

**I give notice that
an Extraordinary Meeting of Council will be held on:**

Date:	Tuesday, 12 November 2024
Time:	10.30am
Location:	Council Chamber 107 te Heuheu Street Taupō

AGENDA

MEMBERSHIP

Chairperson Mayor David Trewavas
Deputy Chairperson Cr Kevin Taylor

Members

- Cr Duncan Campbell
- Cr Karam Fletcher
- Cr Sandra Greenslade
- Cr Kylie Leonard
- Cr Danny Loughlin
- Cr Anna Park
- Cr Christine Rankin
- Cr Rachel Shepherd
- Cr Kirsty Trueman
- Cr Yvonne Westerman
- Cr John Williamson

Quorum 7

Julie Gardyne
Chief Executive

Order Of Business

- 1 Karakia
- 2 Whakapāha | Apologies
- 3 Ngā Whakapānga Tukituki | Conflicts of Interest
- 4 Ngā Kaupapa Here Me Ngā Whakataunga | Policy and Decision Making
 - 4.1 Local Government Funding Agency - 2024 Annual Meeting Matters3
- 5 Ngā Kōrero Tūmataiti | Confidential Business
 - Nil

4.1 LOCAL GOVERNMENT FUNDING AGENCY - 2024 ANNUAL MEETING MATTERS

Author: Jeanette Paenga, Finance Manager

Authorised by: Julie Gardyne, Chief Executive

TE PŪTAKE | PURPOSE

The purpose of this report is to seek Council's delegation to exercise its vote at New Zealand Local Government Funding Agency Limited's (LGFA) Annual Meeting to be held on Tuesday 19 November 2024 and provide voting instructions.

This report has been written following receiving the Annual Meeting documents from LGFA on 20 September 2024, which have been attached.

WHAKARĀPOPOTOTANGA MATUA | EXECUTIVE SUMMARY

LGFA is a Council-controlled organisation (CCO) owned 20% by Central Government and 80% by 30 local authorities, including Taupō District Council with a 0.4% stake.

LGFA's Annual Meeting will be held on 19 November 2024 in Wellington. The agenda includes financial statements, election of Directors, election of nominating local authorities to the Shareholders' Council, Directors' remuneration, changes to foundation policies, and general business.

Shareholders can attend and vote at the Annual Meeting or provide a proxy on their behalf. It is proposed Council's Finance Manager, Jeanette Paenga, will represent Taupō District Council at the Annual Meeting, it is worth noting Council's General Manager Organisation Performance, Sarah Matthews, will attend the meeting in her role as LGFA Future Director, not as a representative of Council.

LGFA's Shareholders' Council represents Council shareholders and advises on company performance, director appointments, and other shareholder matters. The Shareholders' Council have made recommendations on all Annual Meeting items and Council Officers recommend accepting their recommendations, except for those on foundation policy changes.

Council Officers acknowledge that some Councils in the sector require the additional debt headroom proposed through these recommended changes, and the bespoke covenant changes likely pose low risk to Council. However, Council Officers recommend that Council votes against the proposed changes because they are unlikely to be of benefit to Council or its ratepayers in the future. Additionally, Council Officers have concerns about the application of the National Policy Statement as a measure of criteria for bespoke covenants; the lack of limits or defined criteria in the foundational policies; and the possible increases in sector debt impacting Taupō District Council's credit rating.

NGĀ TŪTOHUNGA | RECOMMENDATION(S)

That Council:

1. Receives the New Zealand Local Government Funding Agency's 2024 Annual Report;
2. Delegates authority to Council's Finance Manager, Jeanette Paenga, to attend the Annual Meeting of the New Zealand Local Government Funding Agency Limited on 19 November 2024 in Wellington and vote on behalf of Council in line with resolution 4; and
3. Approves Council voting on the following resolutions and other matters (items a to e), as follows:
 - a) Votes for the adoption of the financial statements and auditors report, as per LGFA's Annual Meeting agenda item 1
 - b) Votes in accordance with the LGFA Shareholders Council recommendations in relation to Resolution 2: Election of Company Directors
 - i. To re-elect Alan Adcock as a non-Independent Director for an additional three-year term
 - ii. To re-elect Craig Stobo as an Independent Director for an additional three-year term
 - iii. To elect Elena Trout as an Independent Director for a three-year term
 - c) Votes in accordance with the LGFA Shareholders Council recommendations in relation to Resolution 3: Election of Nominating Local Authorities to the Shareholder's Council
 - i. To re-elect Auckland Council as a Nominating Local Authority to the Shareholders' Council
 - ii. To re-elect Wellington City Council as a Nominating Local Authority to the Shareholders' Council
 - d) Votes in accordance with the LGFA Shareholders Council recommendations in relation to Resolution 4: Directors' Remuneration
 - i. To approve the increases in Director fees payable, in each case with effect from 1 July 2024:
 - e) Votes against the LGFA Shareholders Council recommendations in relation to Resolution 5: Changes to the Foundation Policies
 - i. To decline the amendments to the Foundation Policies of the Company.

