enables her to charge her EV when prices are low, use the car as a battery when prices are high and even sell a few kwh a day to reduce her power bill*

Just 30% of households with vehicles plugged in and exporting is the equivalent power output capacity of every power plant in NZ combined. More than enough to deal with higher daily peaks as our economy electrifies and avoid some costly system upgrades

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3. Property Improvement Loans

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme

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

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PILs are very flexible and can deliver significant cost of living and quality of life benefits for ratepayers – it is up to central government and local government to decide what PILs could be applied to

- In indicating support for further development of the RAS, the Minister has asked that particular consideration for how PILs could be used to support the uptake of renewable, lower-cost energy
- While originally envisioned for residential properties, there is no reason government and councils could not extend PILs to other rateable properties – e.g. financing install of medium-sized solar and water-way fencing on farms
- In principle, RAS PILs could also be used to avoid LA capital expenditure

Ngaio and Rick have just had a big shock as their electricity daily charge and unit prices increased by 20% from 1 April

They have looked into solar and want to install a 9kw solar system to reduce their power bills and not fear the seemingly inevitable increases coming next April. But the $18k upfront cost is a big ask for the household with three young kids. They elect to take out a PIL through the RAS as it is cheaper and easier to access than other options available to them

Once installed, they are able to save ~75% of their power bills

After they've fully paid off the solar system through the RAS over the 30 year warranty period of the solar panels, they have saved over $40k

Their decision to install solar has also:

- *Encouraged them to swap out their gas heating for electric*
- *Improved the energy resilience of their community*
- *Helped NZ keep more water in the hydro lakes in dry years, due to the 11% "sunlight premium" of solar in dry years*
- *Increased NZ's electricity generation (if 80% of homes had a 9kw system, it would be about 40% more electricity generation)*
- *Supported the wider electrification of the NZ economy*

The ten property owners at beach "X" are concerned about erosion and the impact of climate change which potentially puts their properties at risk in an extreme weather event

They have collectively engaged engineering advisors and a construction company to scope a seawall to protect their properties and they have received a firm quote of $180k

All of the property owners are willing to contribute to the seawall but some are retired and do not have access to financing and do not wish to use their small savings which they use for living expenses

Seven of the ten property owners at "X" beach opt to use a RAS PIL to finance their contribution to the seawall at cheaper finance than current alternatives (the other three owners pay direct)

Of the seven who use the PIL:

- *Three repay the PIL over ten years via annual RAS levies*
- *Four choose to postpone payment of the voluntary targeted rate using RP*

The seawall is built and the following year, Cyclone Ada causes widespread damage but Beach "X" is unscathed because of the protection provided by the seawall

Council "Y" is aware it has a large number of ratepayers that have septic tanks that are deteriorating and starting to cause environmental issues (leaching into streams and the harbour)

The geography makes it difficult to provide reticulated wastewater services to most of the properties and in any event Council "Y" has insufficient financial capacity to undertake the necessary investment for a new wastewater network

Instead, Council "Y" is imposing new septic tank regulations and commencing an inspections process. It anticipates virtually all septic tanks (installed over 50 years ago) will require replacement at an average cost of $20k

Council "Y" intends to offer a RAS PIL to ratepayers who are required to replace their tanks with a payment term of 20 years:

- *Many affected property owners comply with the new council regulation and choose to take advantage of Council "Y"s septic tank PIL*
- *Property owners who take up the PIL are able to repay the loan over a 20-year period at $1,000 p.a. + interest (PIL interest rate is lower than alternative options)*
- *The council achieves its environmental policy objectives*
- *The council avoids a significant investment in a reticulated wastewater network that it can ill afford*

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4. Rates Postponement

RP allows qualifying ratepayers to defer rates and pay on sale of their property – in principle all LA charges could be deferred in the same way

- RP provides flexibility to ratepayers (like a reverse equity mortgage) to decide to pay LA charges at some time in the future, partially mitigating:
  - Affordability issues – the impost on property owners will only increase as New Zealand seeks to address underinvestment in infrastructure
  - Demographic changes – e.g. an aging population and a growing cohort of fixed income / elderly home owners
  - General cost of living challenges
- Many LAs already provide RP schemes although these have limited uptake, due to:
  - Demand side factors - e.g. limited awareness; challenging application processes
  - Supply side factors - e.g. restrictive and varying eligibility criteria; LAs' reluctance to promote RP due to the impact on their short-term cashflows and financing capacity
- RAS RP is an opportunity for a standardised, highly efficient national RP scheme that provides RP benefits to a larger proportion of NZ ratepayers at very competitive financing rates (~1% – 1.5% below standard mortgage rates; ~4% to 5% below reverse mortgage rates)
- Eligible ratepayers will have the opportunity to defer general rates payments and the RAS could also offer ratepayers the option to postpone other RAS or LA related levies such as Deferred DCs / DLs and PILs
- British Columbia, Canada (population ~5 million) has a property tax regime similar to New Zealand's rating system:
  - It has had a property tax deferral scheme in place for many years providing a strong precedent and insights
  - In 2024 the British Columbia Property Tax Deferral Scheme had 83,000+ users, ~$2.7 billion in loans (it has quadrupled in size from ~$670 million in 2016) and includes ~3.9% of British Columbia households

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4. Rates Postponement

A nationwide RP scheme would be a highly efficient solution that assists older home owners avoid financial hardship by offering them the ability to postpone their rates

- Living costs in NZ during retirement can be significant
- Superannuation payments are unlikely to cover all living costs for many low-income ratepayers
- Without savings or other sources of income, retirees can experience financial hardship
- LA rates are a significant expense and are expected to increase above inflation for the foreseeable future

'No frills retirement for a couple'
$54k p.a. in the regions
$47k p.a. in main centres

'Choices retirement for a couple'
$63k p.a. in the regions
$91k p.a. in main centres

NZ Super payments $42k p.a. (post tax) for a couple where both qualify
And $27k p.a. (post tax) for an individual living alone

NZ average 2024 residential rates $3,200 p.a. and rising steeply

- A range of private and public sector options are available
- These are limited in their effectiveness and efficiency and not always available
- They do not always align with ratepayers' objectives – most ratepayers do not want to be forced to sell their home

Reverse mortgage	Sell home	Rates rebate	Existing LA RP
Reverse mortgages are very expensive	*Downsize, move to a retirement village or more affordable region*	*Eligible ratepayers can receive up to ~$790 p.a.*	*Not widely marketed, inefficient and expensive*

John and Jane (both 65) have retired, live in City "X" and expect to live to 90. They are fixed income / elderly homeowners and despite having $1.4 million of assets (home $1.2 million and KiwiSaver $200k), they are struggling to make ends meet. They intend to utilise their savings to meet living costs and the occasional extravagance

They pay ~$4,000 p.a. of LA rates (~8% of their post tax pension income) and are concerned about the forecast rates increases of up to 10% p.a. for the next three years

RP:

- *Increases their annual cashflow by ~$4,000 and insulates them from future rates increases – they eat out once a week at the local byo*
- *Enables them to stay in their home for the next 10 years*

Ten years later, their home's value has increased to $1.5 million. They sell it, repay the ~$60k RP debt and realise $1.44 million from the sale

Diane (70) has retired, lives alone in City "Y" and expects to live to 90. She owns a small unit worth $600k and otherwise has no investments or savings. Her only income is NZ Super so she is forced to live very frugally and she struggles to afford to travel to Auckland to visit her grandchildren

She pays ~$3,200 p.a. of LA rates (12% of her post tax pension income) and is very concerned about the forecast rates increase of ~10% p.a. for the next three years and whether that will impact her ability to see her family.

