Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

10 NOVEMBER 2011

Meeting Status: **Public**

Purpose of Report: For Decision

CONSIDERATION OF SUBMISSIONS IN RELATION TO COUNCIL'S PROPOSED PARTICIPATION AS A SHAREHOLDER OF THE LOCAL GOVERNMENT FUNDING AGENCY

PURPOSE OF REPORT

1 To consider the submissions on the Council's proposal to become a Shareholder of the Local Government Funding Agency (LGFA) and to make a recommendation to Council.

SIGNIFICANCE OF DECISION

2 This report does not trigger the Council's Significance Policy.

BACKGROUND

3 The first support for the concept of a LGFA emerged from the national economic development summit held in Auckland in 2008/09 with support for this concept from a wide range of sectors of the economy.

4 During 2009 Local Government New Zealand and Central Government Treasury jointly funded a scoping study to investigate the feasibility of a local government debt vehicle. Cameron Partners and Asia Pacific Risk Management were engaged to undertake this study. In summary, the study concluded that there is potential for significant benefits to the local government sector in terms of enhancing access to funding and lowering the overall cost of funds.

5 During May 2010, a group of nine Councils agreed to undertake the next stage of work, including detailed financial modelling, to confirm overall financial benefits of the proposed local government debt vehicle. The work was funded by nine Councils: Auckland City Council, Manukau City Council (later replaced by Western Bay of Plenty Council), Hamilton City Council, Tauranga City Council, Whangarei District Council, Wellington City Council, Greater Wellington Regional Council, Tasman District Council and Christchurch City Council, referred to as the "Tight Nine" Councils, at a cost of $50,000 each.

6 The detailed financial modelling confirmed that the Local Government sector could achieve interest savings in the order of $25 million per annum within 5 years, equivalent to 0.30% to 0.70% per annum for individual Councils. This was based on obtaining an AAA credit rating (or equivalent to Central Government) for the local government debt vehicle. The overall design of the

local government debt vehicle has been based around the arrangements which exist in Norway, Sweden and Denmark for this sector.

7 Apart from the “Tight Nine” Councils a further ten Councils: Bay of Plenty Regional Council, New Plymouth, Taupo, South Taranaki, Waipa, Selwyn, Masterton, Hastings, Otorohanga and Kāpiti Coast District Council have indicated support for the LGFA and have carried out a Special Consultative Procedure on their respective Councils participating as a shareholder of LGFA with effect from November 2011.

8 The Corporate Business Committee considered the Statement of Proposal in relation to Council participating as a shareholder of the LGFA at its meeting of 18 August 2011. The key benefits identified included the following:

- Net interest savings estimated at $120,000 for 2011/12, $240,000 for 2012/13 and over $300,000 per annum by 2014/15.
- Access to long-term (10 years +) funding at reasonable margins.

9 The Corporate Business Committee passed the following resolution on 18 August 2011

That the Corporate Business Committee approves the Statement of Proposal for the Council to join the Local Government Funding Agency Scheme as an Establishment Shareholding Local Authority and approve related amendments to the Treasury Policy as listed on Appendix 2 to the Report FIN-11-274 and that the proposal be subject to the special consultative process in accordance with the Local Government Act 2002.

10 The Statement of Proposal (Appendix 1) and the proposed amendments to the Treasury Management Policy (Appendix 2) were subject to public consultation for the period 22 August to 22 September 2011. The Statement of Proposal was advertised in the Kapiti Observer on 22 September 2011 and the detailed Statement of Proposal was available at all Service Centres and Libraries and also on Council’s website.

11 There were four submissions received (copies attached as Appendix 3) from the following persons/organisations:

- E. Leonard-Taylor
- Waikanae on One
- Grey Power
- Helene Donaldson

12 Mr Hugo Ellis from Cameron Partners, (one of the key advisors to the Local Government Funding Agency), provided a presentation to the Corporate Business Committee on 22 September 2011 on the key issues relating to the Establishment of the Local Government Funding Agency and how the arrangements would work. Some submitters attended the meeting to hear Mr Ellis’s presentation.

13 Three of the four submitters spoke to their submissions at the Corporate Business Committee on 27 September 2011. Written copies of the submitters verbal updates provided at the Hearing on 27 September 2011 are attached as Appendix 4

CONSIDERATIONS

Issues

14 The key issues raised by the submitters included the following:

Risks – Financial/Currency/Joint Guarantee

- Potential impacts and risks (from another Council defaulting) for Kāpiti ratepayers of the Joint and Several Guarantee
- Currency risk from funding from International markets
- Financial viability of Council (Leaky Home impact)
- Council's Exposure for unpaid capital
- Impact of the New Zealand Government credit rating downgrade

LGFA Structure and Rules

- Constitution (Privatisation and rules re Councils exiting their LGFA shareholding)
- Joint and Several Guarantee Options (Why not just several guarantee?)
- LGFA liquidity ratio requirements (What are the rules that determine the amount of cash to be held?)
- Capital Adequacy Ratio (What is the minimum level?)
- Return on Borrower Notes (Likely level?)
- Shareholders' Agreement (commitment to use of LGFA)
- LGFA Board
- Membership of Shareholder Council
- Draft Statement of Intent (availability for public comment?)

