CAMERON PARTNERS

Hutt City Council

Local Government Ratepayer Financing Scheme

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Te Kāhui Kaunihera ō Aotearoa.

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JANUARY 2021

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Background

- The LGFA highlights how LAs can work together and achieve superior outcomes
- But it's not necessarily a natural place for LAs to play
- The opportunity for the LGFA was created by the GFC – debt pricing / terms and security of access were the drivers
- Covid-19 is bigger than the GFC…plus:
  - Demographic changes
  - Infrastructure investment requirements
  - Climate change impact
  - Health & safety (eg seismic)
- New challenges require new thinking

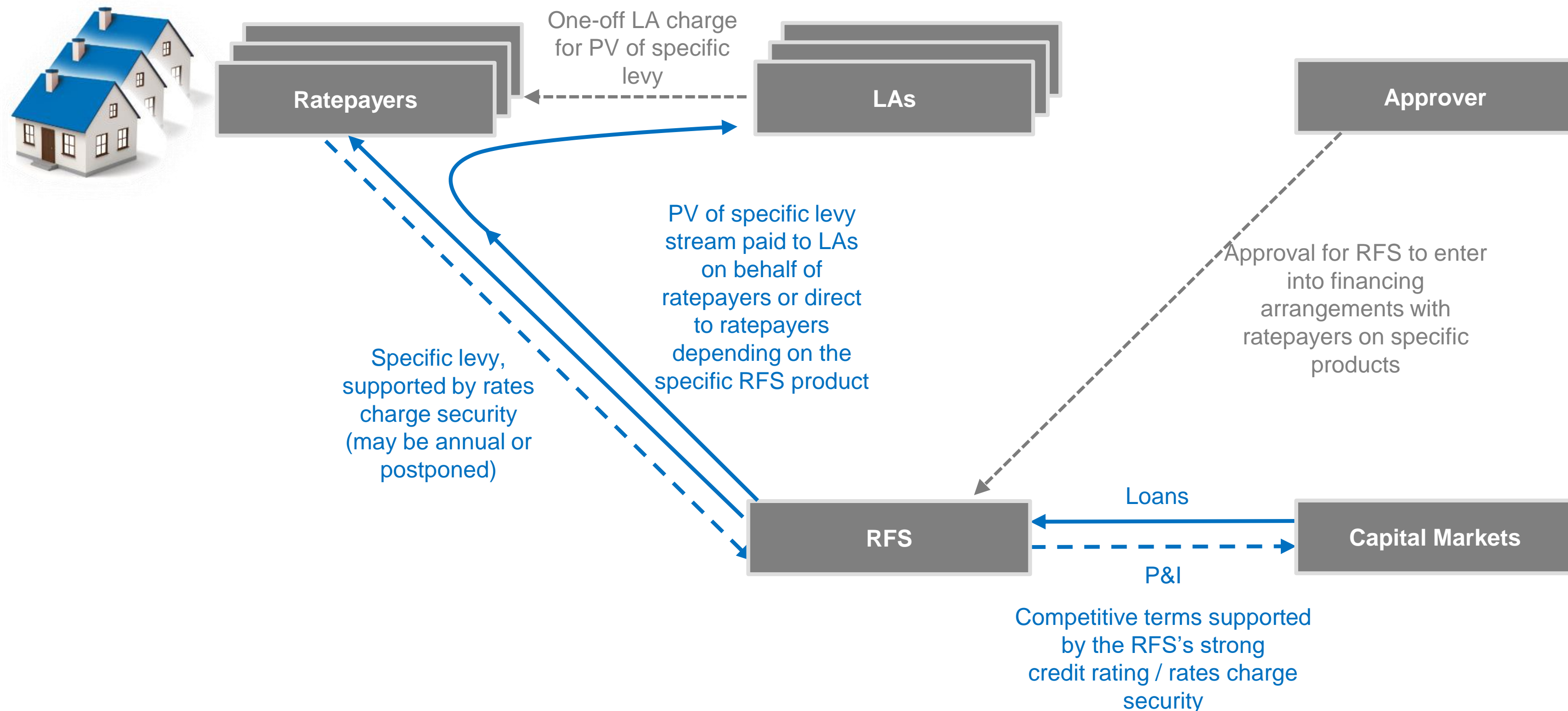
The Ratepayer Financing Scheme (RFS)

- Using the principles and insights from the LGFA Cameron Partners has been working with a Steering Group (LGFA, LGNZ, AC, TCC, HCC and WCC) and developed a potential solution to some of LAs' funding, financing and policy challenges – the RFS
- The RFS is a new entity, owned by LAs (and central government)
- The purpose of the RFS is to help LAs by helping ratepayers
- It provides payment flexibility and very competitive financing to ratepayers in relation to LA payments and policies
- It makes upfront payments to LAs to ensure they are 'kept whole'
- It is off balance for LAs so it doesn't use up any financing capacity
- It effectively takes over the operational requirements associated with the ratepayer loan

How would it work?