RP:

- *Increases her annual cashflow by ~$3,200, insulates her from future rates increases and enables her to visit her family three times a year*
- *Enables her stay in her unit for the remainder of her life*

When she passes away at 90, her unit sells for $900k and her $150k RP debt is repaid

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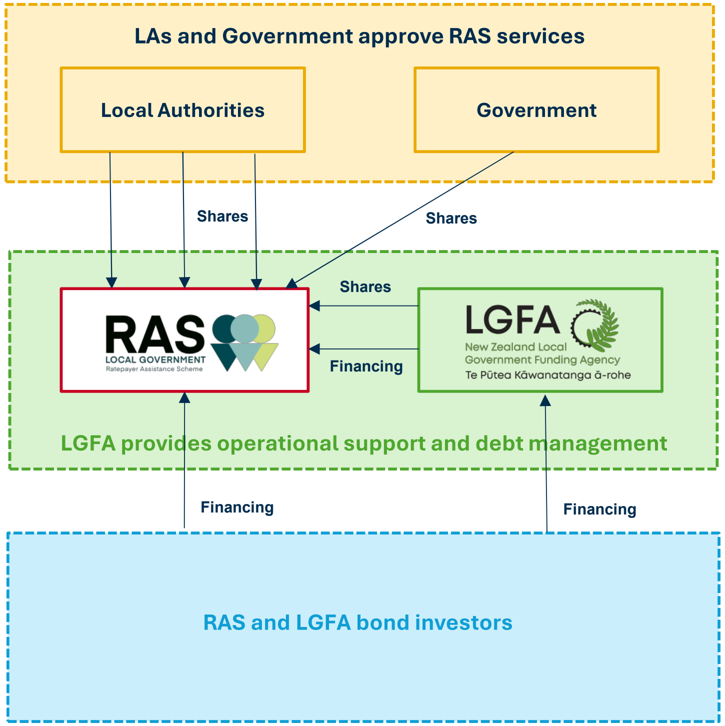
5. What it is and how it works

Structurally the RAS has many similarities to the LGFA – it will be owned by LAs, LGFA and government, providing services to LAs and their ratepayers



- The RAS would be a new entity (a CCO), owned by LAs, LGFA and central government
- The RAS would have no discretion to whom and for what it could lend money – all the services it provides would need to be approved by LAs and central government
- To ensure the RAS is off-balance sheet, the maximum individual stake is less than 20%
- All LAs will be able to use the services of the RAS (regardless of whether they are a shareholder or not), subject to meeting RAS's membership requirements – e.g. IT interface, invoicing, collections, security requirements
- LGFA has a critical role in regard to RAS – providing financial and operational support to the RAS (on a commercial contractual basis), using LGFAs existing capabilities, avoiding duplication and maximising efficiency
- The LGFA board has provided in principle approval (subject to LGFA shareholder approval) for the following
    1. **Ownership** up to the maximum allowable (~20% of RAS shares)
    2. **Debt facility** to enable RAS to "warehouse" its loans to ratepayers before issuing its own RAS bonds to the capital markets
    3. **Preference shares investment** (potentially $100 million + over time) to ensure RAS maintains an appropriate equity ratio as its loan book grows
    4. **Shared services arrangements** across many corporate functions such as financial, HR and IT services
    5. **Management of the RAS bond programme** – using LGFAs existing skills, and networks (it is expected that there will be significant crossover between RAS and LGFA bond investors)

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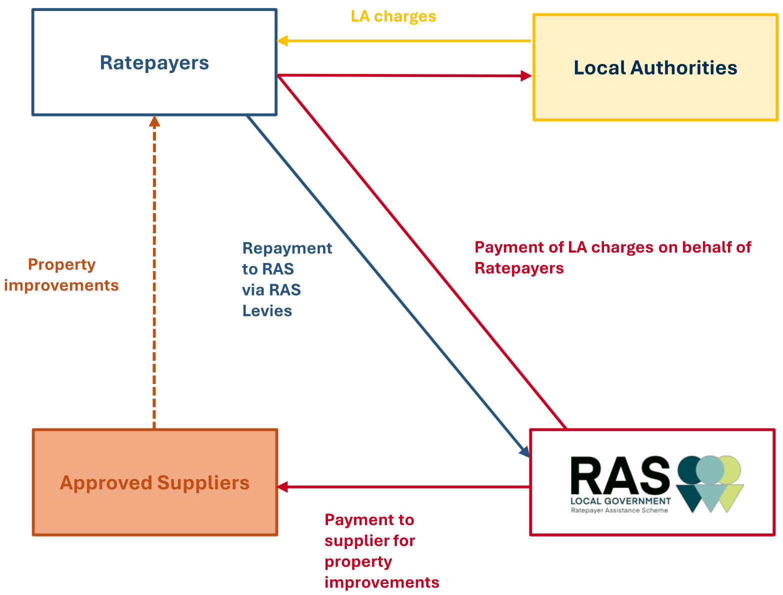
5. What it is and how it works

The RAS effectively does what LAs can and already do, but does it more efficiently and effectively, taking on the administrative burden and risk of providing the services while being off-balance sheet so that there is no impact on LAs' financing capacity

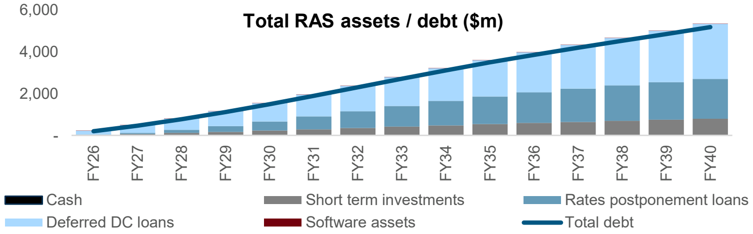


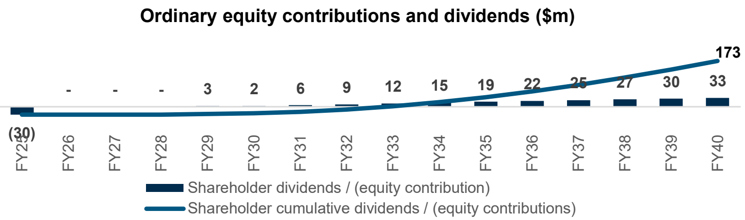
- The RAS structure is based on the LGFA structure
- Importantly, given the RAS is providing services on behalf of LAs, the RAS would have the power to impose a levy charge equivalent to a rate to ensure it gets repaid
- The RAS structure and its ability to impose a 'rate-like' levy would enable it to achieve a very high credit rating
- With this very high credit rating, the RAS would raise very low-cost, long-term financing from the capital markets and pass this on to ratepayers (ratepayer financing will be between ~1-1.5% lower than standard mortgage rates)
- LAs will opt-in as to whether they wish to allow their ratepayers to use the RAS's services
- Ratepayers will also opt-in to use the RAS's services
- The interface between LAs, RAS and ratepayers will be as seamless as possible – for example in the case of RP or deferred DCs / DLs:
  - Ratepayers would "apply" through their LA via a web-based portal on the LA's website
  - The application would go directly to RAS for processing
  - Once approved, payment of the rate charge or DC / DL is made to the LA by the RAS
  - At the appropriate time the RAS will levy the ratepayer to obtain repayment
  - The RAS levy will be separately itemised on the LA's rates invoice, collected by the LA and then distributed to RAS
- In the case of PILs the process would be the same except that RAS would make payment to the approved supplier of the property improvement

6. RAS financial business case

In addition to the provision of valuable services for LAs and ratepayers, business case analysis indicates that very strong commercial returns may be available to shareholders

- A comprehensive business case analysis has been undertaken on a "desktop" basis by Cameron Partners with input from LGFA and IT service providers (to assist with scoping and quantification of the core IT system which is critical to the effective and efficient operation of the RAS)
- Multiple scenarios have been developed and the base case scenario is considered conservative – it assumes:
  - Deferred DC / DLs uptake of 25% of new DCs from FY26
  - No PILs have been assumed in the current base case (this assumption will be revisited during final development)
  - RP uptake of 3.0% is achieved by FY34 with significant uptake occurring in years two to five. By FY31, ~52k households use RP
- The next stage of development will firm up these assumptions, including engagement with market providers including IT system service providers
- The economics of RAS rely on it achieving scale so that it can cover its operating costs:
  - The financial modelling assumption is that the RAS net margin is 1% (ie for every $100 million of loans it will generate $1 million to cover its operating costs)
  - Once RAS has achieved breakeven, surplus cashflow is available to distribute to shareholders
- The base case scenario indicates:
  - Equity of ~$30 million is required to cover establishment costs and operating deficits until RAS achieves breakeven
  - Breakeven is achieved in year 4 (based on assumed annual operating costs ~$7m)
  - Full "payback" of initial investment in year 8
  - An annual dividend yield of over 100% by year 15





