

## LGFA BOARD CHARTER

Updated: April 2018

### Part 1 Interpretation

In this Charter:

- “Act” means the Companies Act 1993;
- “Board” means the board of directors of the Company;
- “CEO” means the chief executive officer of the Company;
- “Chair” means the chair of the Board;
- “Company” means New Zealand Local Government Funding Agency Limited;
- “Company Goals” means the goals of the Company as set out in Part 2;
- “Independent” means a Member who:
  - is not an employee of any Shareholder;
  - is not an employee of a council-controlled organisation owned (in whole or in part) by any Shareholder; or
  - is not a councillor of a Shareholder; or
  - has not been at any time in the five years prior to that person's appointment as a Member such an employee or councillor (but, for the avoidance of doubt, a director (or former director) of a council-controlled organisation shall not, by this reason alone, be precluded from being Independent);
- “LGA” means the Local Government Act 2002;
- “Management” means the management personnel of the Company;
- “Management Limitations” means the limitations on the actions of Management as set out in Part 4;
- “Members” means members of the Board;
- “Secretary” means the Board secretary or the person normally exercising the functions of a Board secretary;
- “Shareholders” means the shareholders of the Company; and
- “Statement of Intent” means the statement of intent of the Company prepared in accordance with section 64(1) of the LGA.

Where any term of the Constitution or the Shareholders' Agreement conflicts with this Charter, the Constitution or the Shareholders' Agreement prevails.

## **Part 2 Company Goals**

### *General*

The purpose of the Company is to carry on the business of raising debt funding (both domestically and internationally), and providing debt funding to Local Authorities. In accordance with the LGA, in carrying on its business, the objectives of the Company will be to achieve the objectives of the Shareholders (both commercial and non-commercial) as specified in the Statement of Intent. The Shareholders have agreed that the Company shall carry on its business with a view to making a profit sufficient to pay a dividend in accordance with the agreed dividend policy, but that the primary objective of the Shareholders with respect to the Company is that it optimises the terms and conditions of the debt funding it provides to Local Authorities.

The capital and resources of the Company will be allocated to those assets and activities which will enable it to achieve the Company Goals in a manner best serving the objectives of the Shareholders as a whole.

## **Part 3 Board Governance Process**

### *Role of the Board*

The role of the Board is to ensure the Company achieves the Company Goals. Having regard to its role the Board will direct, and supervise the management of, the business and affairs of the Company including, in particular:

- ensuring that the Company Goals are clearly established, and that strategies are in place for achieving them (such strategies being expected to originate, in the first instance, from Management);
- establishing policies for strengthening the performance of the Company
- ensuring strategies are in place for meeting expectations set out in the current Statement of Intent and monitoring performance against those expectations, in particular the Company's primary objective of optimising the debt funding terms and conditions for participating local authorities;
- monitoring the performance of Management;
- appointing the CEO, setting the terms of the CEO's employment contract and, where necessary, terminating the CEO's employment with the Company;
- deciding on whatever steps are necessary to protect the Company's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such steps are taken;
- ensuring that the Company's financial statements are true and fair and otherwise conform with law;
- ensuring that the Company adheres to high standards of ethics and corporate behaviour; and
- ensuring that the Company has appropriate risk management/regulatory compliance policies in place. In the normal course of events, day-to-day management of the Company will be in the hands of Management. The Board will satisfy itself that the Company is achieving the Company Goals; and
- engaging and communicating with Shareholders

### **Composition of the Board**

The Board shall consist of between four and seven Members, no less than a majority of whom shall be Independent. All Members shall (with customary exceptions) be appointed by the Shareholders and (subject to the following paragraph) play an equal part in discharging the Board's responsibilities to Shareholders. Member's participation in Board discussions and resolutions will be restricted only in accordance with clause 3.10 of the Shareholders' Agreement (*Conflict of Interest*), this Charter, the Constitution, the Act and any other relevant legislation or regulations (including the LGA).

### **The Board's Relationship with Shareholders**

The Board will use reasonable endeavours to familiarise itself with issues of concern to Shareholders. The Board will regularly evaluate economic, political, social and legal issues and any other relevant external matters that may influence or affect the development of the business of the Company or the interests of Shareholders and, if thought appropriate, will take outside expert advice on these matters.

Through the Chair and the CEO, the Board will endeavour to ensure that it is fully informed of matters of concern to the Shareholders' Council. Members will endeavour to make themselves available for meetings with the Shareholders' Council when requested by the Chair.

### **The Board's Relationship with other stakeholders**

The Board will use its best endeavours to familiarise itself with issues of concern to all relevant stakeholders. The Board recognises that the Company's long-term survival and prosperity are closely intertwined with the environments and markets within which it operates and the extent to which the Company is seen as a responsible corporate citizen.

