

Report 12.376
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Committee Audit, Risk and Assurance
Author Mike Timmer, Treasurer

Local Government Funding Agency update

1. Purpose

To update the Committee on the progress of the Local Government Funding Agency and provide their Quarterly report for 30 June 2012.

2. The decision-making process and significance

No decision is being sought in this report.

3. Background

Greater Wellington (GW) became a shareholder of the Local Government Funding Agency (LGFA), contributing \$2 million in paid up capital in December 2011. Since then, GW has borrowed \$50 million from the LGFA in two tranches of \$25 million, maturing in April 2015 and December 2017 at an average cost of 1.00% margin over the 90 day bank bill rate or swap rate.

At the same time the LGFA was set up, a body called the Shareholders' Council was also established. Its role is to monitor the LGFA and to provide a liaison between the LGFA and its shareholders. GW is a member of the Shareholder Council and is active in providing direction and advice to it through its representative.

The LGFA reports to shareholders quarterly via the Shareholder Council. The LGFA, also being a Council Controlled Organisation, is obliged to produce a Statement of Intent and report on it.

The LGFA SOI was presented to the Council in March along with the LGFA's half yearly report.

4. Comment

The LGFA Quarterly Report for the period to 30 June 2012 is appended to this report as **Attachment 1**.

The debt issuance by the LGFA continues to be received well by the market as evidenced by the large amount of over subscription and contraction in pricing.

At the time of writing the LGFA had held six tenders and has collectively raised just over \$1 billion for Local Government.

The LGFA press release announcing this milestone is appended to this report as **Attachment 2**.

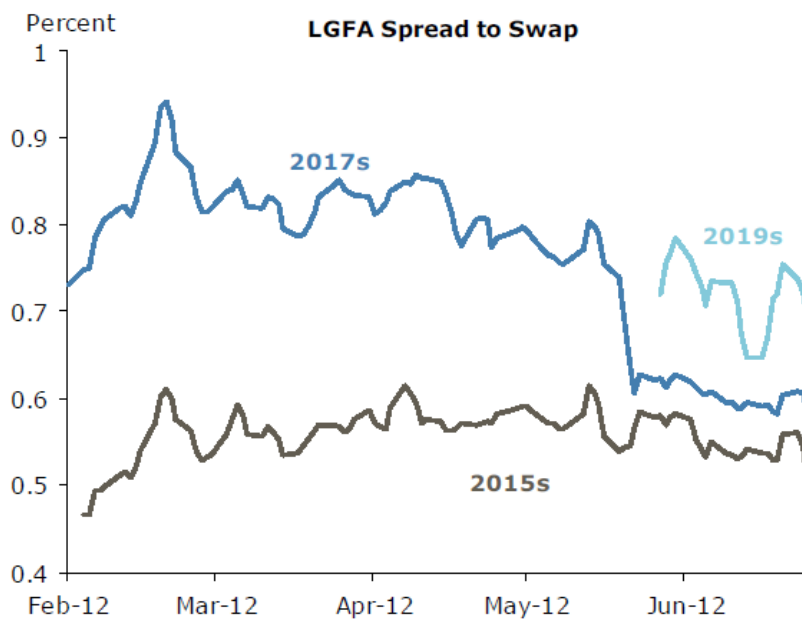
Given this issuance milestone we are now likely to see a greater participation by offshore investors, which in turn may place further pressure on margins.

Figure 1 below courtesy of the ANZ Bank provides a visual representation of where margins for the 3 LGFA bonds have gone.

The 2017 LGFA Bond is used in **Attachment 1** on page 5 and shows the relative spreads of 5 year securities for various organisations. Kommunalbanken is a Norwegian LGFA with around \$48 billion Euros of debt. The LGFA is now funding at better margins than Kommunalbanken.

It is interesting to note that the ANZ Bank is currently raising 5 year funds at 1.75% over the swap rate. This compared to 0.90% for us after the LGFA has added on its lending margin.

Figure 1



Source: ANZ Research - 8 August 2012

The LGFA has now provided information on indicative savings it is providing to Local Government. These are noted on page 5 of **Attachment 1**. Our plan had assumed 0.40% (or 40 basis points, bps) so at 0.30% (as we are a AA Standard & Poor's rated Council) our savings are getting close to achieving the plan.

The LGFA is also looking to issue shorter dated securities after our request. We are hopeful that we can access these securities at a cheaper rate, rather than issuing Commercial Paper in the Council's own name.

Next quarter (September to December) we will see the LGFA increase its shareholding, which will involve us at some stage giving up some of our shareholding to other Councils.

5. Recommendations

That the Committee:

1. *Receives the report.*
2. *Notes the content of the report.*

Report prepared by:

Report approved by:

Mike Timmer
Treasurer

Bruce Simpson

Attachment 1 - LGFA Quarterly Report for the period ended 30 June 2012-09-04

Attachment 2 - LGFA Press Release – Over \$1 billion of bonds issued