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7. Development to date and next steps

Development of the RAS has occurred over a number of years, overseen and funded by a Steering Group – final detailed development is now required to facilitate a "stop-go" decision to proceed with RAS establishment

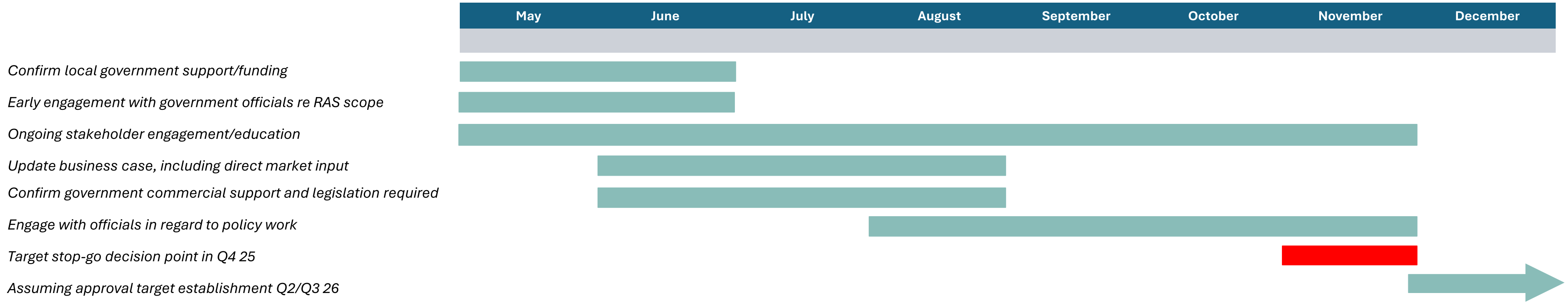
- The RAS Steering Group has comprised LGNZ, Auckland Council, Hamilton City Council, Tauranga City Council, Wellington City Council, Christchurch City Council, LGFA and RA

- The Steering Group has been supported by a suite of advisors who have each undertaken significant work to date, including:
  - Cameron Partners which has led development / business case analysis indicating that a break-even position could be reached in a short timeframe and commercial returns could be strong
  - Russell McVeagh which envisages the RAS being implemented through its own legislation (using similar principles and mechanics to the LGFA and IFFA)
  - PWC (accounting and tax) and S&P who have reviewed the RAS structure and raised no red flags regarding 'off-balance sheet' / 'off-credit' treatment for LAs

- Given the significant development already undertaken, with the requisite local government support it is anticipated that the RAS could be established within a 12-18 month timeframe

- In outlining his support, the Minister for Local Government has recommended that, to enable his officials to move quickly in August 2025, the Steering Group undertakes significant further development

- The proposed workstreams through the remainder of 2025 are as follows:



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8. Support and funding commitment required

In order to undertake final development in conjunction with government officials, support and additional funding commitment from local government is required

- As outlined, RAS would be a national service available to all LAs and ratepayers, providing services that will enhance LA funding and financing options and delivery of a range of desirable policy outcomes for ratepayers. In addition, analysis indicates RAS could provide very strong commercial returns to its shareholders
- $2.5 million (incl. 20% contingency) in "at risk" development funding is estimated through until a "stop/go" decision in Q4 25
- Assuming a "go" decision – it is estimated ~$30 million in total equity will be required (including the $2.5m in development funding), covering commercial, legal, accounting, tax, IT and recruitment advice during the development and establishment phase (~$10m) + the IT system and allowance to cover operating deficits while RAS reaches scale and financial breakeven (~$20m). This equity requirement will be confirmed during final development
- All development funding will qualify as equity and is included in the estimated total equity requirement
- The opportunity for councils is to be part of the group of funding councils:
  - Sufficient funding is required to move forward, without it the RAS will not proceed, but no funding will be spent until commitments from councils are received for the total estimated funding costs
  - A number of councils are intending to put the RAS proposal to their elected members in May / June 2025 seeking a decision regarding support and funding commitment – Auckland Council has already confirmed its support to provide $600k of the required development funding
  - It is intended that funding councils will make meaningful funding contributions and provide an in-principle indication of their willingness to use RAS and subscribe for equity at its establishment
- To encourage early participation and to minimise free-riding, governance arrangements have been proposed outlining decision rights for the funding councils – the "RAS Governance Group" (see Appendix). The RAS Governance Group may receive advantageous subscription terms based on the timing of funding provided – e.g.:
  - All funds provided by members of the RAS Governance Group during the development and establishment stages will be recognised in their RAS shareholding when the entity is established (including any funding already provided to enable the RAS development to date)
  - An incentive arrangement may be applied for the funding provided at earlier stages of the process – e.g. 2 shares for every $1 early funding provided

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9. What to do next if you are interested

Timing is critical, local government funding needs to be confirmed by the end of June in order to undertake the development work to be ready to engage with officials in August – without funding, the RAS will not proceed

- If you are interested in understanding more about the RAS and deciding whether your council wishes to support RAS and potentially provide funding, please contact:

Hugo Ellis	**Scott Necklen**	**Mark Butcher**
Partner	**Deputy CE**	**Chief Executive**
Cameron Partners	**LGNZ**	**LGFA**
hugo.ellis@cam.co.nz	Scott.Necklen@lgnz.co.nz	mark.butcher@lgfa.co.nz
021 608 346	**029 924 1210**	**021 223 6573**

- The RAS team is available to work with you as required, including presenting to elected members and executives
- In addition, significant development work has already been completed, and extensive analysis and materials are available including the original comprehensive business case completed in late 2022 (which will be updated during the next stage) and a generic council paper outlining the RAS opportunity

Appendix – Proposed governance during development

1. Members of the RAS Governance Group will comprise:
   - Local Government New Zealand (LGNZ)
   - Local Government Funding Agency (LGFA)
   - Rewiring Aotearoa (RA)
   - Local Authorities (LAs) who are funding the development of the RAS

2. It is possible that the Governance Group may expand overtime - eg:
   - Additional LAs may wish to join as funding LAs (the LGFA establishment process commenced with five funding LAs and at establishment this had increased to 18 LAs + central government)
   - Central government provides funding
   - Potentially other stakeholders may provide funding

3. It is expected that LGFA and LA members of the RAS Governance Group will form some or all of the shareholders of the RAS at its establishment (central government and other LAs that are not members of the RAS Governance Group may also be invited to be shareholders)

4. To encourage early participation in the RAS Governance Group and to minimise free-riding, members of the RAS Governance Group may receive advantageous subscription terms based on the timing of funding provided. For example:
   - All funds provided by members of the RAS Governance Group during the development and establishment stages will be recognised in their RAS shareholding when the entity is established (including any funding already provided to enable the RAS development to date)
   - An incentive arrangement may be applied for the funding provided at earlier stages of the process

5. A subset of the RAS Governance Group will be known as the Steering Group

6. The rationale for the Steering Group is to ensure a small group of Governance Group members are able to make day-to-day decisions required to ensure the process can advance in an efficient manner

7. The Governance Group will:
   - Work together to make strategic decisions relating to the development, establishment and ongoing operations of the RAS and the policies and policy criteria that the RAS will support (for example the economic and decision rights attached to RAS shareholdings and the qualifying criteria for various RAS products such as rates postponement)
   - Collectively make stop-go decisions (although individual members may also decide not to proceed)
   - Delegate authority to the Steering Group to make day-to-day decisions including committing to costs to be borne by the RAS Governance Group within a pre-agreed budget
   - Make decisions by way of a simple majority

