Item 2: Ratepayer Assistance Scheme

SESSION TYPE: Briefing

PURPOSE/DESIRED OUTCOME:

The purpose of this session is for the Ratepayer Assistance Scheme (RAS) team to brief the Council on the detail of the scheme and opportunity for investment. The project is being led by LGNZ and LGFA and aims to provide an alternative financing option for ratepayers for a range of purposes, including solar installation as part of the property improvement loan model.

Use of the RAS for solar installation was a key part of the Regional Deal proposal, but the scheme is progressing ahead of the Regional Deal schedule. This is an opportunity for councillors to learn more about the scheme and discuss the opportunity to invest at this early stage.

DATE/START TIME:

Tuesday, 3 June 2025, 11.00am

TIME BREAKDOWN:

Presentation: 45 mins
Questions *or* Debate/Discussion: 45 mins

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22 May 2025

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22 May 2025

ATTACHMENTS:

A	Background Reading
B	Slide Deck

Attachment A: Background Reading

RAS

LOCAL GOVERNMENT

Ratepayer Assistance Scheme

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme

LGFA New Zealand Local Government Funding Agency Te Pūtea Kāwanatanga ā-rohe

Kō tātou. LGNZ.

RATEPAYER ASSISTANCE SCHEME

THE OPPORTUNITY FOR LOCAL GOVERNMENT

Executive summary and contents

RAS is a local government initiative that will significantly enhance LAs' funding and financing toolbox - providing flexibility to LAs as to how they charge and ratepayers in how they pay

- The Ratepayer Assistance Scheme (RAS) supports local government funding and financing by:
    - Converting multi-year Local Authority (LA) charges to ratepayers into efficient upfront payments to LAs
    - Effectively lending to ratepayers at very low cost
- The RAS would be owned by LAs, off-balance sheet and can be used to finance Development Contributions / Levies, Property Improvement Loans and Rates Postponement
- The Minister for Local Government has confirmed that he is supportive of the RAS and has recommended that local government undertakes further, final development work
- To undertake final development requires additional funding commitment from the sector of $2.5 million (without this the RAS will not proceed) and <u>there is the opportunity for councils to be part of the group of funding councils</u>
- This document sets out details of the RAS opportunity and support sought from councils as follows

1. The RAS Opportunity

The RAS has been developed by LGNZ, LGFA, a group of metro councils and Cameron Partners to support councils and ratepayers to address a range of economic and social issues

- The economic and social disruption from the cost-of-living crisis, an ageing population plus the investment requirements to meet infrastructure, health & safety and environmental resilience is affecting all New Zealanders
- The local government sector is responding with policies to address these issues, but it needs additional tools to ensure these policies can be financed, administered efficiently and are effective
- Local Government New Zealand (LGNZ), along with a group of Metro councils, the New Zealand Local Government Funding Agency (LGFA), Rewiring Aotearoa (RA) and Cameron Partners have been working on an innovative financing scheme, the RAS
- The purpose of the RAS is to facilitate and enhance the effectiveness of a range of existing and prospective government and local government policies by:
  - Addressing ratepayer affordability concerns
  - Incentivising ratepayers to take advantage of, and comply with policies through providing ratepayers with flexibility to decide when to pay local government charges and/or very competitive finance terms
- The RAS is very flexible with multiple applications possible – to date the focus has been on three applications:

  1. **Deferred Development Contributions (DCs) / Development Levies (DLs)** which enables developers to convert upfront DC / DL payments into annual payments over ~30 years while ensuring local authorities still receive full payment upfront
  2. **Property Improvement Loans (PILs)** to encourage investment in properties that has both private and public benefits, for example installation of solar panels and home insulation / heating
  3. **Rates Postponement (RP)** providing relief to ratepayers by using equity in their homes to defer payment of general rates (and could in-principle include all LA charges) until their house is sold

1. The RAS Opportunity

Central government has confirmed it is supportive and recommended further development – this requires local government to confirm its support and funding

- In many respects, the RAS is similar to the LGFA – it:
    - Utilises the strength of local government rates charge to provide security
    - Achieves scale by aggregating requirements across the sector in order to access very efficient and flexible financing from the capital markets
    - Is then able to pass on these financing efficiencies to ratepayers
- An important distinction between the RAS and LGFA is that the RAS will lend directly to individual ratepayers whereas the LGFA lends to local authorities
- The RAS would be a new entity owned by LAs, providing a national shared service available to all LAs – it would:
    - Undertake all administrative functions in regard to the services it provides (in many cases removing this from councils)
    - Importantly, be off-balance sheet for LAs so that there is no impact on council financing capacity
- The Minister for Local Government has confirmed that he is supportive of the RAS, has instructed his officials to commence policy work on the RAS in August 2025 and has recommended that local government undertakes further detailed development work to enable a final stop / go decision in late 2025
- To move forward, the local government sector needs to confirm its support for the RAS and sufficient funding commitment to fund final development
- The opportunity is for councils to be part of the funding group that supports final development of the RAS and ultimately establishment of the RAS – without further funding support the RAS will not proceed

2. Deferred DCs / DLs

Deferred DCs / DLs will spread the cost over say, 30 years, supporting development. It will be easier for LAs to charge the full allowable cost and receive payment upfront

- LAs charge ratepayers / developers DCs for new developments to contribute to the costs of supporting infrastructure
    - DC costs are significant (one-off charges are on average ~$20k to $30k per property but can be $60k+)
    - 2026 annual plans forecast over $700 million revenue to be raised from DCs nationally

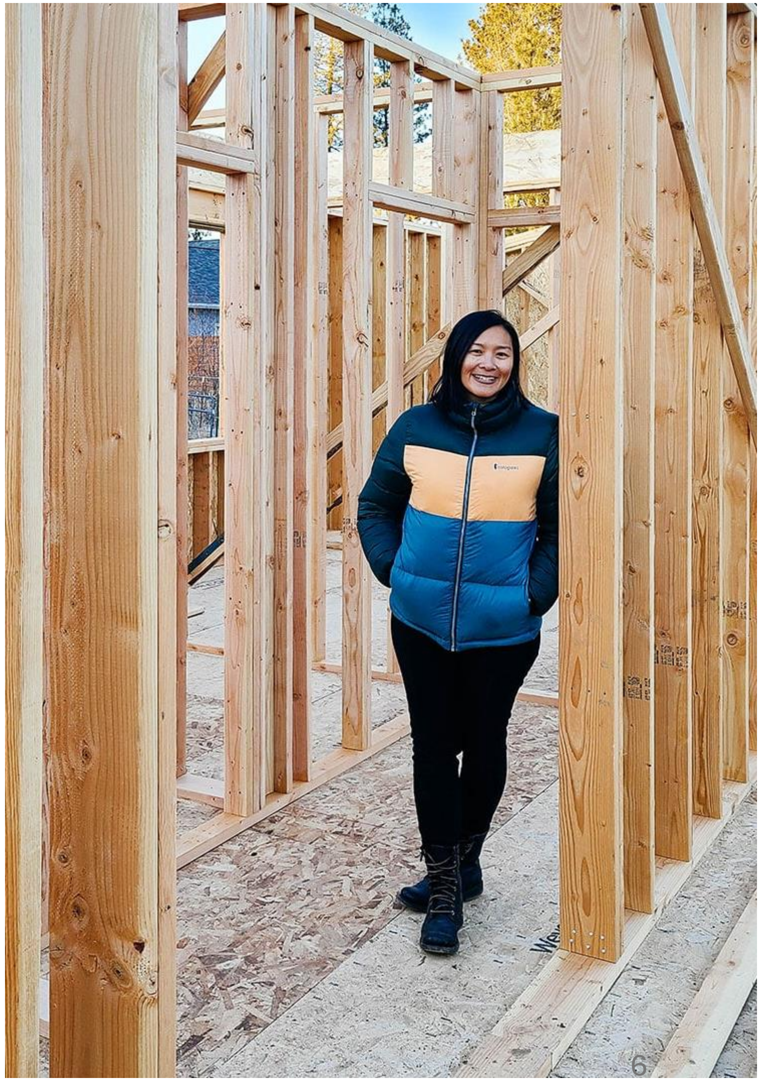
- The proposed Development Levy System (DLS) is expected to expand the scope of DLs to enable LAs to fully recover development growth costs and raise more revenue to fund growth infrastructure

- <u>BUT</u> the DLS combined with supply chain issues and inflation pressures means developers will need to pay more – the affordability of these increased charges and risk to the very developments that the charges are intended to support are critical considerations

