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Committee Finance Risk and Assurance Committee  
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## Local Government Funding Agency (LGFA) Statement of Intent and June Quarter update

### 1. Purpose

To present the final LGFA Statement of Intent for 2015/16 and the LGFA's Quarterly Report for the period ending 30 June 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 initially held \$2 million of the \$25 million share capital, being one of the initial 18 non-central government founding shareholders.

In December 2012, the Council sold down part of its shareholding, from \$2m down to \$1.866m, to allow 12 other councils to join the LGFA. This brought the total number of participating councils to 30.

GWRC has a representative (Vice Chair) 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 Shareholders' Council is to monitor the LGFA and to provide a focal point for LGFA communication. The Council has around five formal meetings a year.

The Shareholders' Council has developed its own charter, provided assistance with debt settlements, developed a monitoring framework to monitor the LGFA and its performance also it provides a letter of expectation to the LGFA in relation to its SOI and business operation.

### 3. Statement of Intent

The Council received the Draft statement of Intent for comment on 7<sup>th</sup> April 2015. The final Statement of Intent (refer **Attachment 1**) was received on 30 June 2015.

Changes since the draft SOI have been few and are summarised:

- The LGFA Board has made an adjustment to the starting position of loans to Councils as at 30 June 2015. Total loans to Councils are higher by \$125m as compared to the draft statement of intent.
- The operating expenses are higher and relate to Approved Issuer Levy (AIL) charges on interest payments to non-resident lenders to LGFA. The increased participation by non-resident lenders reduces the overall issuing margins paid by LGFA.
- Additional legal expenses are also budgeted for transition to issuance of LGFA bonds under the new Financial Markets Conduct Act.
- The overall profit and loss after dividends for the 3 years is \$28.0m (draft statement of intent \$29.0m).

Looking at the three year plan, the following highlights are notable:

- A profit forecast of \$10.4 million in the 2015/16 year, increasing to \$11.29 million in 2016/17 and again to \$11.5 million in 2017/18.
- A steady dividend is forecast of \$1.75 million for the 3 years with equity growing from \$43 million in 2015/16 to \$62.6 million by June 2018.
- Total assets (mostly lending to Council) increase from \$6,059 million in 2015/16 to \$7,996 million in 2017/18.
- The performance targets have the LGFA's average cost of funds set at 0.50% above NZ Government Stock for all years.
- The forecasted margins charged to councils by the LGFA are set at 0.10% for all years.

A major focus for the LGFA over the coming year will be to continue to grow the overseas investor base, list their bonds on the New Zealand stock exchange which will make their bonds more readily available to the public (something Councillors have been keen to see) and to provide short term borrowing to Councils.

The LGFA's equity is forecasted to increase to \$62.6 million in June 2018. The LGFA has recently undertaken a review of its capital structure. The outcomes of this have indicated that there is no need to seek further capital from shareholders or return capital to shareholder. While the capital has grown significantly it is matched by a large and growing balance sheet. Another capital review will be undertaken in 2018 again to assess the appropriate level of equity.

#### **4. Shareholders' Council Quarterly report – 30 June 2015**

The LGFA Quarterly Report and the Shareholders Council's monitoring report in relation to the LGFA report are attached - refer to **Attachment 2 and Attachment 3**.

Highlights from the June Quarter are noted below:

- Total bonds on issues were \$5,274 million for the 2014/15 year, an increase of \$1.45 billion over the previous year.
- While two of the five key performance indicators were not achieved during the quarter, the seriousness of this non-achievement is either beyond the control of the LGFA or minor in nature.
- The average margin relative to New Zealand Government Stock, being market determined has improved from 0.81% in June 2014 to 0.63% in June 2015. This could be considered an aspirational target. Over time with the NZ Government reducing its debt on issue, this margin will reduce. It will also reduce if the LGFA issues shorter dated bonds. It is important for the LGFA to measure itself against Government Bond rate, rather than against the swap rate which compares the LGFA to a bank.
- The estimated interest cost savings for the sector, 0.17% v 0.30%, have not been achieved and it is down on June 2014. This measure is not a fair reflection of the savings. The LGFA has had a significant effect on reducing sector margins. The measurement of this is fraught with difficulty. The measure compares the LGFA to Auckland Council, and Dunedin City Council. The point being, the presence of the LGFA has reduced Local Government sector margins overall including those of Auckland and Dunedin. The measure has been re-worded in the statement of intent for 2015/16.

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

No decision is being sought in this report.

#### **6. Engagement**

Engagement on this matter is not necessary

#### **7. Recommendations**

*That the Council:*

- 1. Notes the contents of this report*
- 2. Notes the Statement of Intent from the Local Government Funding Agency for 2015/16 and the next two years.*

3. *Notes the Local Government Funding Agency Quarterly Report for the period ended 30 June 2015.*
4. *Notes the Shareholders Council Quarterly Monitoring Report for the period ended 30 June 2015.*

Report prepared by:

Report approved by:

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Treasurer

**Dave Humm**  
General Manager Corporate  
Services/ CFO

Attachment 1: LGFA Ltd Final Statement of Intent 2015/16

Attachment 2: LGFA Quarterly Report for the period ended 30 June 2015

Attachment 3: Shareholders Council Quarterly Monitoring Report – Q4 30 June 2015