8. The Steering Group will comprise a smaller group of personnel appointed by the Governance Group and will:
   - Have responsibility for day-to-day oversight of the development and establishment process
   - Meet on a regular basis (e.g. weekly) and as required with Cameron Partners (the Lead Advisor) and other advisors to make day-to-day decisions
   - Update the Governance Group and other stakeholders, such as central government (e.g. the minister and / or officials) on a regular basis (e.g. every 4 to 6 weeks) and more often as appropriate
   - Seek decisions on strategic matters from the Governance Group
   - In the first instance, represent the RAS Governance Group in its engagement with other parties
   - Comprise representatives from no more than two LAs, LGNZ, LGFA and RA

9. At this stage, in order to progress the establishment of the RAS Governance Group a Steering Group has been formed comprising LGNZ, LGFA and RA

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RAS

LOCAL GOVERNMENT

Ratepayer Assistance Scheme

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Attachment B: Slide Deck

RAS
LOCAL GOVERNMENT
Ratepayer Assistance Scheme

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme

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

Kō tātou. LGNZ.

RATEPAYER ASSISTANCE SCHEME

THE OPPORTUNITY FOR LOCAL GOVERNMENT

Executive summary

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme

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

Kō tātou. LGNZ.

RAS would significantly enhance LAs' funding and financing toolbox

- The RAS has been developed by LGNZ, LGFA, a group of metro councils and Cameron Partners to address a range of economic and social issues
- RAS supports councils to support their ratepayers with the affordability of LA charges by providing flexibility as to the timing of payments and very low cost financing
- The RAS would be owned by LAs, off-balance sheet and can be used to finance Development Contributions / Levies, Property Improvement Loans and Rates Postponement
- The Minister has confirmed he is supportive, instructing his officials to initiate work on the RAS in August, and has recommended that local government undertakes further and final development work
- To undertake final development requires additional funding from the sector of $2.5 million (without this the RAS will not proceed)

1. The RAS Opportunity

RAS has been developed to address a range of economic and social issues

- NZ is experiencing a cost-of-living crisis, an ageing population and must invest to meet infrastructure, H&S and environmental requirements
- Local government is responding but it needs additional tools to ensure its policies can be financed, administered efficiently and are effective
- The RAS:
  - Addresses ratepayer affordability
  - Provides ratepayers with flexibility to decide when to pay LA charges
  - Provides very competitive finance terms
- Multiple applications are possible:
  1. **Deferred Development Contributions / Development Levies**
  2. **Property Improvement Loans (PILs)**
  3. **Rates Postponement (RP)**

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1. The RAS Opportunity

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme | LGFA New Zealand Local Government Funding Agency Te Pūtea Kāwanatanga ā-rohe | Kō tātou. LGNZ.

Government is supportive and has recommended further development

- The RAS is similar to the LGFA – it:
  - Utilises the strength of a LA rates charge to provide security
  - Achieves scale across the sector
  - Accesses very low cost financing and passes this on to ratepayers
- RAS lends directly to ratepayers (whereas the LGFA lends to LAs)
- The RAS would be a new entity owned by LAs, providing a national shared service available to all LAs – it would:
  - Undertake administration of ratepayer loans
  - Be off-balance sheet for LAs
- The Minister for Local Government is supportive of the RAS and has instructed officials to commence policy work on the RAS in August 2025
- A final stop / go decision in late 2025 is being targeted
- The sector needs to confirm its support and funding for final development

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2. Deferred DCs / DLs

Deferred DCs / DLs would spread the cost over say, 30 years, supporting development

- DC costs are significant, 2026 annual plans indicate $700 million nationally
- The DLS is expected to enable LAs to raise more revenue to fund growth
- BUT the DLS, supply chain issues and inflation pressures means developers would need to pay more → affordability concerns and risk to developments
- The RAS would be able to effectively convert upfront DCs / DLs into series of annual payments over say 30 years (paying the upfront DC / DL to the LA and charging the property owner principal and interest annually to get repaid)
- Developers would have the option to pay in full or defer
- Future owners would expect to pay less for properties with deferred DCs / DLs to reflect the RAS levies that would be charged in future
- A property purchaser would have the option to require the outstanding RAS levies to be repaid by the seller prior to them taking ownership

3. Property Improvement Loans

The RAS can finance and administer loans to ratepayers for property improvements

- Current legislation enables LAs to provide financing to ratepayers that can be repaid via a voluntary targeted rate
- PILs support ratepayers to invest in their properties to achieve desirable private and public benefits
- Potential examples, include home insulation, heat pumps, double glazing, earthquake strengthening, solar panels, water tanks, septic tanks, EV chargers, stock exclusion fencing, sea walls
- Current PILs usage across most LAs is low:
  - PILs must be financed out of LAs' existing financing capacity
  - LAs have encountered operational and regulatory challenges
- RAS :
  - Can undertake all administration of loans
  - would be 'off-balance sheet' for LAs
  - Provide competitive financing options (~1% – 1.5% below standard mortgage rates)

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4. Rates Postponement

RP allows qualifying ratepayers to defer rates and pay on sale of their property

- RP provides flexibility to ratepayers (like a reverse equity mortgage) to decide to pay LA charges at some time in the future, partially mitigating:
  - Affordability issues
  - Demographic changes
  - General cost of living challenges
- In principle all LA charges could be deferred in the same way
- RAS RP is an opportunity for a standardised, highly efficient national RP scheme at very competitive financing rates (~1% – 1.5% below standard mortgage rates; ~4% to 5% below reverse mortgage rates)
- British Columbia, Canada (population ~5 million) has a property tax regime similar to New Zealand's rating system providing strong insights – in 2024:
  - 83,000+ users
  - ~C$2.7 billion in loans (4x growth from ~C$670 million in 2016)
  - ~3.9% of British Columbia households

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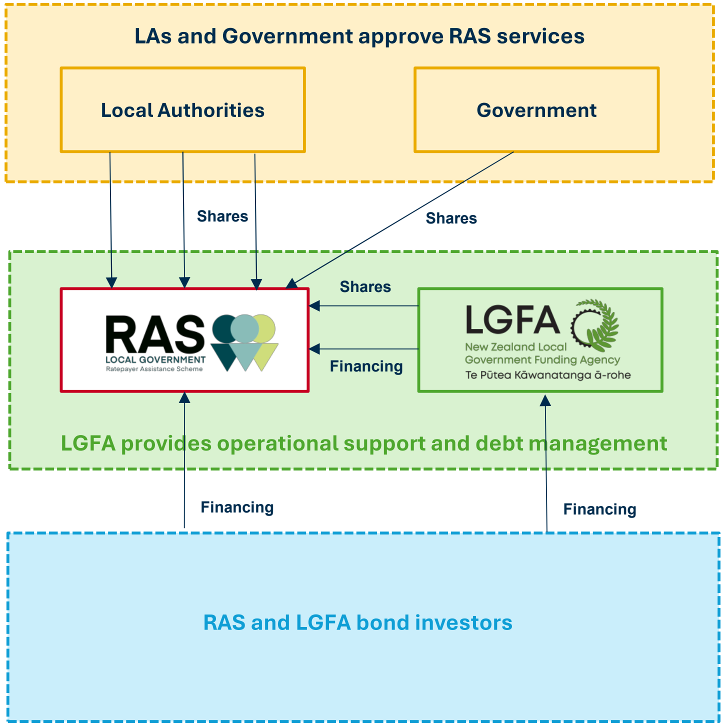
5. What it is and how it works

Structurally the RAS has many similarities to the LGFA – it would be owned by LAs, LGFA and government, providing services to LAs and their ratepayers