### **Board Procedures**

The conduct of Members will be consistent with their duties and responsibilities to the Company and, indirectly, to Shareholders. Members will always act within any limitations imposed by the Board on its activities, including the Foundation Policies agreed by the Shareholders, the objectives of the Company set out in clause 2.4 of the Shareholders' Agreement and the restrictions set out in clause 5.1 of the Shareholders' Agreement.

Members will use reasonable endeavours to attend Board meetings and to prepare thoroughly. Members are expected to participate fully, frankly and constructively in Board discussions and other activities and to bring the benefit of their particular knowledge, skills and abilities to the Board table. Members unable to attend a meeting will advise the Chair at as earlier a date as possible and confirm in writing to the Secretary.

Board discussions will be open and constructive, recognising that genuinely-held differences of opinion can, in such circumstances, bring greater clarity and lead to better decisions. The Chair will, nevertheless, seek a consensus in the Board but may, where considered necessary, call for a vote. All discussions and their record will remain confidential unless there is a specific direction from the Board to the contrary, or disclosure is required by law. Subject to legal or regulatory requirements the Board will decide the manner and timing of the publication of its decisions.

The Board has sole authority over its agenda and exercises this through the Chair. Any Member may, through the Chair, request the addition of an item to the agenda. The agenda will be set by the Chair in consultation with the CEO and the Secretary. Due consideration will be given to any reasonable matter raised by the Shareholders' Council.

### **Board Meetings and Quorum**

Board meetings shall be held not less than once in each quarter in each year, as per clause 3.8 of the Shareholders Agreement. At each normal meeting the Company's interests register will be updated as necessary.

The Constitution of the LGFA, clause 29.7 defines a quorum as 80% of directors (rounded down to the nearest whole number), No business may be transacted at a meeting of Directors if a quorum is not present.

In addition, the Board will, at intervals of not more than one year:

- review the Company Goals;
- review the strategies and operating plans for achieving the Company Goals;
- approve the annual budget;
- following review by the Audit and Risk Committee, approve the annual and half-yearly financial statements and related reports to Shareholders and public announcements;
- approve the annual report;
- approve a Statement of Intent in accordance with the LGA;
- consider and, if appropriate, declare or recommend the payment of dividends;
- review the Board composition, structure and succession;
- review the Company's audit requirements;
- review the performance of, necessity for and composition of Board committees;
- undertake Board and individual Member evaluations;
- review Members' remuneration;
- review the CEO's performance and remuneration;
- review remuneration policies and practices in general including superannuation and incentive schemes for management;
- review risk assessment policies and controls including insurance covers and compliance with legal and regulatory requirements; and
- review Shareholder and investor relations.

Members are entitled to have access, at all reasonable times, to all relevant Company information and to Management. Such access shall be facilitated by the CEO. Members are expected to strictly observe the provisions of the Act applicable to the use and confidentiality of Company information and the provisions of the Shareholders' Agreement relating to Conflicts of Interest.

All Members shall declare their interests in matters to be decided by the Board and any other conflicts in accordance with applicable law. A Member shall abstain from voting with respect to a matter concerning the Company in which he or she has a conflicting interest. Such Director shall use

best efforts to ensure that he or she does not receive any confidential information with respect to such transaction and shall, if requested by any other Member, excuse themselves from discussions on any matter in which they have a conflicting interest.

### **Chair**

The Chair must be an Independent Member. Any Member may be elected by the Board to deputise for the Chair in his or her absence or at his or her request.

The Chair is responsible for representing the Board to Shareholders.

The Chair is responsible for ensuring the integrity and effectiveness of the governance process of the Board as set out in this Part 3.

The Chair is responsible for maintaining regular dialogue with the CEO over all operational matters and will consult with the remainder of the Board promptly over any matter that gives him or her cause for major concern.

The Chair will act as facilitator at meetings of the Board to ensure that no Member dominates discussion, that appropriate discussion takes place and that relevant opinion among Members is forthcoming. The Chair will ensure that discussions result in logical and understandable outcomes.

### **Board Committees**

Board committees will be formed only when it is efficient or necessary to facilitate efficient decision-making.

Board committees will observe the same rules of conduct and procedure as the Board unless the Board determines otherwise.

Board committees will only speak or act for the Board when so authorised. The authority conferred on a Board committee will not derogate from the authority delegated to the CEO.

The Board has one standing committee, namely the Audit and Risk Committee. Other committees may be formed for specific purposes and disbanded as required. The purposes and membership of the standing committee is as follows:

**The Audit and Risk Committee** consists of at least three Members the majority of whom must be Independent. The Audit and Risk Committee provides a forum for:

- i. the effective communication between the Board and the external and internal auditors; and
- ii. the timely identification and management of risks affecting the Company or its performance.