- The RFS would have the power to impose a ‘rate-like’ charge (much like an SPV under the IFF)
- It would use this charge to secure a very low-cost loan to ratepayers, who would use it to either:
  - Pay an actual LA charge (eg rate, development contribution)
  - Invest in property improvements
- Because the security is effectively the same as the levy proposed under the IFF, the RFS could also provide finance for IFF projects
- The RFS could raise very low-cost financing from the capital markets (and pass this on to ratepayers) by:
  - Aggregating multiple ratepayer receivables to achieve scale
  - Attaining a very high credit rating (rates charge security; appropriate capital structure, ownership and control; other LA / Central Government support)
- The RFS has no discretion. LAs dictate what it can be used for and approval is required by an Order in Council

Potential RFS Structure



Multiple applications are possible

- The RFS is a very flexible platform, which in principle can be applied to any rate-like receivable and turn it into an upfront payment. We have considered four different applications:
    1. Rates postponement
    2. Property improvement loans
    3. Deferred Development Contributions
    4. IFF projects

- Rates Postponement (RP):
    - RP provides rates payment flexibility to ratepayers (and is akin to a reverse equity mortgage)
    - No impact on LAs - LAs receive payment of the postponed rates upfront from the RFS

- Property Improvement Loans (PILs):
    - Current legislation facilitates LAs providing financing to ratepayers that can be repaid via a VTR
    - PILs can support the ratepayer (eg seismic strengthening; address climate change) or the ratepayer and the LA (eg water tanks; storm / waste water separation to enable LAs to manage capital investment)
    - No impact on LAs - the RFS would make the loan directly to the ratepayer

Multiple applications are possible (cont.)

- Deferred Development Contributions (DCs):
  - DC costs are significant and can impede development and could be converted into a VTR
  - No impact on LAs - LAs receive payment of the deferred DC upfront from the RFS

- IFF capital projects:
  - The underlying rate-like security is the same (for the RFS and IFF) and therefore the RFS could potentially finance IFF projects
  - The RFS can warehouse and aggregate projects → smaller projects would be economic for Las and the related financing moved off LAs balance sheets
  - No impact on LAs – IFF projects are financed upfront from the RFS

Off-balance sheet treatment / legislative issues / business case

- Deloitte & Standard and Poors (S&P) have reviewed the RFS structure and raised no red flags regarding off-balance sheet treatment for LAs

- The proposed RFS structure has been reviewed by Chapman Tripp who envisages the RFS being implemented through its own legislation (using similar principles and mechanics to the IFF)

- We have built a financial model with inputs provided by AC IT Services regarding potential IT functionality, capex and opex and the LGFA for estimates of the RFS's corporate services costs

- Key issues / insights:
  - We assume the RFS will charge ratepayers a margin of ~1.0% below the mortgage rate
  - Scale is key

- Above breakeven – the RFS can either:
  - Provide a return to shareholders (and fully recover establishment costs) and / or
  - Reduce the margin to ratepayers

Conclusions

- The purpose of the RFS is to help LAs by helping ratepayers:
  - It provides payment flexibility and very competitive financing to ratepayers
  - It makes upfront payments to LAs to ensure they are 'kept whole'
  - It is off balance for LAs so it doesn't use up any financing capacity
  - It effectively takes over the operational requirements associated with the ratepayer loan

- It can support multiple different policies that help ratepayers and LAs

- Our investigations to date indicate:
  - No red flags with off-balance sheet treatment
  - Breaking new ground is not required with supporting legislation
  - A viable business case does not require heroic assumptions

Next steps

- The environment is positive for the RFS but going forward requires LA and central government support

- LAs need to decide if they want it (or at least want to investigate it further)

- The proposed approach to the continued development of the RFS is via stage-gates in order to reduce risk to funders (similar to the LGFA establishment process)

- The immediate next steps involve confirming support from the LA sector:
  - In principle support?
  - Funding?
  - Project governance?
  - Central government engagement?