- The RAS would be a new entity (a CCO)
- It would have no discretion – all its services would be approved by LAs and central government
- All LAs would be able to use the services of the RAS, subject to meeting RAS's membership requirements – e.g. IT interface, invoicing, collections, security requirements
- LGFA would have a critical role with RAS, providing financial and operational support (on a commercial contractual basis)
- LGFA board has approved (subject to LGFA shareholder approval)
    1. Ownership (up to ~20% of RAS shares)
    2. Debt facility
    3. Preference shares investment
    4. Shared services arrangements
    5. Management of the RAS bond programme

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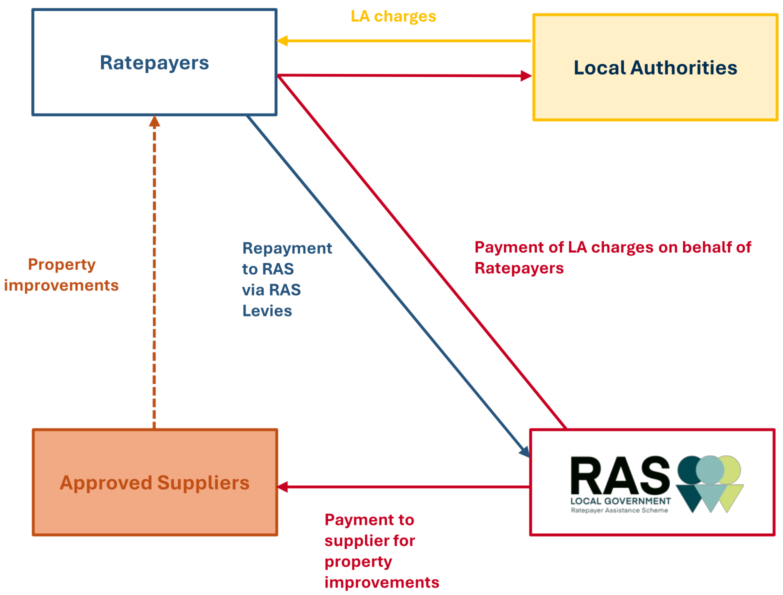
5. What it is and how it works

The RAS effectively does what LAs can and already do, but does it more efficiently and effectively, taking on the administrative burden and risk while being off-balance sheet



- The RAS would have the power to impose a levy charge equivalent to a rate and obtain a very high credit rating
- LAs would opt-in and ratepayers would also opt-in
- The interface between LAs, RAS and ratepayers would be as seamless as possible – eg with RP or deferred DCs/DLs:
  - Ratepayers would “apply” through the LA’s website
  - The application would go directly to RAS for processing
  - Once approved, payment of the rate charge or DC / DL would be made to the LA by the RAS
  - The RAS would levy the ratepayer to obtain repayment
  - The RAS levy would be separately itemised on the LA’s rates invoice, collected by the LA and then distributed to RAS
- In the case of PILs the process would be the same except that RAS would make payment to the approved supplier of the property improvement

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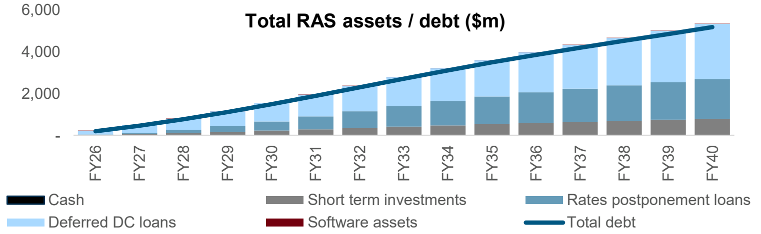
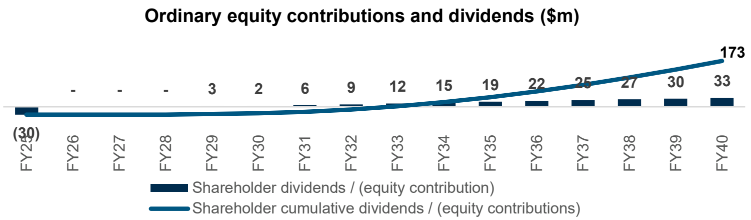
6. RAS financial business case

Strong commercial returns may be available to shareholders

- The base case scenario is considered conservative – it assumes:
  - Deferred DC / DLs uptake of 25% of new DCs from FY26
  - No PILs
  - RP uptake of 3.0% is achieved by FY34
- The next stage of development would firm up these assumptions
- The economics of RAS rely on it achieving scale so that it can cover its operating costs:
  - The modelling assumes that the RAS net margin is 1%
  - Surplus cashflow is available to distribute to shareholders
- The base case scenario indicates:
  - Equity of ~$30 million is required
  - Breakeven is achieved in year 4
  - Full "payback" of initial investment in year 8
  - An annual dividend yield of over 100% by year 15





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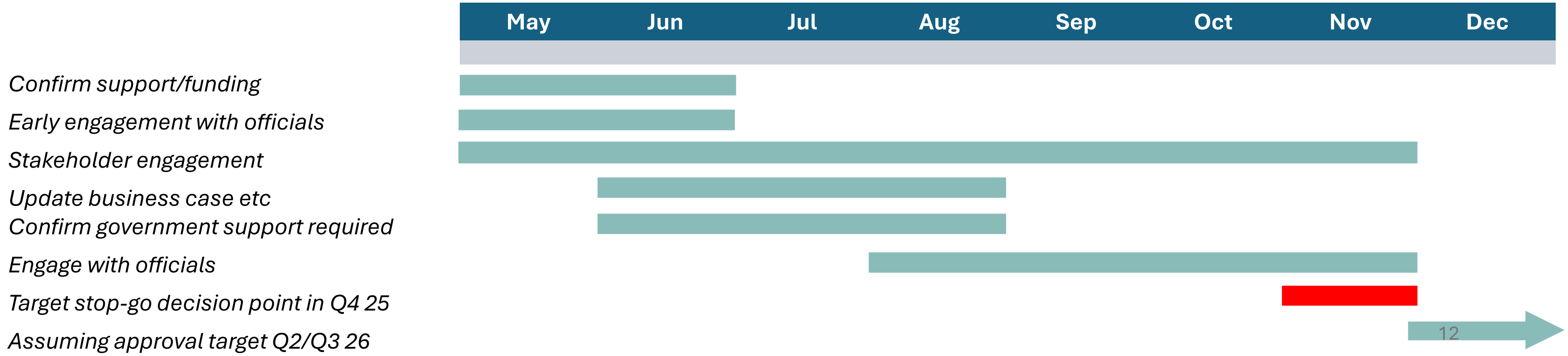
7. Development to date and next steps

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme | LGFA New Zealand Local Government Funding Agency Te Pūtea Kāwanatanga ā-rohe | Kō tātou. LGNZ.

Development of the RAS has been overseen and funded by a Steering Group – final detailed development is now required to facilitate a "stop-go" decision

- The RAS Steering Group has comprised LGNZ, Auckland Council, Hamilton City Council, Tauranga City Council, Wellington City Council, Christchurch City Council, LGFA and RA
- The Steering Group has been supported by a suite of advisors who have each undertaken significant work to date, including Cameron Partners, Russell McVeagh, PWC (accounting and tax) and S&P
- In outlining his support, the Minister has recommended that, to enable his officials to move quickly in August 2025, the Steering Group undertakes significant further development (establishment could occur within 12-18 months)



8. Support and funding commitment required

In order to undertake final development in conjunction with government officials, support and additional funding commitment from local government is required

- $2.5 million (incl. 20% contingency) in "at risk" funding is estimated through until a "stop/go" decision in Q4 25
- Assuming a "go" decision ~$30 million in total equity is estimated - this equity requirement would be confirmed during final development
- Development funding would qualify as equity (included in est. equity requirement)
- The opportunity for councils is to be part of the group of funding councils
- Without funding the RAS will not proceed
- No funding would be spent until commitments from councils are received for the total estimated funding costs
- To encourage early participation and to minimise free-riding, the funding councils will "call the shots"

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RAS
LOCAL GOVERNMENT
Ratepayer Assistance Scheme

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11.7 Ratepayer Assistance Scheme

File Number: **A15267501**

Author: **Frazer Smith, Manager: Strategic Finance & Growth**
Jim Taylor, Manager: Rating Policy and Revenue

Authoriser: **Paul Davidson, Chief Financial Officer**

PURPOSE OF THE REPORT

1. To seek Council's in-principle support for establishment of the Ratepayer Assistance Scheme (RAS), subject to commitment from other key stakeholders, final development and due diligence, and approve Tauranga City Council's contribution of up to $600,000 (including $100,000 initially) to fund the final development

RECOMMENDATIONS

That the Council:

(a) Receives the report "Ratepayer Assistance Scheme".