- The RAS will be able to effectively convert upfront DCs / DLs into series of annual payments over say 30 years

- Under a Deferred DC / DL scheme, LAs would continue to do what they do now and invoice DCs / DLs at appropriate milestones (e.g. issue of 224c certificate or Code of Compliance) but developers would have the option to either:
    - Pay DCs / DLs in full; or
    - Choose to defer DCs / DLs through the RAS

- In the case of deferred DCs / DLs, the RAS would pay the upfront DC / DL to the LA and the current and future owners of the properties, would repay these upfront DCs / DLs (+ interest) as annual RAS levies:
    - Importantly, future owners would expect to pay less for properties with deferred DCs / DLs to reflect the RAS levies that will be charged in future on an annual basis
    - In any event, the purchaser of a property will have the option to require the outstanding RAS levies to be repaid by the seller of the property prior to them taking ownership (although new purchasers may decide that they prefer to pay less upfront for the property and take advantage of the attractive financing rates applied by the RAS)



2. Deferred DCs / DLs

The new DLS will facilitate increased LA charges to property developers to more fully fund the costs of growth-related infrastructure

- DCs are a substantial revenue source for LAs (~$700 million nationally) and this is expected to increase considerably under the DLS
- The increased costs will drive demand for alternative payment arrangements such as deferred DCs / DLs, underpinning the ability for RAS to achieve a breakeven financial position in a reasonable timeframe
- Auckland Council estimates 50% of its DC revenue is from small developments (under four houses), including a significant number of 'mum and dad' developers undertaking developments such as subdividing their existing property

Average DC

$20k – 30k

Some DCs are much larger

$60k+

Under the DLS charges are expected to be larger individually and in aggregate

- Some developers highlight DCs as a factor that impedes development and encourages land banking and in response, some LAs end up discounting DCs
- A range of private and public sector options are available for property developers and LAs - these options typically do not support:
    - Development; and/or
    - LAs recovering the full allowable DC charge

Don't develop

DCs / DLs can inhibit development

Development Finance

Development loans are expensive

Fully charge DCs / DLs

Affordability, risk to development

LA Deferred DCs / DLs

Admin and impact on LA debt capacity

Stan and Jess, with their children Rebecca and Josh, have a home with a large backyard in Auckland

Stan and Jess are considering building an additional house on their section to initially provide accommodation for Jess' parents and then, in time their children. At some point they are likely to sell the property to help fund their own retirement. The DC that would be triggered by their development is a barrier to them developing the property

Stan and Jess would opt in to use the RAS's Deferred DC / DL product:

- *The Deferred DC / DL removes any potential disincentive of the material upfront DC / DL cost to undertake the development*
- *The RAS would convert the DC into an annual levy payment secured against the property*
- *The LA would receive the full DC / DL payment upfront*
- *Stan and Jess would pay their 'share' of the DC / DL while they own the property (and other owners in due course)*

LAs wish to encourage development but must provide the necessary infrastructure to support this

Some LAs continually face strong developer opposition to paying DCs

We understand that some developers point to LA DCs as an impediment to development

A Deferred DC / DL offering would be a very attractive option for developers:

- *Providing flexible payment terms*
- *Spreading the costs of the infrastructure over a 30-year term*
- *Providing LAs with a constructive response to developers' DC / DL cost concerns*
- *Providing the full DC / DL payment to the LA upfront*

3. Property Improvement Loans

LAs can currently adopt policies to provide financing to ratepayers that can be repaid via voluntary targeted rates – these arrangements can be financed and administered by RAS

- Current legislation enables LAs to adopt policies to provide financing to ratepayers that can be repaid over a fixed period via a voluntary targeted rate secured against a rateable property

- These policies typically relate to supporting and incentivising ratepayers to invest in their properties to achieve desirable private and public benefits. For example, various councils provide retrofit home insulation loans to ratepayers with loans repaid on a table mortgage basis

- Current PILs usage across most LAs (and therefore private and public benefits) is relatively low:
  - Similar to RP, LAs have been reluctant to offer and promote PILs as they must be financed out of LAs' existing financing capacity
  - In some cases, the interest cost charged to ratepayers has not been sufficiently attractive relative to ratepayers' financing alternatives
  - LAs have encountered operational and regulatory challenges

- RAS could provide PILs for individual and community projects (e.g. home insulation, heat pumps, double glazing windows, earthquake strengthening, solar panels, water tanks, septic tanks, EV chargers, stock exclusion fencing, sea walls) that:
  - Facilitate the growth of safer, healthier, more resilient and environmentally sustainable homes and communities
  - Are voluntary / 'opt-in' for ratepayers
  - Provide ratepayers with competitive financing options (~1% – 1.5% below standard mortgage rates)
  - May reduce or delay LAs' required investment in infrastructure (e.g. private water tanks could reduce the need for additional LA water storage capacity)
  - Are 'off-balance sheet' for LAs, removing the financing impediment for LAs

3. Property Improvement Loans

PILs support uptake of individual and community property improvements with significant public benefits, furthering LA and government's policy goals

- Private property improvements can have significant private and public benefits (e.g. safer, healthier and more environmentally friendly communities)
- Current legislation enables LAs to offer PILs (repaid via voluntary targeted rates) to further policy objectives, but use by LAs is not widespread – largely due to operational, cost and compliance issues
- Achievement of certain policy objectives / public benefits are limited by the one-off costs that property owners need to pay for the improvements

- A range of private and public sector options are available for property owners and LAs / government
- LAs / government can directly subsidise private property improvements, but these have limited efficiency
- Recent examples of LA provided PILs highlight the administrative and financing challenges

Don't improve	Bank loan	Govt subsidies	LA schemes
Reduced social benefits and policy objectives achieved	*Expense and availability?*	*Public sector vs private sector costs*	*Admin burden and uses LA financing capacity*

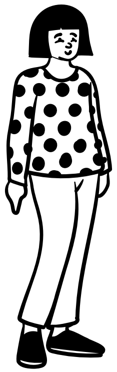
Josh, Sophie and baby live in City "X" in an old villa purchased five years ago. They are required under council regulations to either reinforce or remove the two existing chimneys in their home

Josh and Sophie currently heat their home with open fires but have decided it will be best long-term to remove the fireplaces. However, each fireplace costs $8k to remove and they will need to invest in a heat pump costing $2k

Council "X" decides to offer RAS PILs for chimney removal and insulation / heating

Josh and Sophie opt to use the chimney removal and heating PILs:

- *Accessing cheaper finance than the current alternatives*
- *Improving the safety and healthiness of their home*
- *Council "X" moves closer to achieving its seismic resilience targets*



June is looking to buy a new car and is interested in an EV to reduce her emissions and save fuel costs. She is also nervous about power outages

June can just afford the slightly higher purchase price of an EV. However, she is currently unable to also afford the cost of a home Vehicle to Grid (V2G) charger

June opts to use the RAS PILs product as this:

- *Improves the affordability of purchasing an EV*
- *Is cheaper finance than available alternatives*
- *Reduces her emissions while increasing her energy resilience*
- *Unlocks savings in fuel costs and maintenance*
- *Enables her to charge her EV when prices are low, use the car as a battery when prices are high and even sell a few kwh a day to reduce her power bill*

Just 30% of households with vehicles plugged in and exporting is the equivalent power output capacity of every power plant in NZ combined. More than enough to deal with higher daily peaks as our economy electrifies and avoid some costly system upgrades

3. Property Improvement Loans

PILs are very flexible and can deliver significant cost of living and quality of life benefits for ratepayers – it is up to central government and local government to decide what PILs could be applied to

- In indicating support for further development of the RAS, the Minister has asked that particular consideration for how PILs could be used to support the uptake of renewable, lower-cost energy
- While originally envisioned for residential properties, there is no reason government and councils could not extend PILs to other rateable properties – e.g. financing install of medium-sized solar and water-way fencing on farms
- In principle, RAS PILs could also be used to avoid LA capital expenditure

Ngaio and Rick have just had a big shock as their electricity daily charge and unit prices increased by 20% from 1 April

They have looked into solar and want to install a 9kw solar system to reduce their power bills and not fear the seemingly inevitable increases coming next April. But the $18k upfront cost is a big ask for the household with three young kids. They elect to take out a PIL through the RAS as it is cheaper and easier to access than other options available to them

Once installed, they are able to save ~75% of their power bills

After they've fully paid off the solar system through the RAS over the 30 year warranty period of the solar panels, they have saved over $40k

Their decision to install solar has also:

