

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

16 MAY 2019

Meeting Status: **Public**

Purpose of Report: For Decision

**LOCAL GOVERNMENT FUNDING AGENCY DRAFT 2019/20
STATEMENT OF INTENT**

PURPOSE OF REPORT

- 1 The purpose of this report is to provide the Operations and Finance Committee the Local Government Funding Agency (LGFA) draft 2019/20 Statement of Intent (SOI) for consideration.

DELEGATION

- 2 The Operations & Finance Committee has delegated authority to consider this Report under the following delegation in the Governance Structure and Delegations, Section B.2 which states that the key responsibilities of the Committee will include: *Financial Management, including risk mitigation.*

BACKGROUND

- 3 The LGFA was incorporated on 1 December 2011 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.
- 4 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.
- 5 On 30 November 2012, Kapiti Coast District Council (Council) became a principal shareholding local authority¹ in the LGFA. The LGFA meets the Local Government Act (LGA) 2002 definition of a Council Controlled Organisation (CCO) and as a shareholder in a CCO, the Council must regularly undertake performance monitoring of that organisation to evaluate its contribution to the achievement of the Council's desired outcomes.
- 6 As a CCO, the LGFA must deliver to its shareholders a draft SOI on or before 1 March each year. The LGFA board must consider any comments from its shareholders in relation to the draft SOI and deliver a final SOI on or before 30 June.

¹ principal shareholding local authorities are those which invest capital in the LGFA and are expected to receive a return on that capital.

- 7 The Council's monitoring obligations are assisted by the Shareholders' Council whose role it is to represent all the shareholders and ensure that all individual shareholder views are heard. The Shareholders' Council comprises five to ten appointees from the council shareholders and one from the Crown.

ISSUES AND OPTIONS

Issues

- 8 The report summarises the key intentions and expectations of the LGFA draft 2019/20 SOI.
- 9 The LGFA's primary objective continues to be optimising debt funding terms and conditions for its members. The main change that has been made to its performance objectives is to introduce CCO lending by December 2019 and report quarterly, the volume of lending to CCOs to both the Shareholder Council and shareholders.
- 10 The LGFA financial forecasts show that it expects to continue performing strongly, despite potential volatility around the refinancing of loans in each of the three years of the SOI forecast. Forecast surpluses for the three years of the 2019/20 SOI are \$33 million compared with \$35.3 million for the three years of the 2018/19 SOI. Retained earnings are forecast to grow from \$60.5 million at 30 June 2020 to \$79.6 million at 30 June 2022, giving total equity of \$104.6 million.
- 11 The LGFA has a capital adequacy policy which states that the LGFA's equity (this includes borrower notes which are debt securities that can be converted to equity under specific circumstances) must always be at least 1.60% of its total assets. The capital adequacy is a measure of the LGFA's financial strength and stability; maintaining the ratio ensures the LGFA does not over-extend itself by taking on too much debt.
- 12 The LGFA forecasts a capital adequacy ratio of 2.40% to 2.50% over the course of the 2019/20 SOI. It might be argued that this is too high and that the LGFA is holding higher levels of reserves than is strictly necessary, which does not align with the stated objective of maximising benefits to participating local authorities. A lower capital adequacy ratio (still above the required 1.60%) would lead to increased savings for borrowers and help the LGFA to achieve its performance target for borrowings margins on-charged to councils.
- 13 The key performance target the LGFA used in prior years to assess its achievement in providing savings in annual interest costs for all participating local authorities was:
- the average base margin above the LGFA's cost of funds charged to the highest rated² participating authorities will be no more than 0.10% for the three years covered by the 2019/20 SOI.

² the highest rated participating authorities have a Standard and Poor's credit rating of AA; the Kāpiti Coast District Council has a Standard and Poor's credit rating of A+.

- 14 This target was removed in 2019/20 however the focus remains on providing savings in annual interest costs on a relative basis to other sources of financing.
- 15 The Council officers do not recommend any changes to the draft SOI and therefore it is appropriate to seek approval from the Council to advise LGFA that Council is satisfied with the draft SOI.
- 16 The LGFA final 2019/20 Statement of Intent is attached as Appendix 1.

CONSIDERATIONS

Policy considerations

- 17 In accordance with the LGA 2002, the Council has provided information on all of its CCOs in its draft 2018/38 Long Term Plan.

Legal considerations

- 18 There are no legal considerations arising from the matters in this report.

Financial considerations

- 19 There are no financial considerations arising from this report.

Tāngata whenua considerations

- 20 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

- 21 This matter has a low level of significance under the Council's Significant and Engagement Policy.

Consultation already undertaken

- 22 There is no need to consult on the matters discussed in this report.

Engagement planning

- 23 An engagement plan is not needed for this report to be considered.

Publicity

- 24 There are no publicity considerations.

RECOMMENDATIONS

- 25 That the Operations and Finance Committee notes the contents of the Local Government Funding Agency draft 2019/20 Statement of Intent.
- 26 That the Operations and Finance Committee delegates authority to the Group Manager Corporate Services to advise the Local Government Funding Agency that Kāpiti Coast District Council does not seek any amendments to the draft 2019/20 Statement of Intent contained in Appendix 1 to this report (Corp-19-791).

Report prepared by

Approved for submission

Approved for submission

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Chief Financial Officer**

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Appendix 1 – LGFA draft 2019/20 Statement of Intent