(b) approve up to $600,000 unbudgeted loan funded development funding to support final development of the Ratepayer Assistance Scheme subject to:

(i) total development funding of $3 million (including Tauranga City Council's contribution) being committed from other local authorities and / or central government; and

(ii) central government indicating its support for final development of the Ratepayer Assistance Scheme (including acknowledging the need for enabling legislation).

(iii) That any funding contribution is recognised as part of the equity contribution referred to below in resolution (d)

(c) Approve $100,000 unbudgeted loan funded expenditure to be available out of Tauranga City Council's contribution to final development funding not subject to conditions a) i) and a) ii) above to enable the Steering Group to facilitate those conditions being satisfied.

(d) note that total Ratepayer Assistance Scheme establishment capital is estimated at up to $25 million and that Tauranga City Council's contribution of Ratepayer Assistance Scheme could be up to $5 million (20 per cent of total capital), subject to further approval by Council and the governing body of the entity.

(e) Approve the inclusion of an additional $5m loan funded expenditure in the Long Term Plan subject to all conditions of the establishment of the Ratepayer Assistance Scheme being met.

(f) note that total Tauranga City Council's funding contribution to date and any further final development funding will count as establishment capital in the event it chooses to participate in the establishment of the Ratepayer Assistance Scheme

EXECUTIVE SUMMARY

2. Tauranga City Council along with a group of other metro councils, New Zealand Local Government Funding Agency (LGFA) and Local Government New Zealand (LGNZ) (the steering group) have developed a scheme (the RAS) that is able to provide very low-cost financing to ratepayers to support:

- existing local government policies that involve the LA effectively lending money to ratepayers (such as rates postponement and retrofit home insulation loans);
- new, flexible funding products; and
- new property improvement loans which provide public and private benefits.

3. The RAS itself and the development process is based heavily on the LGFA, taking advantage of the benefits scale and specialisation. It would be:
   - off-balance sheet and be an operational organisation only with no discretion in what it could lend money for (which would be dictated by local authorities (LAs) and central government); and
   - a flexible omnibus platform with multiple applications possible. The focus has been on - rates postponement (RP); deferred development contributions (DCs) and property improvement loans (PILs).
4. Significant work has been undertaken developing the RAS by the steering group supported by Cameron Partners (project leadership and commercial advice), Russell McVeagh (legal advice on structure and operating requirements) and PwC (accounting and tax advice). While there are complex issues to address no insurmountable red flags have been raised. Among other things, the RAS will require establishment capital estimated of up to $25 million from central government and LAs and enabling legislation.
5. Final development of the RAS requires in-principle support for the RAS from key stakeholders (Tauranga City Council and the other Steering Group Governing Bodies and central government), the enactment of enabling legislation from central government and the provision of development funding (estimated at $3 million in total and included in the $25 million estimate above).
6. With appropriate support from central government and other LAs it is estimated that the RAS could be established in approximately 12 to 18 months.

BACKGROUND

7. New Zealand is facing a range of challenges including the cost of living crisis, changing demographics (in particular the growing cohort of elderly New Zealanders on fixed incomes), the infrastructure deficit, the quality and health / safety of homes, the housing deficit, climate change impacts and decarbonisation of the economy.
8. Tauranga City Council and other LAs have a critical role to play addressing these challenges:
   - as organisations delivering critical services and infrastructure;
   - by supporting ratepayers themselves to directly address the challenges that affect them; and
   - providing flexibility in the way ratepayers choose to pay LA charges to meet LAs’ funding requirements.
9. In this regard, a group of metro councils (Auckland Council, Hamilton City Council, Tauranga City Council, Wellington City Council, Christchurch City Council), LGNZ and LGFA have formed a Steering Group to develop a scheme that is able to provide low-cost financing to ratepayers for approved purposes, including:
   - existing local government policies that involve the LA effectively lending money to ratepayers (such as rates postponement and retrofit home insulation loans), but doing it off-balance sheet;
   - new, flexible funding products; and
   - new property improvement loans which provide public and private benefits.

10. LAs, including Tauranga City Council, individually lack the scale and capabilities to administer these ratepayer loans efficiently and effectively, and generally, do not have the financial capacity to do so, given their constrained balance sheets.

The Ratepayers Assistance Scheme (RAS)

11. The RAS would be a national shared service available to all LAs.
12. The RAS would be structured much like the LGFA to get the benefits of scale (see appendix for a diagram setting out its workings) – it would:
    (a) be a new entity, owned by LAs and central government (a council controlled organisation);
    (b) have the power to impose a ‘rate-like’ / levy charge ranking ahead of mortgages to ensure it gets repaid (enabling it to achieve a very high ‘government’ credit risk weighting – broadly in-line with the LGFA);
    (c) raise low-cost, long-term financing from the debt capital markets (through an out-sourcing arrangement with LGFA) and pass this on to ratepayers at interest rates expected to be 1 – 1.5 per cent below standard mortgage rates;
    (d) be off-balance sheet for LAs;
    (e) undertake all the operational requirements associated with the ratepayer loans through an “IT heavy” platform (to minimise costs and benefit from economies of scale); and
    (f) be an operational organisation only with no discretion in what it could lend money for, which would be dictated by LAs and central government.
13. The use of the RAS would be optional for qualifying ratepayers.
14. The operations and processes of the RAS would be structured so that there is a seamless interface with LAs - ratepayers would access RAS loans through their LA.
15. It is likely that LAs would include the RAS levy as an item on their rates invoices and act as collection agent. It is also likely that the RAS levy would rank equally with LA rates so the RAS would piggy-back on the LAs default/arrears processes. LAs would likely cover the administration costs incurred with these processes (in exchange for the benefits of being able to offer these arrangements to our ratepayers).
16. The RAS levy would be reflected as a charge on the property title (as per a mortgage). Any charge on the title would be dealt with during the conveyancing process when a property is sold.

Uses of the RAS

17. The RAS would be a flexible omnibus platform and multiple applications are possible (essentially any loan to property owners that LAs / central government decide to make).
18. To date the focus has been on three applications:
    (a) rates postponement (RP)
    (b) deferred development contributions (DCs)
    (c) property improvement loans (PILs)
19. In principle, the RAS could also be applied to other property related taxes and imposts including Infrastructure Funding and Financing (IFF) levies and Value Capture Taxes (VCTs).

Rates Postponement

20. RP provides flexibility regarding the timing of payments for LA charges and could be a valuable tool for LAs and option for ratepayers given:
    - there is a major demographic change underway in New Zealand (increasing elderly population with fixed incomes);

- New Zealanders are facing cost-of-living challenges;
- LA rates are increasing significant, 5 to 10 per cent per annum increases are not unusual; and
- other charges (e.g. water levies, IFF levies and VCTs) are likely to increase over time.