Independent Review of LGFA

- Legal Review/Financial Review of the LGFA on behalf of Shareholders

Costs/Benefits

- Potential savings in debt servicing costs for the 2011/12 year by funding through the LGFA compared to funding from the local financial market
- Potential savings in debt servicing costs for existing debt levels over the longer term
- Political Support
- LGFA advantages versus Banks' funding (fixed margin versus variable margin)
- Banks real cost of credit (and local authorities potential long term savings)

Other Issues

- Delay timing of becoming a Shareholder of the LGFA until June 2012
- Impacts of future structure of Local Government in the Wellington Region

Risks – Financial/Currency/Joint Guarantee

<u>Potential impacts and risks (from another Council defaulting) for Kāpiti ratepayers of the Joint and Several Guarantee</u>

15 The risk of default by a local authority is extremely low. No local authority in New Zealand has defaulted on its loan obligations in the past. The only time a Commissioner has been appointed to a local authority was when there has been a dysfunctional Council which had nothing to do with the financial liability of the Council.

16 Under the LGFA, if a local authority defaulted on its loan repayments then the most likely course of action that the LGFA would take is as follows:

- LGFA would initially look to its own comprehensive access to liquidity to ensure that the Local Government default did not impact LGFA to such an extent that LGFA became in danger of defaulting;
- the LGFA would call on its Standby Liquidity facility (limit up to $1 billion) provided by the Government as part of the Government's commitment to the LGFA to meet any short term problems that LGFA had in accessing liquidity;
- LGFA would call up issued and unpaid capital ($20 million); and
- the LGFA would convert to equity outstanding Borrower Notes equivalent to 1.6% of LGFA's term balance sheet.

17 Immediately following the Local Government default a receiver would be appointed for the defaulting local authority and the security over rates for that loan would be called up. The ratepayers of the defaulting Council would be charged rates by the receiver to recover the defaulting loan repayments plus other costs.

18 The ratepayers of the defaulting Council may find it difficult to pay their rates due to the cost of restoring their properties, loss of income etc. In this situation we would expect the Government to front up with financial assistance as they have provided in Christchurch. To recover the loan repayment shortfall could take up to 18 months.

19 It is important to note that the joint and several guarantee only covers new debt raised by Councils from the LGFA and does not apply to existing debt owed by local authorities or new debt that is not raised from the LGFA.

20 At the moment approximately 50 Councils have indicated that they will be guarantors by 30 June 2012. These Councils would represent more than 80% of the entire NZ ratepayer base in dollar value. If a call was made on Kāpiti Coast District Council the call would only be for Kāpiti Coast District Council's ratepayer base as a percentage of that total; i.e. if Kāpiti Coast District Council 's previous annual rates take was $42 million this is likely to represent less than 1.6% of the LGFA guaranteeing group. (Assuming that the entire NZ annual rates revenue is >$3.75 billion and LGFA guarantors represent 70% = $2.62 billion).

21 Even though Councils are planning to borrow a substantial amount of debt using the LGFA vehicle in the future, each Council will be required to spread out its debt maturities in accordance with their existing funding risk management practices and therefore the debt maturity profile of any Council will be spread.

22 The LGFA Lending Policy requires that during the initial three years of operation of the LGFA the Auckland Council's new debt funding from the LGFA will be limited to 60% of the LGFA's total Local Government assets. After three years, the Auckland Council will be limited to a maximum 40% of the LGFA's total Local Government's asset.

23 Based on the debt projections, Auckland Council's borrowings from the LGFA throughout a ten year peak at a maximum of $2 billion. That $2 billion would have to be spread over a ten year period with an average of $200 million per year maturing. So one of the worse case scenarios would be the largest Council Auckland defaulting on a $200 million debt maturity.

24 At any one time, even for some of the larger Councils, it would be anticipated that the typical loan maturity profile would indicate that no more than the greater of $100 million of loans for even some of the larger Councils should fall due in any twelve month period.

25 Therefore, if a major Council defaulted on a $100 million loan and the LGFA guarantors had to pick up the loan repayments of that loan then the likely impact on Kāpiti Coast District Council's ratepayers is as follows:

- Kāpiti Coast District Council could be called for $100 million x 1.6% = $1.6 million capital plus interest. This call would be immediate and Kāpiti Coast District Council would be fully repaid (within a worst case time period of 18 months) by the defaulting Council.

