

Report 15.145  
Date 7 April 2015  
File CFO/06/03/01

Committee Council  
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## Local Government Funding Agency (LGFA) Draft Statement of Intent 2015/16

### 1. Purpose

To consider the Local Government Funding Agency's ("LGFA") draft statement of intent and, if necessary, provide feedback to the LGFA Board via the Shareholders' Council by 30 April 2015.

### 2. Background

The LGFA was established on 6 December 2011 and being a Council Controlled Trading Organisation (CCTO), it is required to prepare a Statement of Intent to its shareholders.

Greater Wellington Regional Council (GWRC) has been a promoter of this organisation and holds \$1.866 million of the \$25 million share capital.

GWRC has a representative (Vice Chairman) on the Shareholders' Council. The Shareholders' Council is a group consisting of the nine Councils which originally promoted the LGFA.

The principal role of the Shareholder Council is to monitor the LGFA and to provide a focal point for LGFA communication. The Council has formal meetings and meets around five times a year.

A letter from the LGFA Chair (**Attachment 3**) discusses the SOI process and the Shareholders' Council letter of expectations to the LGFA. It also looks at some of the initiatives that are underway, and those in store for the future.

The Shareholders' Council has developed its own charter, provided assistance with debt settlements, developed a monitoring framework for the LGFA, and provides a Letter of Expectation to the LGFA in relation to its SOI and business operation.

### 3. Statement of Intent

The Statement of Intent (**Attachment 1**) is now available to shareholders for comment. A copy of the Letter from the LGFA Chair Introducing the Draft SOI is **Attachment 2**.

A brief summary of the financial information reveals the following:

- LGFA profitability remains strong and is forecast to increase. Retained earnings are forecast to increase by approximately \$29m over the budgeted period, compared to the previous SOI three year period which saw them increase by \$18m after dividend payments.
- Lending to councils is forecast to increase to \$6,970m by 30 June 2017 (previous forecast \$6,484m) and then to \$7,610m by 30 June 2018.
- The Dividend Policy is unchanged and dividend payment is forecast at 7% return on initial equity for the three years ending 30 June 2018. Note that a review of the capital structure is a work in progress presently.
- The base margin charged to borrowing Councils to cover LGFA operating costs is forecast to remain at 0.10% over the three years. Currently this base margin is at 0.15% for long dated maturities.
- Further increases in offshore holders of LGFA bonds are expected and this will improve borrowing margins on LGFA bonds. Interest payments to offshore bonds holders require payment of Approved Issuer Levy (“AIL”) at 2% of the interest amount. This equates to approximately 0.10% (\$1.5m for 2015/16 year). In summary, overall improvement in borrowing margins is significantly more than the cost of AIL.

There are two changes proposed to performance targets:

- *LGFA’s average cost of funds relative to the average cost of funds for New Zealand Government securities of 0.50%:*

This margin of 0.50% is to be measured for a twelve month period rather than a historic measure since the establishment of LGFA. This is still regarded as an aspirational target and 0.50% has not been achieved to date on an annual basis.

- *The primary objective of providing estimated savings in annual interest costs for all borrowing Councils of at least 0.30%:*

The savings calculation methodology was based on the criteria set out in LGFA’s Annual Report 2012-2013. This measurement basis was appropriate at the initial start-up phase of LGFA. This calculation methodology does not fully recognise the ongoing improvement in borrowing costs as a result of “LGFA effect”. This calculation compares Auckland and Dunedin City to determine the “LGFA effect” and as their borrowing costs have also decreased so the “LGFA effect” is understated. It is now expected that LGFA would report on interest savings achieved on a quarterly basis and provide historic analysis for comparative purposes.

Both of these proposed changes are supported by Shareholders Council.

An additional primary objective has been included for LGFA to monitor all borrowing councils' financial position and other general issues impacting on the sector.

This enhancement will see more in-depth monitoring by the LGFA including a review of councils at group level as opposed to looking at councils alone as they do presently.

This is consistent with the approach used by Standard & Poor's, who consider Greater Wellington Rail and CentrePort in their analysis when arriving at our AA long term credit rating.

#### **4. The decision-making process and significance**

Officers recognise that the matters referenced in this report may have a high degree of importance to affected or interested parties.

The matter requiring decision in this report has been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (the Act). Part 6 sets out the obligations of local authorities in relation to the making of decisions.

##### **4.1 Significance of the decision**

Part 6 requires Greater Wellington Regional Council to consider the significance of the decision. The term 'significance' has a statutory definition set out in the Act.

Officers have considered the significance of the matter, taking the Council's significance and engagement policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining consideration of the decision-making process is required in this instance.

##### **4.2 Engagement**

Engagement on the matters contained in this report aligns with the level of significance assessed. In accordance with the significance and engagement policy, no engagement on the matters for decision is required.

#### **5. Recommendations**

*That the Council:*

- 1. Receives the report.*
- 2. Notes the content of the report.*
- 3. Receives the draft Statement of Intent of the Local Government Funding Agency and forwards any comments or recommendations to the CFO for communication to the LGFA via the Shareholders' Council.*

Report approved by:

**Mike Timmer**  
Acting CFO & Treasurer

**Attachment 1** - Draft Statement of Intent for LGFA

**Attachment 2** - Letter to Shareholders from the LGFA Chair

**Attachment 3** - Letter to the Shareholders from the Shareholders' Council Chair