TE WHAKAMAHUKI | BACKGROUND

LGFA is a Council-controlled organisation (CCO), owned 20% by the Government and 80% by 30 local authorities. Taupō District Council has an ownership stake of 0.4%.

LGFA was established to provide councils with improved access to cost-effective long-term debt. It is a registered financial institution regulated by the Reserve Bank. Total loans made to local government as at 30 June 2024 equates to approximately \$20.5 billion. Together, Auckland Council and Christchurch City Council have 30% of the LGFA's issued debt, with the remainder shared between up to 75 other councils.

LGFA's Annual Meeting is to be held at the Bolton Hotel, 11 Bolton Street, Wellington on Tuesday 19 November 2024 commencing at 2.00pm. Attached are the Notice of Annual Meeting (Attachment 5) and the Annual Meeting agenda (Attachment 3).

LGFA Annual Report

LGFA's Annual Report has been provided to Council in advance of this meeting and is attached to this report (Attachment 7).

LGFA Board Composition

LGFA's Shareholder's Agreement provides that the Board may comprise between five and seven directors, with no less than five independent directors. Current board members are:

- Craig Stobo (Chair)
- Philip Cory-Wright
- David Rae
- Linda Robertson
- Alan Adcock, and
- Helen Robinson

Clause 3.3 of the Shareholder's Agreement states 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.

Independent Directors

In accordance with clause 3.3 of the Shareholder's Agreement, Craig Stobo retires by rotation and being eligible, offers himself for re-election as an Independent Director.

In accordance with clause 3.1 of the Shareholder's Agreement, the number of directors is proposed to be increased to the maximum number of 7. The Shareholders' Council and LGFA Board agree 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.

A biography is contained in Appendix 1 of Attachment 5, which is the Local Government Funding Agency Limited 'Notice of Annual Meeting'.

Non-Independent Directors

Alan 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 Shareholder's Agreement, Alan Adcock retires by rotation and offers himself for re-election as a non-independent director.

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

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. After a formal process to consider where to place their 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."

Biographies are contained in Appendix 1 of Attachment 5, which is the Local Government Funding Agency Limited 'Notice of Annual Meeting'.

LGFA Shareholders' Council Composition

Shareholder oversight is provided through a Shareholders' Council. The members are Auckland Council, Christchurch City Council, Hamilton City Council, Bay of Plenty Regional Council, New Plymouth District Council, Tasman District Council, Tauranga City Council, Wellington City Council, and Western Bay of Plenty District Council as well as the NZ Government (with oversight through the Ministers of Local Government and Finance).

This year Auckland Council and Wellington City Council retire by rotation and offer themselves for re-election.

Directors' Remuneration

Resolution 4 of the Annual Meeting, detailed in recommendation 4 of this agenda item 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 a 3% increase, which is just below the CPI to June of 3.3% of the Board fees that were set at the November

2023 Annual Meeting for 2023/24. The Shareholders' Council supports the annual Consumer Price Index (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 Annual Meeting.

Foundation Policies

Resolution 5 of the Annual Meeting seeks approval of amendments made to LGFA Foundation Policies. Clause 5.1(c) of the Shareholders Agreement 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 proposed amendments are required to be approved by an ordinary resolution, and the amendments are as follows:

- a) remove the "A" credit rating requirement so the higher borrowing limits are available to all rated councils (regardless of their ratings).**

This change is proposed to ensure that all rated Councils will benefit from the Foundation policy covenant, not just those who have a long-term credit rating above 'A'. LGFA notes that '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.'

