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In reply please quote           LGFA  
 Or ask for                           Alan Adcock

26 January 2017

Craig Stobo  
 Chair  
 New Zealand Local Government Funding Agency Ltd  
 PO Box 5704  
 Lambton Quay  
 Wellington 6145

Dear Craig

## **Shareholder Expectations and the Statement of Intent 2017/18**

I am writing to set out the Shareholders' Council's (the Council's) expectations of the New Zealand Local Government Funding Agency Ltd (LGFA) for consideration in the LGFA's business planning for the upcoming year and the development of its 2017/18 Statement of Intent (SOI).

We acknowledge that 2017/18 will be a significant year for the LGFA with the refinancing of the December 2017 loans. The Council looks forward to being kept updated on progress.

We also acknowledge the firm line the LGFA has taken to date in discussions with Government about the Housing Infrastructure Fund, and its potential impacts on the sector's debt profile and credit ratings. The Council urges the LGFA to maintain its position and continue to seek to influence government to ensure the Fund has no negative impacts on the wider sector.

The Council values the positive and open working relationship with the LGFA. The timely provision of information, and a 'no surprises' approach by both parties, helps ensure the relationship remains productive.

### **Governance**

It is important that the LGFA builds on its board and management strengths and continues to work closely with the Council in 2017 to ensure the board membership has the optimum mix of expertise, experience and local government representation. We expect the Board to conduct a board review in 2017/18 with a focus on succession planning, with the results then shared with the Council. We are happy to provide any assistance necessary in this process.

### **Constancy of objectives and intentions**

It is the expectation of shareholders that the company's objectives and operating intentions, as set out in the 2016/17 SOI, will continue to be reflected in the 2017/18 SOI. The SOI is the ideal opportunity for the LGFA to reaffirm its:

- commitment to providing a range of borrowing products and services, taking into account the tradeoffs between any additional customer benefits and/or revenue they may generate, against any additional risk and complexity they may bring to LGFA's operations;
- focus on lowering the cost of local government borrowing;
- strategy for maintaining a high-quality asset book;
- proactive risk management approach; and
- intention to return a dividend to shareholders.

### ***Performance indicators***

Performance indicators should provide a robust, meaningful performance overview for key stakeholders. The Council asks that the LGFA's performance indicators and targets are reviewed to determine whether they are providing the most effective performance picture.

In particular, the Council asks that you consider the lack of a defined target and explicit methodology for the indicator, 'Savings on borrowing costs for council borrowers: LGFA will demonstrate the savings to council borrowers on a relative basis to other sources of financing achieved in the relevant financial year and compared to previous financial years.' We appreciate that it is difficult to measure this objectively, but in the absence of the target and methodology, this indicator does not appear to support a compelling performance overview in its current form.

### ***Treasury policy***

It is shareholders' enduring expectation that the LGFA will continue to take the appropriate steps to ensure that it understands each borrower's headroom as well as the overall sector's headroom. These should be appropriately reflected in the LGFA's Lending Policies and Foundation Policies, as detailed in the company's Treasury Policy.

### ***Financial and general reporting***

The current SOI contains brief financial forecast information. The Council continues to appreciate the LGFA providing more detailed financial and operational information in the quarterly reports. It is important that this information continues to be provided in 2017/18.

We would like to reinforce the importance of shareholders receiving full and early disclosure from the LGFA of any company policy breaches by Participating Local Authorities. It is crucial that all shareholders are informed as soon as possible after an event has occurred, given their potential liability.

### ***Delivery of Draft 2017/18 SOI***

The Council would welcome a discussion on the content of this letter and the LGFA's views on its priorities for 2017/18. We look forward to receiving the company's Draft SOI as early as possible, and ideally in time for the Shareholders Council meeting on 21 February 2017, to allow us to engage with shareholders in a meaningful fashion. We will respond with feedback as promptly as possible, and prior to the statutory deadline of 1 May 2017, in order that the company is in a position to deliver its final SOI by 30 June 2017.

It was a pleasure to attend the 2016 Annual General Meeting, and recognise the significant achievements of the LGFA over the last year. Please do not hesitate to contact me if you have any queries or comments.

Yours sincerely

Alan Adcock  
Chair, LGFA Shareholders' Council

cc. Mark Butcher, Chief Executive LGFA