The Audit and Risk Committee shall review the annual and half-yearly financial statements prior to their approval by the Board, the effectiveness of management information systems and systems of

internal control, and the efficiency and effectiveness of the external and internal audit functions. The Chair of the Board should not be the Chair of the Audit and Risk Committee.

### **Members' Remuneration**

The Board will determine the level of remuneration paid to Members within any limitations imposed by the Shareholders' Agreement.

### **Shareholdings by Members in the Company**

Members will not hold shares in the Company.

### **Provision of Business or Professional Services by Members**

Because a conflict of interest (actual or perceived) may be created, Members should not, generally, provide business or professional services of an ongoing nature to the Company.

Notwithstanding the general rule, the Company is at liberty to:

- for the purpose of a special assignment, engage the services of any Member having special expertise in the particular field;
- engage the services of another member of a Member's organisation; or
- so long as the terms of engagement are competitive, are clearly recorded and all legal requirements for disclosure of the engagement are properly observed.

The provision of any such business or professional service must be recorded in the Company's interest register.

### **Other Board Appointments**

Any Member is, while holding office, at liberty to accept other Board appointments so long as the appointment is not in conflict with the business of the Company, does not change the Member's designation as an Independent Member and does not detrimentally affect the Member's performance as a Member. All other appointments must first be discussed with the Chair before being accepted.

### **Independent Professional Advice**

Any Member is entitled to obtain independent professional advice relating to the affairs of the Company or to his or her other responsibilities as a Member.

If a Member considers such advice is necessary, as a courtesy the Member should first discuss it with the Chair and, having done so, shall be free to proceed. Subject to the prior approval of the Chair, the cost of the advice will be reimbursed by the Company but the Member will ensure, so far as is practicable, that the cost is reasonable.

### **Board and Member Evaluations**

The Board will, each year, critically evaluate its own performance, and its own processes and procedures to ensure that they are not unduly complex and are designed to assist the Board in effectively fulfilling its role.

### **Indemnities and Insurance**

Subject to the Company's Constitution the Company will provide Members with, and will pay the premiums for, indemnity and insurance cover while acting in their capacities as Members, to the fullest extent permitted by the Act.

### **The Secretary**

The appointment of the Secretary is made on the recommendation of the CEO and must be approved by the Board.

The Secretary is responsible for ensuring that Board procedures are followed, that the applicable rules and regulations for the conduct of the affairs of the Board are complied with and for all matters associated with the maintenance of the Board or otherwise required for its efficient operation.

All Members, particularly the Chair, have access to the advice and services of the Secretary for the purposes of the Board's affairs and the business of the Company.

### ***Part 4 Board-Management Relationship***

#### **Position of CEO**

The Board will link the Company's governance and management functions through the CEO.

All Board authority conferred on Management is delegated through the CEO so that the authority and accountability of Management is considered to be the authority and accountability of the CEO so far as the Board is concerned. The Board must agree to the levels of sub-delegation immediately below the CEO.

The Board will agree with the CEO to achieve specific results directed towards the Company Goals.

Between Board meetings the Chair maintains an informal link between the Board and the CEO, expects to be kept informed by the CEO on all important matters, and is available to the CEO to provide counsel and advice where appropriate.

Only decisions of the Board acting as a body are binding on the CEO. Decisions or instructions of individual Members, officers or committees should not be given to the CEO and are not binding in any event except in those instances where specific authorisation is given by the Board.

#### **Accountability of CEO to Board**

The CEO is accountable to the Board for the achievement of the Company Goals and the CEO is accountable for the observance of the Management Limitations.

At each of its normal monthly meetings the Board should expect to receive from or through the CEO:

- the operational and other reports and proposals referred to above; and
- such assurances as the Board considers necessary to confirm that the Management Limitations are being observed.

### **Management Limitations**

The CEO is expected to act within all specific authorities delegated to him or her by the Board.

The CEO is expected to not cause or permit any practice, activity or decision that is contrary to commonly accepted good business practice or professional ethics.

In allocating the capital and resources of the Company the CEO is expected to adhere to the Company Goals and the treasury policies agreed by the Board.

The CEO is expected to not cause or permit any action without taking into account the health, safety, environmental and political consequences and their effect on long-term Shareholder value.

In financing the Company, the CEO is expected to not cause or permit any action that is likely to result in the Company becoming financially embarrassed.

The assets of the Company are expected to be adequately maintained and protected, and not unnecessarily placed at risk. In particular, the Company must be operated with a comprehensive system of internal control, and assets or funds must not be received, processed or disbursed without controls that, as a minimum, are sufficient to meet standards acceptable to the Company's external auditors.