- b) allow bespoke covenants up to 350% Net Debt: Total Revenue ratio for rated councils on a bespoke basis at the direction of the Board.**

This proposal is explained by LGFA as providing support for high growth councils or those that might urgently need to undertake unplanned borrowing (e.g. following a natural disaster). The expectation of LGFA Board is that approximately 5 Councils are expected to apply for the increased bespoke covenants (approximately 15% of total LGFA lending to councils), although the proposed wording in the foundation policies means that more may apply over time or as events happen. The Board's recommendation regarding this, is provided in explanatory note 5 to the Notice of Annual Meeting (Attachment 5)

The amended LGFA Foundation Policies with tracked changes is included as Attachment 2 of this agenda. The amended LGFA Foundation Policies with changes incorporated is included as Attachment 1.

NGĀ KŌRERORERO | DISCUSSION

Shareholders are entitled to attend and vote at the Annual Meeting, with a proxy form for voting to be sent to LGFA at least 48 hours prior to the Annual Meeting. The following matters are being considered at the Annual Meeting:

To receive and consider the financial statements for the year ended 30 June 2024

- Election of Company Directors
- Election of Nominating Local Authorities to Shareholders' Council
- Directors' Remuneration
- Changes to Foundation Policies
- Questions and Comments from Shareholders
- General Business

Attachment 5 is the Local Government Funding Agency Limited 'Notice of Annual Meeting', which includes Explanatory Notes. Attachment 3 provides the Annual Meeting Agenda.

The associated 'Proxy Form' is included as Attachment 6.

The Shareholder's Agreement provides that the role of the Shareholders' Council is to advise shareholders on certain matters, and that it shall:

- review and report to shareholders periodically on the performance of the company and the Board

- make recommendations to shareholders on the appointment, removal, re-election, replacement, and remuneration of directors; and
- make recommendations to shareholders about any matters which require the approval of shareholders.

The Shareholders' Council has considered the matters listed above and has written to Shareholders (Attachment 4) with their recommendations. Council Officers have considered the Shareholders' Council recommendations but have also considered the specific interests of Taupō District Council and its ratepayers to provide further context to these recommendations.

Council Officers do not believe there are any specific considerations for resolutions 1 to 4 and recommend accepting Shareholders' Council recommendations.

In relation to resolution 5, foundation policy changes need to be considered in context of Council being a shareholder, borrower, and guarantor of LGFA. Council Officers do not have concerns in relation to the impact of the proposed changes on Council's guarantees or shareholding as we believe it poses little risk to Council. The likelihood of any Council defaulting due to increased debt covenants is low, and there are other mitigating factors e.g. Council rating legislation, and number of Council guarantors.

Additional factors have been considered in relation to foundation policy changes, due to possible implications for Council. The proposed changes have been suggested by the LGFA board to support high growth councils and those that might urgently need to undertake unplanned borrowing, who may exceed covenants. In LGFA's explanatory note, it is suggested that LGFA will consider applications from tier one or tier two Councils from the Government's National Policy Statement (NPS) on Urban Development 2020 (updated 2022) as criteria for increased covenants (and subsequent possible increased borrowing). Taupō District Council is not on the list of tier one or two Councils.

No bespoke covenants metrics have been listed in the foundational policies, but Council Officers have reservations on the NPS being suggested by LGFA as the considering factor for high-growth Councils, due to past Statistics New Zealand (Stats NZ) modelling being inaccurate for our district and some high growth areas around the country experiencing unexpected changes from these past estimates. Council uses its own growth modelling for planning purposes due to previous challenges using this modelling. Council Officers also question if this proposed metric is fair to other Councils who have just as much growth, or other challenges impacting debt but who are not on the NPS list.

Because Council has a low net debt ratio, it is unlikely to require this additional debt headroom, even if it was considered a tier one or two Council. Council Officers acknowledge the benefit to the tier one and tier two Councils who have high net debt ratios but do not believe it in the best interest of Taupō District Council or its ratepayers to change from the original foundation policies.

The expectation of LGFA Board is that the bespoke higher covenants would only be applied for by approximately 5 Councils (approximately 15% of total LGFA lending to councils), but there are no limits or defined criteria for this in the foundational policies itself and no suggested criteria for urgent unplanned borrowing, so this has the potential to increase sector-wide debt.