- *Encouraged them to swap out their gas heating for electric*
- *Improved the energy resilience of their community*
- *Helped NZ keep more water in the hydro lakes in dry years, due to the 11% "sunlight premium" of solar in dry years*
- *Increased NZ's electricity generation (if 80% of homes had a 9kw system, it would be about 40% more electricity generation)*
- *Supported the wider electrification of the NZ economy*

The ten property owners at beach "X" are concerned about erosion and the impact of climate change which potentially puts their properties at risk in an extreme weather event

They have collectively engaged engineering advisors and a construction company to scope a seawall to protect their properties and they have received a firm quote of $180k

All of the property owners are willing to contribute to the seawall but some are retired and do not have access to financing and do not wish to use their small savings which they use for living expenses

Seven of the ten property owners at "X" beach opt to use a RAS PIL to finance their contribution to the seawall at cheaper finance than current alternatives (the other three owners pay direct)

Of the seven who use the PIL:

- *Three repay the PIL over ten years via annual RAS levies*
- *Four choose to postpone payment of the voluntary targeted rate using RP*

The seawall is built and the following year, Cyclone Ada causes widespread damage but Beach "X" is unscathed because of the protection provided by the seawall

Council "Y" is aware it has a large number of ratepayers that have septic tanks that are deteriorating and starting to cause environmental issues (leaching into streams and the harbour)

The geography makes it difficult to provide reticulated wastewater services to most of the properties and in any event Council "Y" has insufficient financial capacity to undertake the necessary investment for a new wastewater network

Instead, Council "Y" is imposing new septic tank regulations and commencing an inspections process. It anticipates virtually all septic tanks (installed over 50 years ago) will require replacement at an average cost of $20k

Council "Y" intends to offer a RAS PIL to ratepayers who are required to replace their tanks with a payment term of 20 years:

- *Many affected property owners comply with the new council regulation and choose to take advantage of Council "Y"'s septic tank PIL*
- *Property owners who take up the PIL are able to repay the loan over a 20-year period at $1,000 p.a. + interest (PIL interest rate is lower than alternative options)*
- *The council achieves its environmental policy objectives*
- *The council avoids a significant investment in a reticulated wastewater network that it can ill afford*

4. Rates Postponement

RP allows qualifying ratepayers to defer rates and pay on sale of their property – in principle all LA charges could be deferred in the same way

- RP provides flexibility to ratepayers (like a reverse equity mortgage) to decide to pay LA charges at some time in the future, partially mitigating:
  - Affordability issues – the impost on property owners will only increase as New Zealand seeks to address underinvestment in infrastructure
  - Demographic changes – e.g. an aging population and a growing cohort of fixed income / elderly home owners
  - General cost of living challenges

- Many LAs already provide RP schemes although these have limited uptake, due to:
  - Demand side factors - e.g. limited awareness; challenging application processes
  - Supply side factors - e.g. restrictive and varying eligibility criteria; LAs' reluctance to promote RP due to the impact on their short-term cashflows and financing capacity

- RAS RP is an opportunity for a standardised, highly efficient national RP scheme that provides RP benefits to a larger proportion of NZ ratepayers at very competitive financing rates (~1% – 1.5% below standard mortgage rates; ~4% to 5% below reverse mortgage rates)

- Eligible ratepayers will have the opportunity to defer general rates payments and the RAS could also offer ratepayers the option to postpone other RAS or LA related levies such as Deferred DCs / DLs and PILs

- British Columbia, Canada (population ~5 million) has a property tax regime similar to New Zealand's rating system:
  - It has had a property tax deferral scheme in place for many years providing a strong precedent and insights
  - In 2024 the British Columbia Property Tax Deferral Scheme had 83,000+ users, ~$2.7 billion in loans (it has quadrupled in size from ~$670 million in 2016) and includes ~3.9% of British Columbia households

4. Rates Postponement

A nationwide RP scheme would be a highly efficient solution that assists older home owners avoid financial hardship by offering them the ability to postpone their rates

- Living costs in NZ during retirement can be significant
- Superannuation payments are unlikely to cover all living costs for many low-income ratepayers
- Without savings or other sources of income, retirees can experience financial hardship
- LA rates are a significant expense and are expected to increase above inflation for the foreseeable future

'No frills retirement for a couple'
$54k p.a. in the regions
$47k p.a. in main centres

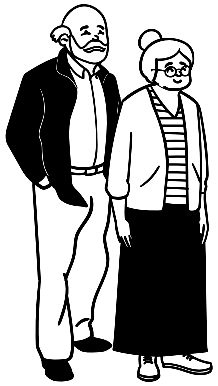
'Choices retirement for a couple'
$63k p.a. in the regions
$91k p.a. in main centres

NZ Super payments $42k p.a. (post tax) for a couple where both qualify
And $27k p.a. (post tax) for an individual living alone

NZ average 2024 residential rates $3,200 p.a. and rising steeply

- A range of private and public sector options are available
- These are limited in their effectiveness and efficiency and not always available
- They do not always align with ratepayers' objectives – most ratepayers do not want to be forced to sell their home

Reverse mortgage	Sell home	Rates rebate	Existing LA RP
Reverse mortgages are very expensive	*Downsize, move to a retirement village or more affordable region*	*Eligible ratepayers can receive up to ~$790 p.a.*	*Not widely marketed, inefficient and expensive*



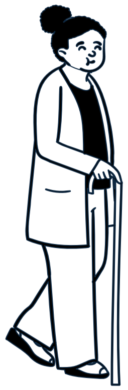
John and Jane (both 65) have retired, live in City "X" and expect to live to 90. They are fixed income / elderly homeowners and despite having $1.4 million of assets (home $1.2 million and KiwiSaver $200k), they are struggling to make ends meet. They intend to utilise their savings to meet living costs and the occasional extravagance

They pay ~$4,000 p.a. of LA rates (~8% of their post tax pension income) and are concerned about the forecast rates increases of up to 10% p.a. for the next three years

RP:

- *Increases their annual cashflow by ~$4,000 and insulates them from future rates increases – they eat out once a week at the local byo*
- *Enables them to stay in their home for the next 10 years*

Ten years later, their home's value has increased to $1.5 million. They sell it, repay the ~$60k RP debt and realise $1.44 million from the sale



Diane (70) has retired, lives alone in City "Y" and expects to live to 90. She owns a small unit worth $600k and otherwise has no investments or savings. Her only income is NZ Super so she is forced to live very frugally and she struggles to afford to travel to Auckland to visit her grandchildren

She pays ~$3,200 p.a. of LA rates (12% of her post tax pension income) and is very concerned about the forecast rates increase of ~10% p.a. for the next three years and whether that will impact her ability to see her family.

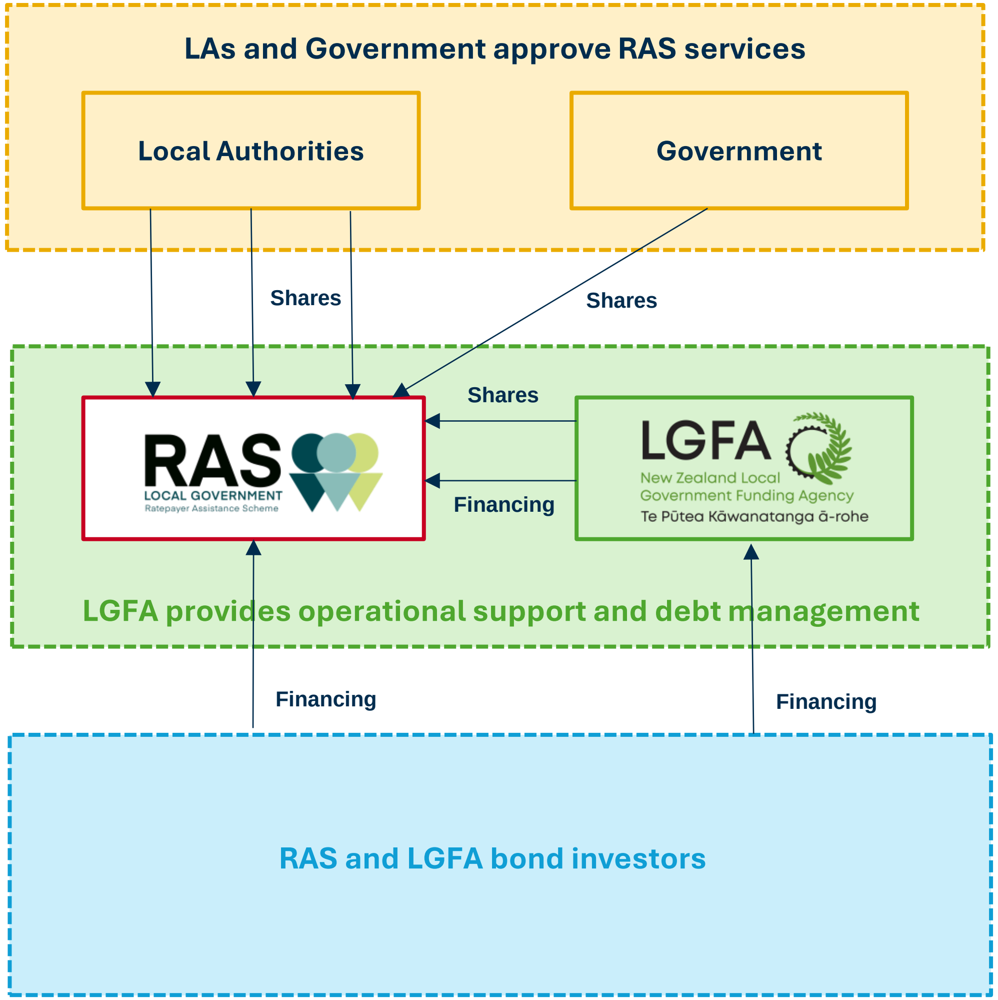
RP:

- *Increases her annual cashflow by ~$3,200, insulates her from future rates increases and enables her to visit her family three times a year*
- *Enables her stay in her unit for the remainder of her life*

When she passes away at 90, her unit sells for $900k and her $150k RP debt is repaid

5. What it is and how it works

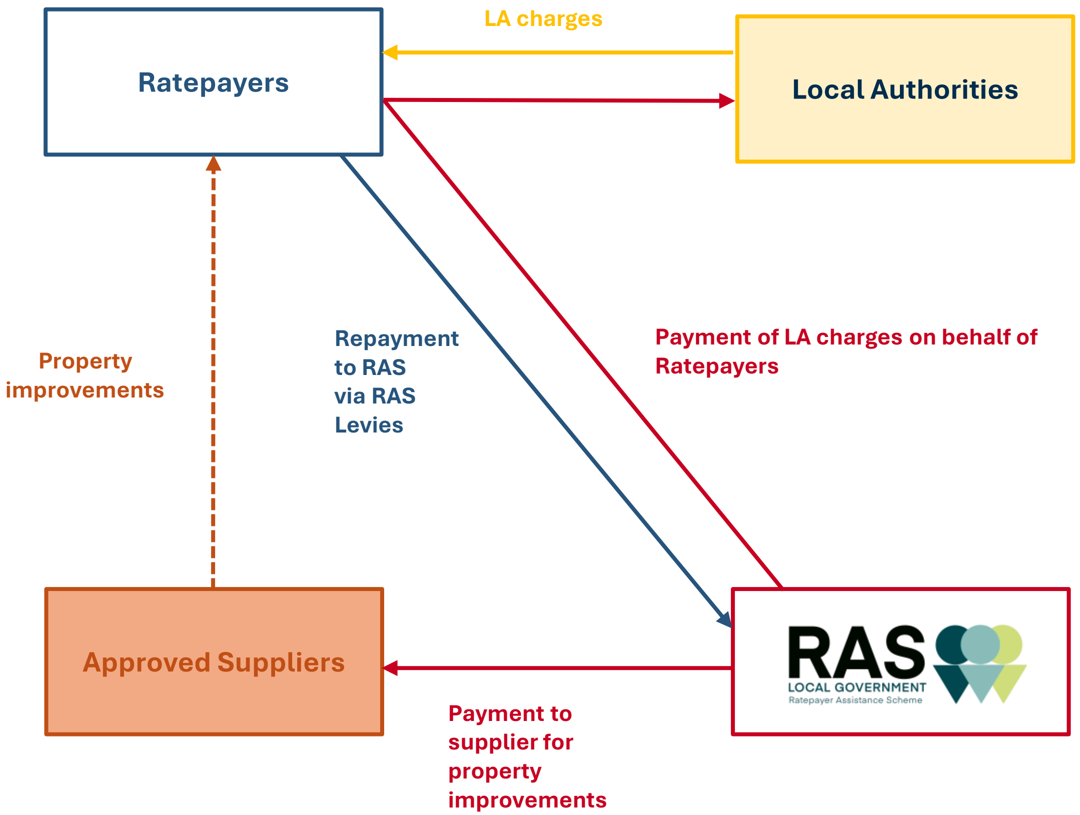
Structurally the RAS has many similarities to the LGFA – it will be owned by LAs, LGFA and government, providing services to LAs <u>and their ratepayers</u>



- The RAS would be a new entity (a CCO), owned by LAs, LGFA and central government
- The RAS would have no discretion to whom and for what it could lend money – all the services it provides would need to be approved by LAs and central government
- To ensure the RAS is off-balance sheet, the maximum individual stake is less than 20%
- All LAs will be able to use the services of the RAS (regardless of whether they are a shareholder or not), subject to meeting RAS's membership requirements – e.g. IT interface, invoicing, collections, security requirements
- <u>LGFA has a critical role in regard to RAS</u> – providing financial and operational support to the RAS (on a commercial contractual basis), using LGFAs existing capabilities, avoiding duplication and maximising efficiency
- The LGFA board has provided in principle approval (subject to LGFA shareholder approval) for the following
    1. **Ownership** up to the maximum allowable (~20% of RAS shares)
    2. **Debt facility** to enable RAS to "warehouse" its loans to ratepayers before issuing its own RAS bonds to the capital markets
    3. **Preference shares investment** (potentially $100 million + over time) to ensure RAS maintains an appropriate equity ratio as its loan book grows
    4. **Shared services arrangements** across many corporate functions such as financial, HR and IT services
    5. **Management of the RAS bond programme** – using LGFAs existing skills, and networks (it is expected that there will be significant crossover between RAS and LGFA bond investors)

5. What it is and how it works

The RAS effectively does what LAs can and already do, but does it more efficiently and effectively, taking on the administrative burden and risk of providing the services while being off-balance sheet so that there is no impact on LAs' financing capacity



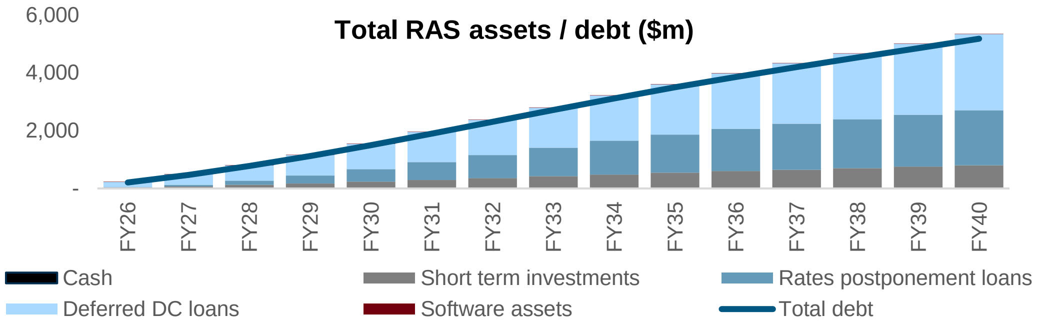
- The RAS structure is based on the LGFA structure
- Importantly, given the RAS is providing services on behalf of LAs, the RAS would have the power to impose a levy charge equivalent to a rate to ensure it gets repaid
- The RAS structure and its ability to impose a 'rate-like' levy would enable it to achieve a very high credit rating
- With this very high credit rating, the RAS would raise very low-cost, long-term financing from the capital markets and pass this on to ratepayers (ratepayer financing will be between ~1-1.5% lower than standard mortgage rates)
- LAs will opt-in as to whether they wish to allow their ratepayers to use the RAS's services
- Ratepayers will also opt-in to use the RAS's services
- The interface between LAs, RAS and ratepayers will be as seamless as possible – for example in the case of RP or deferred DCs / DLs:
    - Ratepayers would "apply" through their LA via a web-based portal on the LA's website
    - The application would go directly to RAS for processing
    - Once approved, payment of the rate charge or DC / DL is made to the LA by the RAS
    - At the appropriate time the RAS will levy the ratepayer to obtain repayment
    - The RAS levy will be separately itemised on the LA's rates invoice, collected by the LA and then distributed to RAS
- In the case of PILs the process would be the same except that RAS would make payment to the approved supplier of the property improvement

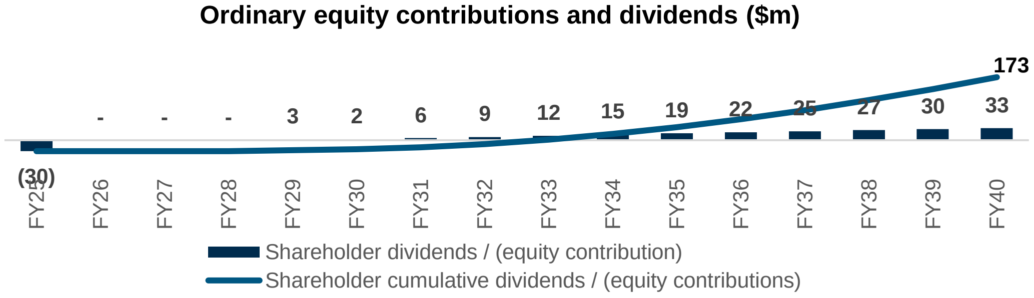
6. RAS financial business case

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme | LGFA New Zealand Local Government Funding Agency Te Pūtea Kāwanatanga ā-rohe | Kō tātou. LGNZ.