21. The RAS would make the equivalent payment to LAs upfront on behalf of the ratepayer and get repaid from the proceeds on the sale of the property.
22. RP operates like a reverse mortgage but at significantly lower cost (negligible fees and interest rates ~4-5 per cent lower). There are two reverse mortgage providers in the New Zealand market, Heartland Bank and Southland Building Society.
23. The Productivity Commission has recommended a national RP scheme and we understand that Grey Power supports the establishment of the RAS.
24. Central Government's rates rebate scheme (RRS) provides a direct subsidy of $60+ million per annum to 100,000+ ratepayers. We understand officials consider the scheme to be poorly targeted and that many users of the RRS could be candidates for RP, freeing the RRS for more appropriate beneficiaries.
25. British Columbia (population c.5.2 million) in Canada has had a successful Property Tax Deferral Scheme for many years – with 74,500+ users, NZ.$2.1 billion in loans in 2022 (it has almost tripled in size from ~NZ.$739 million in 2016 and now includes ~3.5 per cent of British Columbia households).
26. Many LAs already have RP policies in place with low uptake (although this is thought to be due to a combination of factors including low awareness, relatively high interest rates and "clunky" application processes).

Deferred Development Contributions

27. There has been significant inbound inquiry to LAs regarding alternative funding mechanisms to upfront DCs.
28. The RAS could provide an alternative to upfront DCs by making the one-off payment required to LAs and converting it into a rate like charge against the property. The targeted rate would be paid by the future property owner(s) to the RAS via an annual charge over ~30 years or alternatively fully repaid on sale of the property by the seller at the discretion of the buyer.
29. It is expected that buyers will pay a lower price because of the rate they will have to pay over time. This is likely to have an impact on the developer that is equivalent to the cost of if the developer paid a DC. However, it will reduce the cashflow demands on the developer. It will be financed at lower cost than the interest a developer would get from a bank. Lower financing demands on developers will have a marginal positive impact on development.
30. DCs in New Zealand total ~$600 million per annum (and it is expected that a large proportion of developers would take advantage of a deferred DC offering).

Property Improvement Loans

31. Current legislation facilitates LAs providing financing to ratepayers that can be repaid via voluntary targeted rates. Tauranga City Council currently does not have any of these schemes in place, due to the high cost of administration and the relatively low take up observed in Council's that have offered this service.
32. In principle, PILs could be utilised to support a wide range of policy goals including:
    - improving housing quality – e.g. insulation, heat pumps, double glazing
    - developing infrastructure that mitigates the impacts of climate change – e.g. community seawalls, flood protection
    - supporting de-carbonisation efforts – e.g. solar panels, EV chargers, home batteries

- enhancing the health and safety of homes – seismic strengthening, chimney removal, septic tanks replacement, water storage tanks and waterway fencing

Development to date

33. Significant work has been undertaken developing the RAS by the steering group supported by Cameron Partners, Russell McVeagh and PwC.
34. RAS development has been based on the establishment process for the LGFA which incorporates a number of stage gates - seeking to progressively identify key issues, confirm RAS viability and test interest from key stakeholders.
35. The most recent stage completed has involved:
    (a) detailed financial analysis incorporating scenario analysis with assumptions based on objective data, precedents and expert input; and
    (b) legal, accounting and tax red flags review.
36. To move forward requires support from Tauranga City Council, other key LAs and central government and funding commitment for the final development phase. While no firm commitment would be required at this stage (which would be subject to final due diligence) moving forward would be with an expectation of subscribing for shares in the RAS at its establishment.
37. Given the level of development already completed it is thought that with appropriate support from LAs and central government that the RAS could be established within 12 – 18 months.

Commercial analysis

38. To provide insight, Cameron Partners has developed an operating model, detailed business case and built a comprehensive financial model analysing multiple scenarios based on objective data and input from Steering Group members (in particular LGFA), the British Columbia Property Tax Deferment Scheme team, and IT service providers (IT costs and system requirements).
39. The scenarios analysed cover various combinations of RAS products and levels of uptake by ratepayers.
40. The basic economics of the RAS are that it will generate a net interest margin of ~1 per cent (i.e. it will make loans to ratepayers at ~1 per cent above what it borrows at). Ultimately its net interest will need to cover its operating costs in order to breakeven (e.g. if operating costs are $5 million per annum the RAS requires a loan book of $500 million to breakeven).
41. This can be achieved across all the products that the RAS offers and various data points support the RAS reaching breakeven in a relatively short timeframe (e.g. the British Columbia scheme has ~NZ.$2.1 billion in loans (growing at ~c.$250 million per annum); nationwide DCs total ~$600 million per annum; RRS supports >100,000 ratepayers).
42. Based on the analysis reviewed, it is expected that the RAS will be able to generate a surplus and provide a strong return to its shareholders. The Base Case RP and Deferred DC scenario indicates breakeven after three years and initial equity fully paid back after six years.
43. Funding from both central government and LAs will be required to capitalise the RAS at establishment.
44. It has been assumed that c.$25 million will be required from founding shareholders. The proposed $25 million (which includes ~$3 million for the final development before share capital is subscribed for):
    - is a “catch all” amount (covering all transaction / establishment costs and initial operating losses before scale is achieved) on the basis that it is better to be over-capitalised rather than under-capitalised and need to go back to LAs for additional capital; and
    - is based on a RP and deferred DC scenario and is considered to be conservative.

45. The funding recommended through this report and any further development funding provided by Tauranga City Council (and other LAs) would count as establishment capital.
46. The steering group (as sponsors and original funders) will be able to set the terms of any establishment capital to compensate those LAs providing early funding for the development risk being taken and to mitigate the "free rider" risk of other LAs delaying their commitment.
47. Once breakeven is achieved surplus capital could be distributed back to shareholders. Analysis also indicates that large surpluses could be achieved and used to either:
    (a) provide returns to shareholders (the return on investment is potentially very high); and / or
    (b) reduce the interest rate charged to ratepayers even further.
48. The establishment capital will be provided by all shareholders at establishment. There is a constraint on the investment of any single investor at 20 per cent of total capital (otherwise there is a risk that the RAS will be on-balance sheet for that investor) - so individual shareholders can take up to $5 million of the proposed $25 million capital.
49. The actual amount invested will depend on individual appetite and level of interest from other LAs (Attachment B shows the breakdown of LGFA shareholders at establishment).
50. As with LGFA there is merit in getting the widest shareholding spread possible to support uptake. Notwithstanding some members of the steering group have indicated a preference to limit the shareholders given the high potential returns and the investment / risk capital already put in by the current group warranting a preferential position.
51. In addition to share capital the RAS will benefit from additional funding support from central government in the form of preference shares that are subscribed for / repaid as the RAS balance sheet changes in size (in much the same way as Borrower Notes work for LGFA).
52. LAs will also provide limited joint and several guarantees in proportion to their ratepayers' use of the RAS (based on the limited joint and several guarantee that LAs provide to the LGFA).

Legal advice

53. Legislation will be required to enable the RAS to have the powers to impose a "rate-like" levy and navigate Credit Contracts and Consumer Finance Act 2003 (CCCFA) issues.
54. Russell McVeagh has advised that there are strong precedents for the required legislation provided by the LGFA and IFF respectively and consequently this won't involve "breaking new ground" and that there is a strong case for CCCFA exemptions in regard to RP and deferred DCs (which is simply changing the timing of payment of LA charges).

Accounting and tax advice

55. PWC has identified accounting and tax issues that will need to be addressed / confirmed including off-balance sheet treatment, guarantees being recognised as liabilities, income tax exemption and potential technical RAS insolvency from an inability to recognise multi-year levies.
56. PWC notes that none of the issues identified are considered insurmountable and would be resolved through an iterative process in final design / development.

Climate Change Impact

57. PILs would be approved for purposes that have both private and public benefits and could include climate change related policy initiatives (e.g. solar panels, home EV chargers, home insulation and window double glazing) and initiatives to mitigate the impacts of climate change (e.g. seawalls, retaining walls and other required infrastructure)

STRATEGIC / STATUTORY CONTEXT

58. The RAS proposal has the ability to mitigate, for qualifying ratepayers, the ongoing impact of likely rates and DC increases as Council moves to meet increasing infrastructure, environmental and health and safety requirements.
59. It is expected to provide additional choice to ratepayers in how they meet these obligations.
60. There are no direct impacts on Council's Funding and Financing Policies.

