



# **Council controlled organisations**



# Consideration of council controlled organisations

## Local Government Funding Agency (LGFA)

### Background information:

In October 2012, Council became a principal shareholding local authority in the Local Government Funding Agency (LGFA). The Council holds 200,000 shares (the total number of shares available is 45 million) reflecting a 0.44% interest.

The primary objective of the LGFA is to optimise the debt funding terms and conditions for participating local authorities. This includes providing savings in annual interest costs, making longer-term borrowings available and enhancing the certainty of access to debt markets.

### Local Government Act (LGA) 2002 considerations:

The LGFA meets the definition of a council-controlled organisation under section 6(10)(a) as an entity in respect of which one or more local authorities have, whether or not jointly with other local authorities or persons, control, directly or indirectly, of 50% or more of the votes at any meeting of the members or controlling body of the entity.

Council therefore has a controlling interest over the LGFA, which is subject to the reporting requirements of a council-controlled organisation.

### Financial reporting considerations:

*IPSAS 20 Related Party Disclosure:* the Council does not have the ability to control the entity (0.44% shareholding is less than control threshold). The Council does not exercise significant influence over the entity in making financial and operating decisions. The relationship with the LGFA therefore does not

meet the definitions of a related party as outlined in the accounting standard.

*IPSAS 7 Investment in Associates:* the Council does not exercise significant influence over the entity in making financial and operating decisions. The relationship with the LGFA therefore does not meet the definitions of an associate as outlined in the accounting standard.

*IPSAS 6 Consolidated and Separate Financial Statements:* the Council does benefit from the activities of the LGFA under the terms and conditions of participating local authorities. The Council does not have the power to govern the financial and operating policies of the LGFA, therefore the relationship with the LGFA does not meet the definition of a controlled entity.

Based on the assessments outlined above, the LGFA does not meet the definition of a related party, is not an associate and does not meet the requirements for consolidation into the Council's financial reports.

### Implications:

LGA 2002: the LGFA is subject to the reporting requirements imposed on council-controlled organisations outlined in Part 5 of the Act.

Financial reporting: there are no financial reporting obligations arising from the Council's relationship with the LGFA.

### Key performance targets:

The LGFA has the following performance targets, as disclosed in its 2017/18 Statement of Intent.

The average margin above LGFA's cost of funds charged to the highest-rated participating local authorities for the period to:

- 30 June 2019 will be no more than 0.10%; and
- 30 June 2020 will be no more than 0.10%.

The above indicators include both LGFA bills and bonds and short-dated and long-dated lending to councils.

- The LGFA's annual issuance and operating expenses (excluding the Approved Issuer Levy) for the period to:
- 30 June 2019 will be less than \$5.58 million; and
- 30 June 2020 will be less than \$5.70 million.

Total lending to participating local authorities at:

- 30 June 2019 will be at least \$8,188 million; and
- 30 June 2020 will be at least \$8,391 million.

Savings on borrowing costs for council borrowers:

- The LGFA will demonstrate the savings to council borrowers on a relative basis to other sources of financing. This will be measured by maintaining or improving the prevailing secondary market spread between LGFA bonds and those bonds of a similar maturity issued by:
  - i. registered banks, and
  - ii. Auckland Council and Dunedin Council as a proxy for single name issuance of council financing.

