

**Chairperson and Committee Members**  
CORPORATE BUSINESS COMMITTEE

13 AUGUST 2015

Meeting Status: **Public**

Purpose of Report: For Information

**NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY  
2015/16 STATEMENT OF INTENT**

**Purpose of Report**

- 1 This report provides the Corporate Business Committee with an update on the Local Government Funding Agency (LGFA) 2015/16 Statement of Intent.

**DELEGATION**

- 2 The Corporate Business Committee has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.3.  
*Financial and Asset Management*  
*7.5 Authority to monitor performance of the Council's financial activities, including income, operating and capital expenditure against budgets, remissions, key financial indicators and investment and debt/borrowings management.*

**BACKGROUND**

- 3 Council currently has three Council Controlled Organisations (CCOs) – the New Zealand Local Government Funding Agency (LGFA), the Wellington Rural Fire Authority (WRFA) and the Te Newhanga Kāpiti Community Centre.
- 4 Council has exempted both the WRFA and the Te Newhanga Kāpiti Community Centre from the requirements of CCOs in terms of the Local Government Act 2002, which includes the requirement to prepare a Statement of Intent. Accordingly this report deals only with the LGFA.
- 5 The Kāpiti Coast District Council is a Principal Shareholding Local Authority in the LGFA. The LGFA was incorporated with the primary objective of optimising 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.
- 6 The LGFA issues bonds to wholesale and retail investors and on-lends the funds raised to participating local authorities with borrowing needs. The quality of the LGFA's credit rating, and the liquidity created by issuing homogenous local authority paper, ensures that participating councils can raise funds on better terms than if they were issuing in their own name.

*Shareholders' Council*

- 7 The Shareholders' Council is made up of between five and ten appointees of the Shareholders (including an appointee from the Crown). The main role of the Shareholders' Council is to review the performance of the LGFA and its Board, and report to Shareholders on that performance, no less frequently than quarterly.

- 8 The Shareholders' Council has noted that overall it is comfortable with the 2015/16 Statement of Intent.

## ISSUES AND OPTIONS

### Issues

- 9 The report summarises the key intentions and expectations of the LGFA 2015/16 Statement of Intent.
- 10 As noted above, the primary objective of the LGFA is to optimise the debt funding terms and conditions for Participating Local Authorities. The achievement of this objective is primarily measured by the following performance targets:
- the LGFA's average cost of funds on debt issued will be less than 0.50% higher than the average cost of funds for New Zealand Government Securities for the three years covered by the 2015/16 Statement of Intent;
  - the average base margin above LGFA's cost of funds charged to the highest rated Participating Authorities will be no more than 0.10% for the three years covered by the 2015/16 Statement of Intent.
- 11 Both these targets are in line with previous Statement of Intent forecasts.
- 12 In the last two Statements of Intent, the LGFA has moved away from its previous assertions that, to optimise debt funding terms and conditions, it would provide "estimated savings in annual interest costs for all Participating Local Authorities of at least 30 basis points, based on the methodology set out in the LGFA's Annual Report 2011/12." The 2015/16 Statement of Intent simply states that it will demonstrate savings to council borrowers, without specifying the amount of these savings.
- 13 The LGFA has again signalled in its 2015/16 Statement of Intent that it expects its financial position "to be sufficiently strong to enable a reduction in the base margin, subject to shareholder consultation on future options for capital structure and the liquidity facility."
- 14 As the 2015/16 Statement of Intent forecasts retained earnings to be over \$37 Million at the end of the 2017/18 year, it would be timely for the LGFA to initiate the 'shareholder consultation' that it has signalled in its last two Statements of Intent. It might be that Participating Local Authorities would prefer to see savings in their annual interest costs as opposed to the proposed build-up of significant reserves. This would also align with the LGFA's stated policy of maximising benefits to Participating Local Authorities as Borrowers rather than Shareholders. The LGFA has again forecast an annual dividend to Shareholders equal to LGFA cost of funds plus 2.00%.
- 15 The Kāpiti Coast District Council is one of 45 member councils of the LGFA. To gain traction with, for example, asking the LGFA to restrict the build-up of its reserves and instead, increase savings to Shareholders it would need to gain support from a number of fellow members. The first step in this process might be to raise the matter with the Shareholders' Council.

## Considerations

### Financial Considerations

- 16 The Kāpiti Coast District Council paid annual interest costs on its borrowings from the LGFA of over \$6.5 Million in the 2013/14 year.<sup>1</sup> The key determinant of the interest rate that Participating Local Authorities are charged on their borrowings from the LGFA is their credit rating. The Kāpiti Coast District Council received an Issuer Credit Rating of A+ with a stable outlook, when it was last assessed by Standard and Poor's in October 2014. By comparison, the highest rated member councils have AA ratings from Standard and Poor's.

### Legal Considerations

- 17 There are no legal considerations at this time.

### Policy Implications

- 18 There are no policy implications to be considered.

### Tāngata Whenua Considerations

- 19 There are no tāngata whenua considerations.

## SIGNIFICANCE AND ENGAGEMENT

- 20 This matter has a low level of significance under the Council Policy.

### Publicity Considerations

- 21 There are no publicity considerations at this stage.

## RECOMMENDATIONS

- 22 That the Corporate Business Committee note the contents of the Local Government Funding Agency 2015/16 Statement of Intent, attached as Appendix 1 to this report.

**Report prepared by:**

**Approved for submission by:**

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**Financial Controller**

**Wayne Maxwell**  
**Group Manager Corporate Services**

**Approved for submission by:**

**Stephen McArthur**  
**Group Manager Strategy and Planning**

Appendix 1: LGFA 2015/16 Statement of Intent

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<sup>1</sup>Taken from the 2013/14 Annual Report – based on total annual interest costs of \$7.595 Million and \$115 Million out of \$130.147 Million borrowings at year-end being LGFA borrowings.