In addition to the provision of valuable services for LAs and ratepayers, business case analysis indicates that very strong commercial returns may be available to shareholders

- A comprehensive business case analysis has been undertaken on a "desktop" basis by Cameron Partners with input from LGFA and IT service providers (to assist with scoping and quantification of the core IT system which is critical to the effective and efficient operation of the RAS)
- Multiple scenarios have been developed and the base case scenario is considered conservative – it assumes:
  - Deferred DC / DLs uptake of 25% of new DCs from FY26
  - No PILs have been assumed in the current base case (this assumption will be revisited during final development)
  - RP uptake of 3.0% is achieved by FY34 with significant uptake occurring in years two to five. By FY31, ~52k households use RP
- The next stage of development will firm up these assumptions, including engagement with market providers including IT system service providers
- The economics of RAS rely on it achieving scale so that it can cover its operating costs:
  - The financial modelling assumption is that the RAS net margin is 1% (ie for every $100 million of loans it will generate $1 million to cover its operating costs)
  - Once RAS has achieved breakeven, surplus cashflow is available to distribute to shareholders
- The base case scenario indicates:
  - Equity of ~$30 million is required to cover establishment costs and operating deficits until RAS achieves breakeven
  - Breakeven is achieved in year 4 (based on assumed annual operating costs ~$7m)
  - Full "payback" of initial investment in year 8
  - An annual dividend yield of over 100% by year 15





7. Development to date and next steps

Development of the RAS has occurred over a number of years, overseen and funded by a Steering Group – final detailed development is now required to facilitate a “stop-go” decision to proceed with RAS establishment

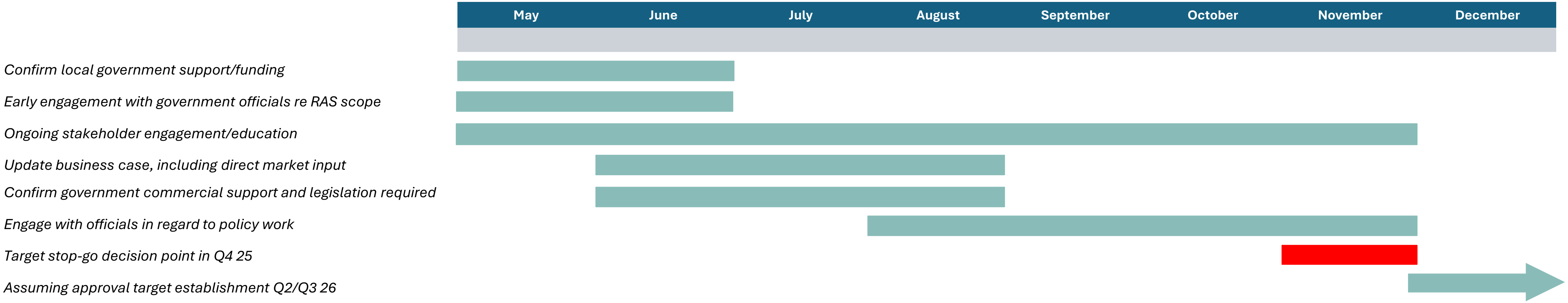
- The RAS Steering Group has comprised LGNZ, Auckland Council, Hamilton City Council, Tauranga City Council, Wellington City Council, Christchurch City Council, LGFA and RA

- The Steering Group has been supported by a suite of advisors who have each undertaken significant work to date, including:
  - Cameron Partners which has led development / business case analysis indicating that a break-even position could be reached in a short timeframe and commercial returns could be strong
  - Russell McVeagh which envisages the RAS being implemented through its own legislation (using similar principles and mechanics to the LGFA and IFFA)
  - PWC (accounting and tax) and S&P who have reviewed the RAS structure and raised no red flags regarding ‘off-balance sheet’ / ‘off-credit’ treatment for LAs

- Given the significant development already undertaken, with the requisite local government support it is anticipated that the RAS could be established within a 12-18 month timeframe

- In outlining his support, the Minister for Local Government has recommended that, to enable his officials to move quickly in August 2025, the Steering Group undertakes significant further development

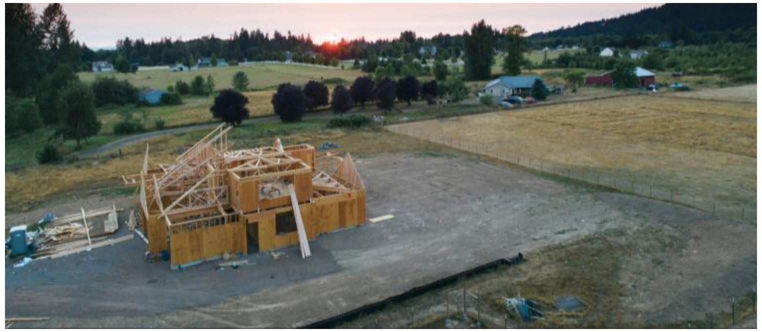
- The proposed workstreams through the remainder of 2025 are as follows:



8. Support and funding commitment required

In order to undertake final development in conjunction with government officials, support and additional funding commitment from local government is required

- As outlined, RAS would be a national service available to all LAs and ratepayers, providing services that will enhance LA funding and financing options and delivery of a range of desirable policy outcomes for ratepayers. In addition, analysis indicates RAS could provide very strong commercial returns to its shareholders
- $2.5 million (incl. 20% contingency) in "at risk" development funding is estimated through until a "stop/go" decision in Q4 25
- Assuming a "go" decision – it is estimated ~$30 million in total equity will be required (including the $2.5m in development funding), covering commercial, legal, accounting, tax, IT and recruitment advice during the development and establishment phase (~$10m) + the IT system and allowance to cover operating deficits while RAS reaches scale and financial breakeven (~$20m). This equity requirement will be confirmed during final development
- All development funding will qualify as equity and is included in the estimated total equity requirement
- The opportunity for councils is to be part of the group of funding councils:
  - Sufficient funding is required to move forward, without it the RAS will not proceed, but no funding will be spent until commitments from councils are received for the total estimated funding costs
  - A number of councils are intending to put the RAS proposal to their elected members in May / June 2025 seeking a decision regarding support and funding commitment – Auckland Council has already confirmed its support to provide $600k of the required development funding
  - It is intended that funding councils will make meaningful funding contributions and provide an in-principle indication of their willingness to use RAS and subscribe for equity at its establishment
- To encourage early participation and to minimise free-riding, governance arrangements have been proposed outlining decision rights for the funding councils – the "RAS Governance Group" (see Appendix). The RAS Governance Group may receive advantageous subscription terms based on the timing of funding provided – e.g.:
  - All funds provided by members of the RAS Governance Group during the development and establishment stages will be recognised in their RAS shareholding when the entity is established (including any funding already provided to enable the RAS development to date)
  - An incentive arrangement may be applied for the funding provided at earlier stages of the process – e.g. 2 shares for every $1 early funding provided



9. What to do next if you are interested

Timing is critical, local government funding needs to be confirmed by the end of June in order to undertake the development work to be ready to engage with officials in August – without funding, the RAS will not proceed

- If you are interested in understanding more about the RAS and deciding whether your council wishes to support RAS and potentially provide funding, please contact:

Hugo Ellis	**Scott Necklen**	**Mark Butcher**
Partner	**Deputy CE**	**Chief Executive**
Cameron Partners	**LGNZ**	**LGFA**
hugo.ellis@cam.co.nz	**Scott.Necklen@lgnz.co.nz**	**mark.butcher@lgfa.co.nz**
021 608 346	**029 924 1210**	**021 223 6573**

