

19 September 2023

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Thank you for your requests for information made under the Local Government Official Information and Meetings Act 1987, received by the Department of Internal Affairs on 6 September 2023. This request was transferred to New Zealand Local Government Funding Agency Limited (**LGFA**) by the Department of Internal Affairs on 11 September 2023. The following information is provided in response to your requests.

1. If all council were to default on their obligations to the LGFA what are the limitations in the process of recovery of the debt?

A borrower can raise money on a secured or unsecured basis. Benefits of borrowing on a secured basis may include a lower cost of borrowing and increasing the pool of potential lenders. Unlike other borrowers, local authorities have a statutory ability to set rates across properties in their district, which ratepayers within the district are liable to pay. The Local Government (Rating) Act 2002 sets out the process that a local authority must follow to recover unpaid rates. This process can include the sale or lease of the property.

It is common for local authorities that borrow on a secured basis to grant a charge over a specific rate or a charge over rates revenue in general. The granting of a charge over rates by a local authority is contemplated by the Local Government Act 2002.

A charge over rates revenue is typically created by a local authority entering into a Debenture Trust Deed ("DTD"). The DTD creates a security interest in favour of a specified Debenture Trustee who holds the security for the benefit of the secured creditors of the local authority. The DTD provides the mechanism for the security to operate and requires the Debenture Trustee to oversee and enforce the DTD.

LGFA lends to local authorities on a secured basis. This means LGFA is a secured creditor under that borrower local authority's DTD.

In addition, when LGFA borrows money, its obligations are guaranteed by most of the local authorities who participate in the LGFA borrowing structure (**LGFA Guarantee**). The LGFA Guarantee is made in favour of a Security Trustee who holds the guarantee for the benefit of LGFA's lenders. Each local authority guarantor extends the benefit of its DTD to the Security Trustee.

If a local authority does not meet its financial obligations (as principal or as guarantor), the secured creditor may make demand under the DTD by requesting the relevant Debenture Trustee to enforce the security interest created by the DTD. If the security interest is enforced, one of the options available to the Debenture Trustee is to appoint a receiver. If a

receiver is appointed, and the local authority has given security over its rates revenue, then section 115(2) of the Local Government Act 2002 applies.

Section 115(2) states that the receiver can assess and collect in each financial year a rate under this section to recover sufficient funds to meet the payment of the local authority's commitments in respect of the loan or financial obligation during that year, and the reasonable costs of administering, assessing, and collecting the rate.

2. Who currently, August 2023 are the principal creditors domestically and internationally by company and country, provide the amount that each domestic and international company has credited to the LGFA?

LGFA borrows by issuing fixed income securities (bonds and short-term bills) to investors. Investors either hold these in their own name or via custodians. There is no obligation for custodians to disclose who they are holding securities on behalf of.

We have estimated that as at 31 August 2023 the holders of LGFA NZ\$ bonds are:

- Domestic banks NZ\$4.48 billion (26.0%)
- Domestic institutional investors NZ\$4.78 billion (27.7%)
- Domestic retail investors NZ\$581.6 million (3.4%)
- Offshore investors NZ\$6.25 billion (36.2%)
- Reserve Bank of New Zealand NZ\$1.17 billion (6.8%)

We have estimated that as at 31 August 2023 the holders of LGFA NZ\$ bills are:

- Domestic banks NZ\$500 million (51.2%)
- Domestic institutional investors NZ\$477 million (48.8%)

Please note that these are an approximation only.

3. Which Local authorities and Local Authority representatives have shares, rights with LGFA, what is the value of those shares, rights by creditor/ local authority/ local authority representative?

LGFA has NZ\$25 million of paid-up shares and a further NZ\$20 million of uncalled shares on issue. The face value of each share is NZ\$1. The value of shareholder equity (comprising share capital and retained earnings) as at 30 June 2023 is NZ\$105.85 million.

Shareholder	Total Shares	Paid up Shares
New Zealand Government	5,000,000	5,000,000
Auckland Council	3,731,960	1,865,980
Christchurch City Council	3,731,960	1,865,980
Hamilton City Council	3,731,960	1,865,980
Bay of Plenty Regional Council	3,731,958	1,865,979
Greater Wellington Regional Council	3,731,958	1,865,979
Tasman District Council	3,731,958	1,865,979
Tauranga City Council	3,731,958	1,865,979
Wellington City Council	3,731,958	1,865,979
Western Bay of Plenty District Council	3,731,958	1,865,979
Whangarei District Council	1,492,784	746,392
Hastings District Council	746,392	373,196
Marlborough District Council	400,000	200,000
Selwyn District Council	373,196	186,598
Gisborne District Council	200,000	100,000
Hauraki District Council	200,000	100,000
Horowhenua District Council	200,000	100,000
Hutt City Council	200,000	100,000
Kapiti Coast District Council	200,000	100,000
Manawatu District Council	200,000	100,000
Masterton District Council	200,000	100,000
New Plymouth District Council	200,000	100,000
Otorohanga District Council	200,000	100,000
Palmerston North City Council	200,000	100,000
South Taranaki District Council	200,000	100,000
Taupo District Council	200,000	100,000
Thames-Coromandel District Council	200,000	100,000
Waimakariri District Council	200,000	100,000
Waipa District Council	200,000	100,000
Whakatane District Council	200,000	100,000
Whanganui District Council	200,000	100,000
Total	45,000,000	25,000,000

4. What criteria and credit rating do domestic creditors need to qualify as a funding agency?

There are no criteria or credit rating for domestic creditors to qualify as a lender to LGFA.

Regards

Mark Butcher
Chief Executive Officer