Council's current (AA+) credit rating was put on negative watch in February 2024 due to rating agency Standard and Poors (S&P) revising the trend of New Zealand Local Government institutional framework to weakening (from stable). The weakening of the institutional framework of the sector had an immediate impact on Council's credit rating outlook and was done outside of Council's standard review process. S&P stated that this weakening institutional framework was due to sector debt rising 'rapidly since the start of the pandemic as councils grapple with large infrastructure needs and persistent inflation in operating and capital budgets.'

Council completed its 2024 rating review without a rating downgrade, unlike many other Councils, however the weakening institutional framework is a concern for the future of Council's credit rating. Sector wide debt has a clear impact on the institutional framework, and subsequently Council's own credit rating. Council Officers are concerned about the impact of increasing sector debt.

Council Officers recommend voting against the proposed changes, due to considerations discussed above.

NGĀ HĪRAUNGA | CONSIDERATIONS

Ngā Aronga Pūtea | Financial Considerations

The financial impact of the proposal in the short-term is minimal, with increases in Director numbers and fees being immaterial to LGFA's costs. In the long-term, financial impact of proposed foundation documents is unknown due to uncertainty around implications for sector indebtedness and any subsequent implications on Council itself.

Ngā Aronga Ture | Legal Considerations

The timing of the Annual Meeting meets the requirements of section 120 of The Companies Act 1993 (no later than 6 months after balance date and not later than 15 months after the previous annual meeting).

Schedule 1 of the Companies Act 1993 provides for proceedings at meetings of shareholder. Clause 6 (1) provides that a shareholder may exercise the right to vote either by being present in person or by proxy. Clause 2 provides a proxy for a shareholder is entitled to attend and be heard at a meeting of shareholders as if the proxy was the shareholder. The remainder of clause 6 is concerned with procedural matters.

Ngā Hīraunga Kaupapa Here | Policy Implications

There are no known policy implications.

Te Kōrero tahi ki te Māori | Māori Engagement

Taupō District Council is committed to meeting its statutory Tiriti O Waitangi obligations and acknowledges partnership as the basis of Te Tiriti. Council has a responsibility to act reasonably and in good faith to reflect the partnership relationship, and to give effect to the principles of Te Tiriti. These principles include, but are not limited to, the protection of Māori rights, enabling Māori participation in Council processes and having rangatiratanga over tāonga.

Our statutory obligations outline our duties to engage with Māori and enable participation in Council processes. Alongside this, we recognise the need to work side by side with ahi kaa / resident iwi of our district. Engagement may not always be required by law, however meaningful engagement with Māori allows Council to demonstrate good faith and our commitment to working together as partners across our district.

We don't believe that engagement or involvement of Māori on the proposed recommendation in this report is required.

Ngā Tūraru | Risks

There is a risk that the proposed changes will increase sector indebtedness which could have a negative impact on Council's credit rating.

TE HIRANGA O TE WHAKATAU, TE TONO RĀNEI | SIGNIFICANCE OF THE DECISION OR PROPOSAL

Council's Significance and Engagement Policy identifies matters to be taken into account when assessing the degree of significance of proposals and decisions.

Officers have undertaken an assessment of the matters in the [Significance and Engagement Policy \(2022\)](#), and are of the opinion that the proposal under consideration is of a low degree of significance.

TE KŌRERO TAHI | ENGAGEMENT

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

TE WHAKAWHITI KŌRERO PĀPAHO | COMMUNICATION/MEDIA

No communication/media required.

WHAKAKAPINGA | CONCLUSION

It is recommended that the Council appoint Finance Manager Jeanette Paenga as their delegated representative at the LGFA Annual Meeting and that the voting follows the recommendations of the Shareholder Council except for Resolution 5 where Council instructs a vote against the motion.

NGĀ TĀPIRIHANGA | ATTACHMENTS

1. Amended LGFA Foundation Policies (2024) (A3659773)
2. Amended LGFA Foundation Policies (2024) Tracked Change (A3659776)
3. Annual Meeting Agenda 2024 (A3659774)
4. LGFA Shareholders Council Recommendations Letter 2024 (A3659777)
5. Notice of LGFA Annual Meeting November 2024 (A3659775)
6. Proxy Form - LGFA Annual Meeting November 2024 (A3659778)
7. LGFA Annual Report 2024 (A3659789)