

29 November 2024

Craig Stobo  
Chair  
New Zealand Local Government Funding Agency Ltd  
P O Box 5704  
Wellington 6145

Dear Craig,

### **Shareholder Expectations for 2025-28**

This letter sets out the Shareholders' Council's (the Council's) expectations of the Local Government Funding Agency (LGFA) Board for the 2025/26 financial year. As you undertake your business planning ahead of developing the Statement of Intent (SOI) for 2025-28, please reflect the expectations in this letter as you consider appropriate.

The Council values its positive and open working relationship with LGFA, and the on-going success of your key role of providing flexible and reliable funding to the sector, supported by a credit rating equal to the Crown. We also appreciate your on-going communication efforts, including the annual Borrower's Day and stakeholder survey, and the quarterly Update webinars.

The Government has stated its intention to reset the local government system, including impending changes to the Local Government Act 2002 which aim to "refocus local government on providing good-quality core services and infrastructure in a manner that is most cost-effective for ratepayers". At the same time, Standard & Poor's has published its concerns about the sector's institutional settings and planned borrowing levels. LGFA can prepare for these environmental factors by reviewing existing work programmes, and ensuring it remains focussed on its core activities.

### ***Governance and succession***

The Council acknowledges the work LGFA is undertaking to develop robust succession plans for its staff and directors. We look forward to being updated on your Board succession plan once it is completed, including:

- the intended limit on director tenure; and
- the approach to retaining institutional knowledge on the Board while at the same time refreshing its membership's perspectives and skills.

Where shareholders are asked to vote on director appointments at the AGM each year, we would like you to highlight how candidates meet the characteristics of your Board skills & experience matrix, and to clarify their other work commitments and time available to dedicate to the governance tasks required of LGFA board members.



### ***Board remuneration***

The Council acknowledges the importance of LGFA directors being fairly remunerated for the work that they undertake and risks they bear. However, we request that you do not lose sight of the element of public service that should legitimately be imputed into the remuneration calculations.

We would like the two-yearly Board fees review to be underpinned by robust analysis that takes into account reasonable benchmarks. You could consider whether the time is right to change your advisor to bring some fresh perspectives.

### ***Rising costs of lending***

The Council understands that a material driver of LGFA's increased lending margin and Borrower Note requirements in 2024/25 is the maturity mis-match between your bond issuance and your loans to councils. We would like you to consider what actions you might be able to take to reduce this cost pressure, for example by investigating options to incentivise councils to lengthen the average term of their borrowings.

### ***Local Water Done Well reforms***

The Council appreciates LGFA's efforts to engage with local and central government agencies to assist with the analysis of potential costs, risks, benefits, and opportunities as progress on water reforms is achieved. We expect that your involvement will reflect shareholders' relatively low risk appetite – including:

- undertaking appropriate additional due diligence when considering higher loan limits to “high growth” councils (for example, around average rates charges and development contributions revenues);
- developing and implementing appropriate bespoke lending criteria and covenants for “high growth” councils and water CCOs; and
- ensuring that your total lending to “high growth” councils and water CCOs does not exceed a prudent proportion of your total lending portfolio, and reporting this to shareholders.

### ***Climate change***

The Council would like LGFA to include in its SOI a clear statement of its emissions reduction target, and pathways towards meeting it.

The Council looks forward to discussing the content of this letter and LGFA's priorities for 2025/26.

Yours sincerely,



Kathryn Sharplin

**Chair**

**LGFA Shareholders' Council**

cc. Mark Butcher, Chief Executive LGFA