- The RAS team is available to work with you as required, including presenting to elected members and executives

- In addition, significant development work has already been completed, and extensive analysis and materials are available including the original comprehensive business case completed in late 2022 (which will be updated during the next stage) and a generic council paper outlining the RAS opportunity

Appendix – Proposed governance during development

1. Members of the RAS Governance Group will comprise:
   - Local Government New Zealand (LGNZ)
   - Local Government Funding Agency (LGFA)
   - Rewiring Aotearoa (RA)
   - Local Authorities (LAs) who are funding the development of the RAS

2. It is possible that the Governance Group may expand overtime - eg:
   - Additional LAs may wish to join as funding LAs (the LGFA establishment process commenced with five funding LAs and at establishment this had increased to 18 LAs + central government)
   - Central government provides funding
   - Potentially other stakeholders may provide funding

3. It is expected that LGFA and LA members of the RAS Governance Group will form some or all of the shareholders of the RAS at its establishment (central government and other LAs that are not members of the RAS Governance Group may also be invited to be shareholders)

4. To encourage early participation in the RAS Governance Group and to minimise free-riding, members of the RAS Governance Group may receive advantageous subscription terms based on the timing of funding provided. For example:
   - All funds provided by members of the RAS Governance Group during the development and establishment stages will be recognised in their RAS shareholding when the entity is established (including any funding already provided to enable the RAS development to date)
   - An incentive arrangement may be applied for the funding provided at earlier stages of the process

5. A subset of the RAS Governance Group will be known as the Steering Group

6. The rationale for the Steering Group is to ensure a small group of Governance Group members are able to make day-to-day decisions required to ensure the process can advance in an efficient manner

7. The Governance Group will:
   - Work together to make strategic decisions relating to the development, establishment and ongoing operations of the RAS and the policies and policy criteria that the RAS will support (for example the economic and decision rights attached to RAS shareholdings and the qualifying criteria for various RAS products such as rates postponement)
   - Collectively make stop-go decisions (although individual members may also decide not to proceed)
   - Delegate authority to the Steering Group to make day-to-day decisions including committing to costs to be borne by the RAS Governance Group within a pre-agreed budget
   - Make decisions by way of a simple majority

8. The Steering Group will comprise a smaller group of personnel appointed by the Governance Group and will:
   - Have responsibility for day-to-day oversight of the development and establishment process
   - Meet on a regular basis (e.g. weekly) and as required with Cameron Partners (the Lead Advisor) and other advisors to make day-to-day decisions
   - Update the Governance Group and other stakeholders, such as central government (e.g. the minister and / or officials) on a regular basis (e.g. every 4 to 6 weeks) and more often as appropriate
   - Seek decisions on strategic matters from the Governance Group
   - In the first instance, represent the RAS Governance Group in its engagement with other parties
   - Comprise representatives from no more than two LAs, LGNZ, LGFA and RA

9. At this stage, in order to progress the establishment of the RAS Governance Group a Steering Group has been formed comprising LGNZ, LGFA and RA

RAS
LOCAL GOVERNMENT
Ratepayer Assistance Scheme

Attachment B: Slide Deck

RAS

LOCAL GOVERNMENT

Ratepayer Assistance Scheme

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme

LGFA New Zealand Local Government Funding Agency Te Pūtea Kāwanatanga ā-rohe

Kō tātou. LGNZ.

RATEPAYER ASSISTANCE SCHEME

THE OPPORTUNITY FOR LOCAL GOVERNMENT

Executive summary

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme
LGFA New Zealand Local Government Funding Agency Te Pūtea Kāwanatanga ā-rohe
Kō tātou. LGNZ.

RAS would significantly enhance LAs' funding and financing toolbox

- The RAS has been developed by LGNZ, LGFA, a group of metro councils and Cameron Partners to address a range of economic and social issues
- RAS supports councils to support their ratepayers with the affordability of LA charges by providing flexibility as to the timing of payments and very low cost financing
- The RAS would be owned by LAs, off-balance sheet and can be used to finance Development Contributions / Levies, Property Improvement Loans and Rates Postponement
- The Minister has confirmed he is supportive, instructing his officials to initiate work on the RAS in August, and has recommended that local government undertakes further and final development work
- To undertake final development requires additional funding from the sector of $2.5 million (without this the RAS will not proceed)

1. The RAS Opportunity

RAS has been developed to address a range of economic and social issues

- NZ is experiencing a cost-of-living crisis, an ageing population and must invest to meet infrastructure, H&S and environmental requirements

- Local government is responding but it needs additional tools to ensure its policies can be financed, administered efficiently and are effective

- The RAS:
  - Addresses ratepayer affordability
  - Provides ratepayers with flexibility to decide when to pay LA charges
  - Provides very competitive finance terms

- Multiple applications are possible:
  1. **Deferred Development Contributions / Development Levies**
  2. **Property Improvement Loans (PILs)**
  3. **Rates Postponement (RP)**

1. The RAS Opportunity

Government is supportive and has recommended further development

- The RAS is similar to the LGFA – it:
  - Utilises the strength of a LA rates charge to provide security
  - Achieves scale across the sector
  - Accesses very low cost financing and passes this on to ratepayers

- RAS lends directly to ratepayers (whereas the LGFA lends to LAs)

- The RAS would be a new entity owned by LAs, providing a national shared service available to all LAs – it would:
  - <u>Undertake administration of ratepayer loans</u>
  - <u>Be off-balance sheet for LAs</u>

- The Minister for Local Government is supportive of the RAS and has instructed officials to commence policy work on the RAS in August 2025

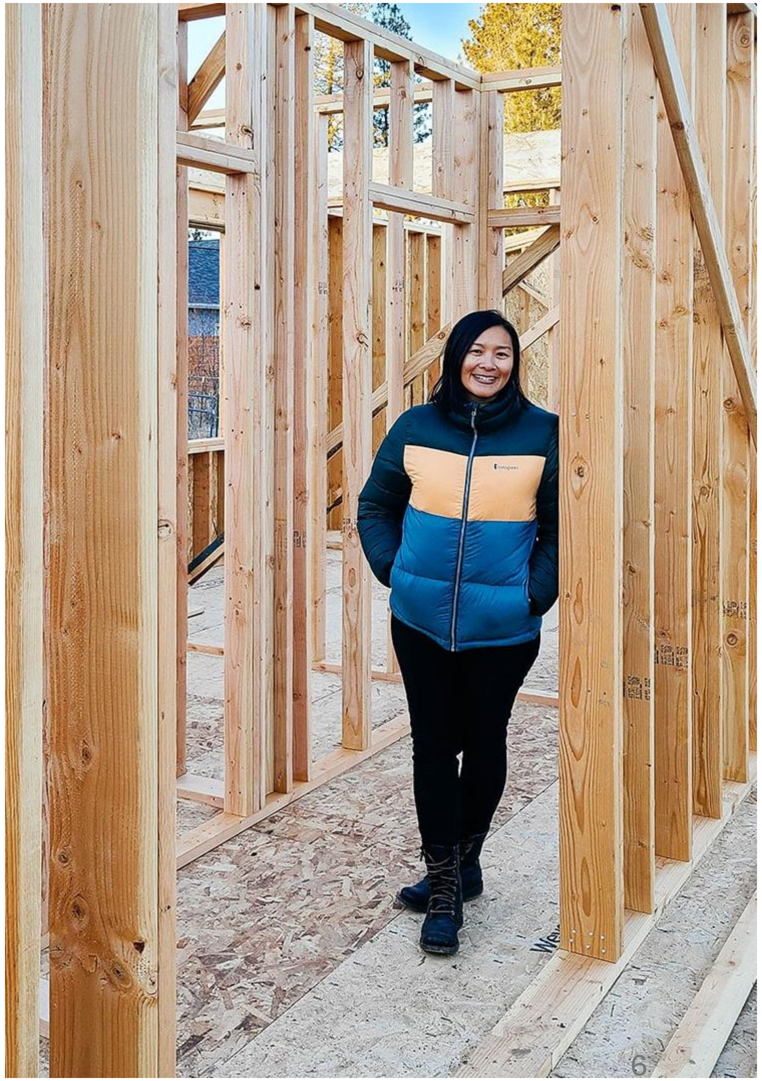
- A final stop / go decision in late 2025 is being targeted

- The sector needs to confirm its support and funding for final development

2. Deferred DCs / DLs

Deferred DCs / DLs would spread the cost over say, 30 years, supporting development