OPTIONS ANALYSIS

61. There are no significant options besides investing or not investing in the RAS. We do note that the RAS has been under development for many years and Tauranga City Council has been a key supporter over that time. It is not known when the opportunity to act may come again.

FINANCIAL CONSIDERATIONS

62. The RAS will be off-balance sheet and off-credit so there will be no balance sheet implications for Tauranga City Council from its ratepayers using RAS products.
63. In principle, Tauranga City Council could transfer existing DC deferments to the RAS, potentially releasing ~$5 million for debt reduction and improving council's debt to revenue ratio.
64. Tauranga City Council would no longer require "in-house" capacity and capabilities to administer deferred DCs.
65. Additional funding from Tauranga City Council will be required to support the further development and establishment of the RAS. In total ~$3 million across all funders is estimated to be required to complete development before a final decision to proceed with establishment is made. Total establishment capital is conservatively estimated to be $25 million across all shareholders and could be structured so that this amount is repaid from any RAS surpluses and / or to provide an ongoing return on investment.
66. The maximum quantum for an individual shareholder is limited to $5m and the amount will depend on the level of interest from other shareholders and Tauranga City Council's investment appetite.
67. Funding for the RAS is currently unbudgeted and would need to be funded from budget reprioritisation or additional debt. This is proposed to be included in the 2024/25 LTP for up to $5M of RAS funding (less immediate funding). This would be loan funded (as it is expected to transfer into equity).

LEGAL IMPLICATIONS / RISKS

68. The current stage gate in the RAS development process involves confirmation of central government and sufficient LA support to move to final development.
69. Confirmation of sufficient support is expected to be an iterative process as LAs look for leadership from central government and the larger metros.
70. It would be possible for Tauranga City Council to commit to a proportion of the up to $5 million funding required for final development on certain conditions – e.g. central government support for legislation and sufficient funding being obtained from other LAs.

Lack of demand

71. To be economically successful and sustainable the RAS will require ratepayers to use it.
72. Launching the RAS with both RP and deferred DCs as core products will maximise the likelihood of the RAS achieving breakeven in a reasonable timeframe.
73. Central government and LAs will be able to influence demand through policy support and raising awareness of RAS products through websites, invoices etc. In this regard a wide spread of LA supporters is preferable. Longer term, word of mouth is expected to underpin awareness and normalise use of RAS products.

Loan defaults

74. As with all financing arrangements there is risk of loan defaults.
75. Notwithstanding, full recovery of ratepayer loans is almost certain due to minimum equity requirements, property insurance requirements and the "super senior" ranking of RAS levy charges.
76. In addition, there are multiple safeguards in the RASs proposed capital structure and guarantee and liquidity arrangements to protect the RAS from default (in a similar manner to how the LGFA operates).

Operating costs higher than forecast

77. The most material cost item over which there is the greatest uncertainty is IT.
78. Significant independent IT input has been received during the detailed development stage.
79. IT procurement confirmation will be a key workstream during the next final development phase.

Legislation

80. Central government's willingness to support the required legislation will be implicit in its support for the RAS in general. This is a critical stage gate before further development of the RAS would occur and funding would be required from Tauranga City Council

CONSULTATION / ENGAGEMENT

81. At this stage there is no specific consultation required or recommended.

SIGNIFICANCE

82. 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.
83. 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 Choose an item..
    (c) the capacity of the local authority to perform its role, and the financial and other costs of doing so.
84. In accordance with the considerations above, criteria and thresholds in the policy, it is considered that the decision is of low significance.

ENGAGEMENT

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

NEXT STEPS

86. Should Tauranga City Council approve the recommendations in this report, the next steps are:
    (a) Steering Group LAs confirm their support and funding for final development of the RAS on similar terms as approved by Tauranga City Council (although $ contributions could vary)

(b) Steering Group LAs approach central government (via the Steering Group) seeking to confirm its in-principle support for the RAS including a willingness to support the required legislation

87. Assuming central government support is obtained:

- the Steering Group commences final development of the RAS
- Central Government commences (amongst other things) preparation of legislation required to enable the RAS

ATTACHMENTS

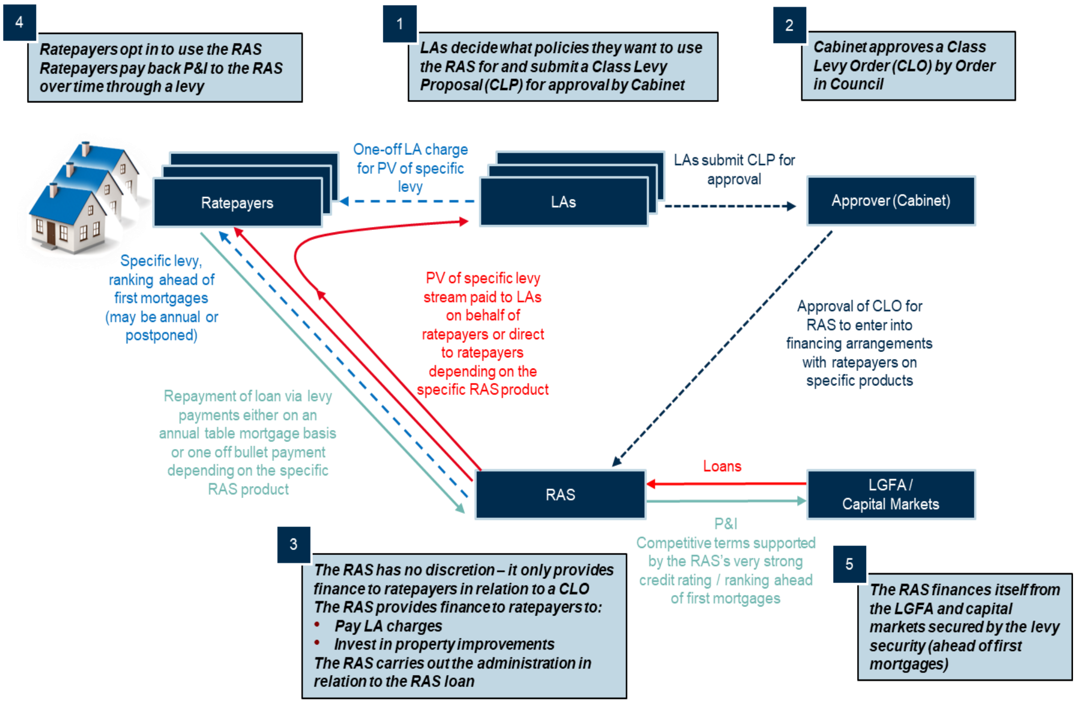
Nil

Attachment A - RAS diagram

Attachment B - LGFA shareholders at establishment

Attachment A - RAS diagram

RAS – key stakeholders and workings



Attachment B - LGFA shareholders at establishment

Shareholders	Paid Shares	Unpaid shares
NZ Government subscription	$ 5,000,000	
Auckland Council	$ 2,000,000	$ 2,000,000
Bay of Plenty Regional Council	$ 2,000,000	$ 2,000,000
Christchurch City Council	$ 1,999,999	$ 2,000,000
Hamilton City Council	$ 2,000,000	$ 2,000,000
Hastings District Council	$ 400,000	$ 400,000
Masterton District Council	$ 100,000	$ 100,000
New Plymouth District Council	$ 100,000	$ 100,000
Otorohanga District Council	$ 100,000	$ 100,000
Selwyn District Council	$ 200,000	$ 200,000
South Taranaki District Council	$ 100,000	$ 100,000
Tasman District Council	$ 2,000,000	$ 2,000,000
Taupo District Council	$ 100,000	$ 100,000
Tauranga City Council	$ 2,000,000	$ 2,000,000
Waipa District Council	$ 100,000	$ 100,000
Wellington City Council	$ 2,000,000	$ 2,000,000
Wellington Regional Council	$ 2,000,000	$ 2,000,000
Western Bay of Plenty District Council	$ 2,000,000	$ 2,000,000
Whangarei District Council	$ 800,000	$ 800,000
	$ 24,999,999	$ 20,000,000