

Report 16.84
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Committee Council
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Local Government Funding Agency's Draft Statement of Intent 2016/17

1. Purpose

To consider the Local Government Funding Agency's (LGFA) draft statement of intent (SOI) and, if necessary, provide feedback to the LGFA Board via the Shareholders' Council by 30 April 2016.

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 no representative on the Shareholders' Council. Mike Timmer – Treasurer – our previous representative is now a member of the Board of Directors. 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 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 that are 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

A copy of the letter from the Chief Executive of the LGFA introducing the draft SOI is appended as **Attachment 2**. The SOI (**Attachment 1**) is now available to shareholders for comment.

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 \$26million over the forecast period, compared to the previous SOI three year period which saw them increase by \$20.3 million after dividend payments.
- Lending to councils is forecast to increase to \$8,226 million by 30 June 2018 (previous forecast \$7,610 million) and then to \$8,608 million by 30 June 2019.
- The Dividend Policy is unchanged and dividend payment is forecast at 6% (7% in previous SOI) return on initial equity for the three years ending 30 June 2019. The dividend is based on the LGFA's average cost of funds plus 2%, based on all outstanding debt. The reduction is due to a decline in the LGFA's cost of funds. Note that a review of the capital structure, which includes future dividend payments, is presently work in progress.
- The average base margin charged to borrowing Councils to cover LGFA operating costs is forecast to remain at 0.10% over the three years.
- 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% (\$1.75 million for 2015/16 year). In summary, overall improvement in borrowing margins is significantly more than the cost of AIL.

In its annual letter of shareholders expectations, the Shareholders' Council is asking the LGFA to continue their efforts in reducing the cost of borrowing for councils. The key performance targets set are:

- 1) LGFA's average cost of funds (bonds and bills) relative to the average cost of funds for New Zealand Government Securities will be less than 0.50% higher in all three years of the SOI.
- 2) The average base margin above LGFA's cost of funds (bonds only) charged to the highest rated Participating Local Authority to be no more than 0.10% in any of the three years.
- 3) The LGFA's annual issuance and operating expenses for year end 30 June 2017 are to be less than \$6.88 million.
- 4) The LGFA's total lending to Participating Local Authorities to be at least \$7,095 million as at 30 June 2017.

The Shareholders' Council would also like to see a renewed focus on a clear methodology for the key performance indicators (KPIs) and the LGFA to

provide the Shareholders' Council with key organisational risks and strategies to mitigate risk.

A new primary objective has been included for the LGFA to take appropriate steps to ensure that it understands each borrower's headroom and the overall headroom within its Lending and Foundation Policies as detailed in the companies Treasury Policy.

The second primary objective is regarding the availability of longer term bonds, where the Shareholders' Council is asking the LGFA to include more specific information about the intention in the area into 2016/17 SOI.

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 prepared by:

Report approved by:

Mike Timmer
Treasurer

Dave Humm
GM Corporate Services / CFO

Attachment 1 - Draft Statement of Intent 2016/17 of the LGFA

Attachment 2 - Letter to Shareholders from the LGFA Chief Executive

Attachment 3 - Letter to the LGFA Chairman from the Shareholders' Council Chairman