- DC costs are significant, 2026 annual plans indicate $700 million nationally
- The DLS is expected to enable LAs to raise more revenue to fund growth
- BUT the DLS, supply chain issues and inflation pressures means developers would need to pay more → affordability concerns and risk to developments
- The RAS would be able to effectively convert upfront DCs / DLs into series of annual payments over say 30 years (paying the upfront DC / DL to the LA and charging the property owner principal and interest annually to get repaid)
- Developers would have the option to pay in full or defer
- Future owners would expect to pay less for properties with deferred DCs / DLs to reflect the RAS levies that would be charged in future
- A property purchaser would have the option to require the outstanding RAS levies to be repaid by the seller prior to them taking ownership



3. Property Improvement Loans

The RAS can finance and administer loans to ratepayers for property improvements

- Current legislation enables LAs to provide financing to ratepayers that can be repaid via a voluntary targeted rate
- PILs support ratepayers to invest in their properties to achieve desirable private and public benefits
- Potential examples, include home insulation, heat pumps, double glazing, earthquake strengthening, solar panels, water tanks, septic tanks, EV chargers, stock exclusion fencing, sea walls
- Current PILs usage across most LAs is low:
  - PILs must be financed out of LAs' existing financing capacity
  - LAs have encountered operational and regulatory challenges
- RAS :
  - Can undertake all administration of loans
  - would be 'off-balance sheet' for LAs
  - Provide competitive financing options (~1% – 1.5% below standard mortgage rates)

4. Rates Postponement

RAS LOCAL GOVERNMENT Ratepayer Assistance Scheme

LGFA New Zealand Local Government Funding Agency Te Pūtea Kāwanatanga ā-rohe

Kō tātou. LGNZ.

RP allows qualifying ratepayers to defer rates and pay on sale of their property

- RP provides flexibility to ratepayers (like a reverse equity mortgage) to decide to pay LA charges at some time in the future, partially mitigating:
    - Affordability issues
    - Demographic changes
    - General cost of living challenges

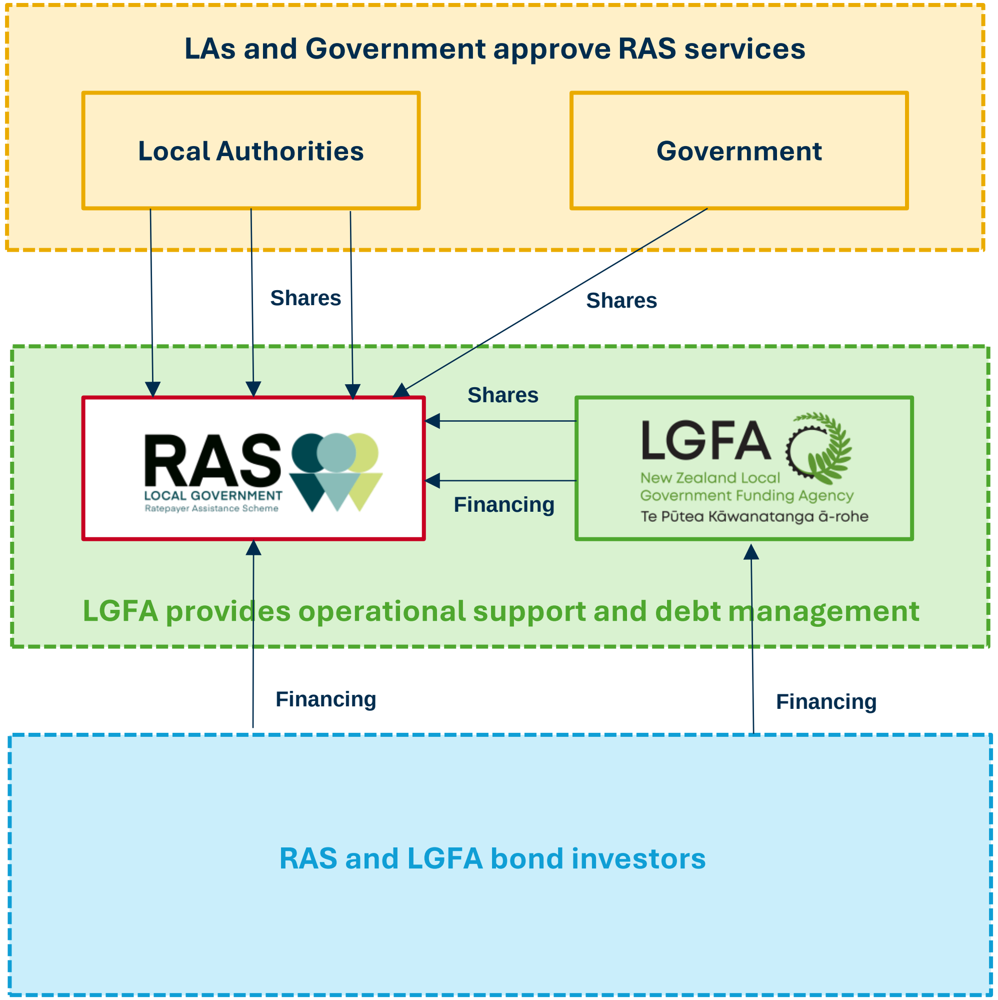
- In principle all LA charges could be deferred in the same way

- RAS RP is an opportunity for a standardised, highly efficient national RP scheme at very competitive financing rates (~1% – 1.5% below standard mortgage rates; ~4% to 5% below reverse mortgage rates)

- British Columbia, Canada (population ~5 million) has a property tax regime similar to New Zealand's rating system providing strong insights – in 2024:
    - 83,000+ users
    - ~C$2.7 billion in loans (4x growth from ~C$670 million in 2016)
    - ~3.9% of British Columbia households

5. What it is and how it works

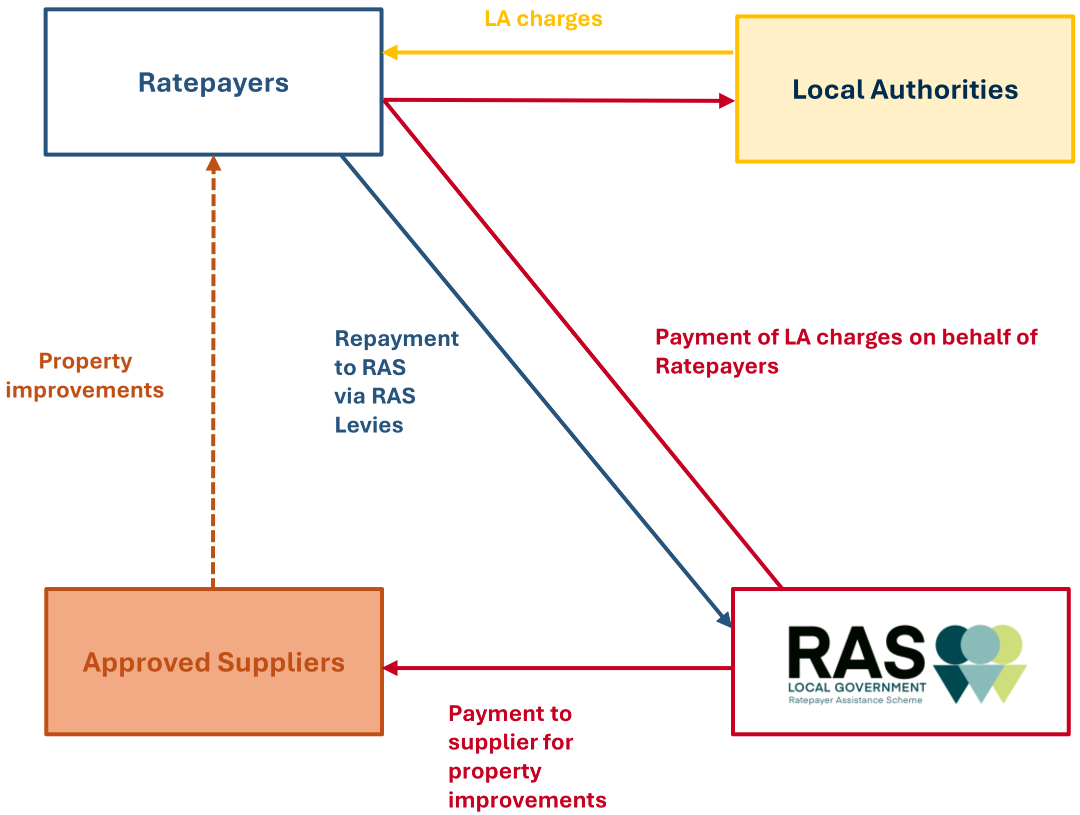
Structurally the RAS has many similarities to the LGFA – it would be owned by LAs, LGFA and government, providing services to LAs and their ratepayers



