10 July 2025

Shayne Harris
Chief Executive Officer
Manawatu District Council
Private Bag 10001
Feilding, 4743

Dear Shayne,

In April 2025. LGFA wrote to councils to outline how it was proposing to assist councils in respect of the financing of their water service delivery plans.

You have asked for LGFA to clarify how financing arrangements will work for councils who are opting to keep their water activities in-house.

For councils that retain their water activities in-house the four existing LGFA financial covenants will continue to apply. These are set out below.

The LGFA financial covenants that apply to councils are listed below.

- The "Lending Policy Covenants" apply to councils who do not have an external credit rating.
- The "Foundation Policy Covenants" apply to councils who have an external credit rating. Currently there are forty-one councils who have an external credit rating.

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<280%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

Alternative Net Debt / Total Revenue Covenant	
Financial Year ending	**Net Debt / Total Revenue**
30 June 2020	<250%
30 June 2021	<300%
30 June 2022	<300%
30 June 2023	<295%
30 June 2024	<290%
30 June 2025	<285%

The LGFA financial covenants are measured at the "parent" level of a council and not a consolidated group basis unless a council applies to LGFA to have their financial covenants measured at a "group" basis.

Manawatu District Council does not currently have an external credit rating. This means it's net debt to revenue limit is 175%. If in the future the Council obtains an external credit rating, it will be able to borrow up to 280% of net debt to revenue. The 280% level applies from 30 June 2026 onwards for councils with credit ratings.

While there is a legislative requirement for councils to separate their water revenue from non-water revenue, this is not an LGFA requirement. Councils will be required to comply with the financial covenants at "parent" level. There is no requirement to provide LGFA with covenant outcomes on water activities and non-water activities.

LGFA values its long-standing relationship with the Council, and we look forward to working with you on the financing of your WSDP.

Yours sincerely

Mark Butcher
Chief Executive Officer