- The RAS would be a new entity (a CCO)
- It would have no discretion – all its services would be approved by LAs and central government
- All LAs would be able to use the services of the RAS, subject to meeting RAS's membership requirements – e.g. IT interface, invoicing, collections, security requirements
- <u>LGFA would have a critical role with RAS,</u> providing financial and operational support (on a commercial contractual basis)
- LGFA board has approved (subject to LGFA shareholder approval)
    1. Ownership (up to ~20% of RAS shares)
    2. Debt facility
    3. Preference shares investment
    4. Shared services arrangements
    5. Management of the RAS bond programme

5. What it is and how it works

The RAS effectively does what LAs can and already do, but does it more efficiently and effectively, taking on the administrative burden and risk while being off-balance sheet

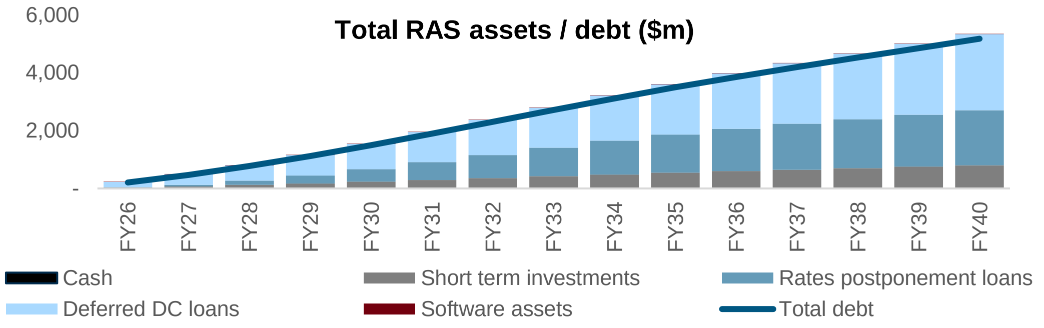


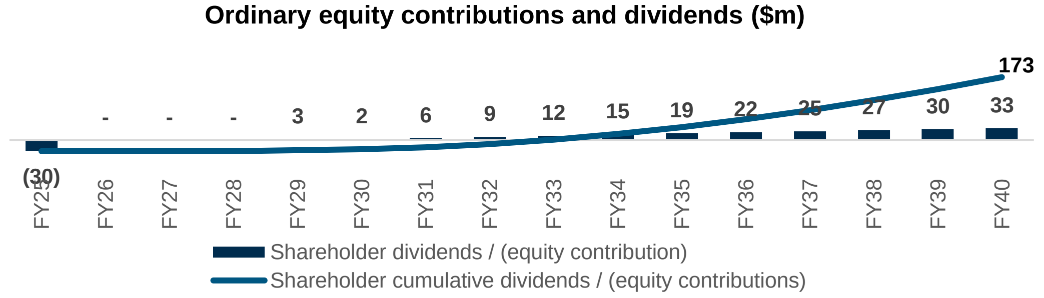
- The RAS would have the power to impose a levy charge equivalent to a rate and obtain a very high credit rating
- LAs would opt-in and ratepayers would also opt-in
- The interface between LAs, RAS and ratepayers would be as seamless as possible – eg with RP or deferred DCs/DLs:
  - Ratepayers would “apply” through the LA’s website
  - The application would go directly to RAS for processing
  - Once approved, payment of the rate charge or DC / DL would be made to the LA by the RAS
  - The RAS would levy the ratepayer to obtain repayment
  - The RAS levy would be separately itemised on the LA’s rates invoice, collected by the LA and then distributed to RAS
- In the case of PILs the process would be the same except that RAS would make payment to the approved supplier of the property improvement

6. RAS financial business case

Strong commercial returns may be available to shareholders

- The base case scenario is considered conservative – it assumes:
  - Deferred DC / DLs uptake of 25% of new DCs from FY26
  - No PILs
  - RP uptake of 3.0% is achieved by FY34
- The next stage of development would firm up these assumptions
- The economics of RAS rely on it achieving scale so that it can cover its operating costs:
  - The modelling assumes that the RAS net margin is 1%
  - Surplus cashflow is available to distribute to shareholders
- The base case scenario indicates:
  - Equity of ~$30 million is required
  - Breakeven is achieved in year 4
  - Full "payback" of initial investment in year 8
  - An annual dividend yield of over 100% by year 15

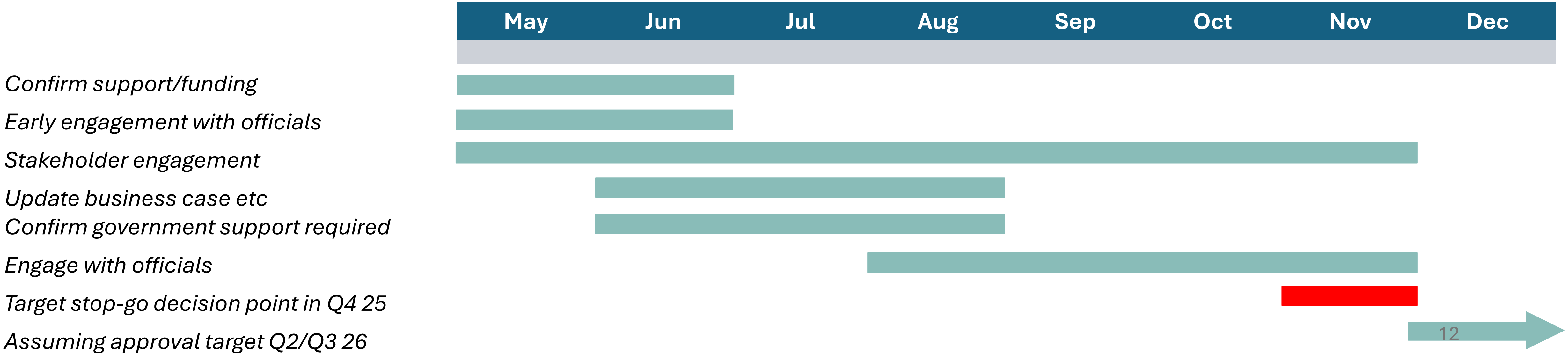




7. Development to date and next steps

Development of the RAS has been overseen and funded by a Steering Group – final detailed development is now required to facilitate a “stop-go” decision

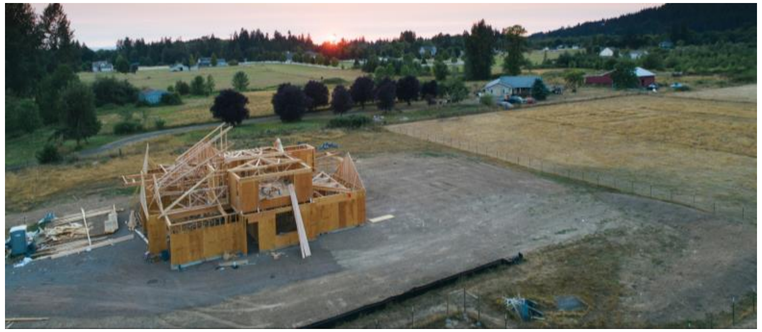
- The RAS Steering Group has comprised LGNZ, Auckland Council, Hamilton City Council, Tauranga City Council, Wellington City Council, Christchurch City Council, LGFA and RA
- The Steering Group has been supported by a suite of advisors who have each undertaken significant work to date, including Cameron Partners, Russell McVeagh, PWC (accounting and tax) and S&P
- In outlining his support, the Minister has recommended that, to enable his officials to move quickly in August 2025, the Steering Group undertakes significant further development (establishment could occur within 12-18 months)



8. Support and funding commitment required

In order to undertake final development in conjunction with government officials, support and additional funding commitment from local government is required

- $2.5 million (incl. 20% contingency) in "at risk" funding is estimated through until a "stop/go" decision in Q4 25
- Assuming a "go" decision ~$30 million in total equity is estimated - this equity requirement would be confirmed during final development
- Development funding would qualify as equity (included in est. equity requirement)
- The opportunity for councils is to be part of the group of funding councils
- Without funding the RAS will not proceed
- No funding would be spent until commitments from councils are received for the total estimated funding costs
- To encourage early participation and to minimise free-riding, the funding councils will "call the shots"



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