- So the $1.6 million (Kāpiti Coast District Council's share of the capital default) would need to be borrowed by the Council for an 18 month period until the defaulting local authority had repaid its outstanding debt to the LGFA and the Council.

- The cost to Kāpiti Coast District Council over that 18 months would be the interest cost on the $1.6 million.

  Kāpiti Coast District Council cost:

$1.6 million at 6%	=	$96,000	per annum
	=	$144,000	over 18 months
Cost per	=	$96,000	
KCDC ratepayer		25,000	ratepayers
	=	$4	plus GST per ratepayer per annum
	=	$6	plus GST per ratepayer over 18 months

- This interest cost and administration costs plus the capital sum of $1.6 million would likely be repaid by the defaulting local authority within 18 months.

Currency risk from funding from International markets

26 All of the LGFA's financial transactions will be in New Zealand dollars. By the LGFA using third parties to raise its funds on international markets, there will be no currency risks for the LGFA. The Government's Debt Management Office (DMO) will be negotiating the funding.

27 There would be no currency risks attached to any of the Local Government Funding Agency (LGFA) cash flows as all its obligations would be in New Zealand dollars to the DMO. The International Financial markets work differently from what was suggested by the submitters.

28 The DMO would be swapping any foreign currency debt issues together with interest payments back to floating rate NZD at all times as counterparty for the LGFA.

29 The DMO would hedge its own exposure with the market as it currently does. So all foreign currency risk would be fully covered in the international market.

30 The Government does not need to guarantee any LGFA debt because local authority debt is secured against their rates. This will continue to be the case under the LGFA.

31 The LGFA will not necessarily borrow all of its funds overseas and obviously it would be looking to get the best rates from both within New Zealand or internationally.

Financial viability of Council (Leaky Home impact)

32 In relation to Waikanae on One's comments on Council's costs associated with Leaky Homes, these are adequately covered in the 2010/11 Annual Report and have been provided from either Council's Insurance Policies up until June 2009 or from Council's Contingency Funds. Fortunately for this Council our exposure is relatively low based on claims received and negotiated to date. All exposure to this issue ends in 2015, ten years after the Building Act changes took place in 1995.

Council's Exposure for unpaid capital

33 The maximum amount of additional capital under the issued but unpaid shares that the Kāpiti Coast District Council would be exposed to would be $100,000. In the unlikely event of this being called upon the $100,000 could be met from the contingency fund.

Impact of the New Zealand Government credit rating downgrade

34 The impact of the New Zealand Government downgrade from an AAA (domestic rating) to an AA+ will obviously have an impact on the LGFA's credit rating. There is also a downgrade in the New Zealand Government's international credit rating from an AA+ to an AA. The LGFA will now only be able to obtain a credit rating of AA+ (domestic) AA (international) (same as the Government).

35 What does this mean for New Zealand? To date it has very little impact on interest rates over the short term. It may have an effect on interest rates over the long term but the most important impact is that if the credit squeeze becomes tighter in the future it will mean that the LGFA's role in securing Local Government debt funding is far more important because they will be in a much stronger position in the market than each individual local authorities.

36 Also, if the local Banks begin to restrict their funding for local authorities because of global credit pressures, then local authorities will need a viable alternative to secure debt funding for the future. The greatest leverage for local authorities in the financial markets will be through the LGFA. Therefore, it is important that this LGFA is established as soon as possible to provide a position of strength in the financial markets for local authorities and provide some protection from credit pressures if the global credit situation worsens.

LGFA Structure and Rules

Constitution (Privatisation and rules re Council's exiting their LGFA shareholding)

37 The draft constitution document that has been discussed by the "Tight Nine" Councils shows that under the Constitution the Council can only sell its shares to another Council (or the Crown). Therefore there is no opportunity for private investment or ownership of the LGFA under the current constitution.

38 The shares are valued at a dollar each so Council with $100,000 of shares has 100,000 shares at $1 each. When shares are sold they would be sold at market value to another local authority on the crown.

39 The LGFA has been seen as a clear investment opportunity by the Bay of Plenty Regional Council who are investing $2.5 million as an LGFA shareholder but they have no requirements to raise any debt currently. Clearly they see the LGFA as a sound investment with good prospective returns as well as supporting the Local Government sector to provide financial strength and economies of scale.

40 The compulsory reinvestment of 1.6% of loans (Borrower Notes) will be paid when those individual loans are fully repaid by each local authority.

41 Under the Constitution there will be no penalties payable on exiting the LGFA.

Joint and Several Guarantee Options (Why not just several guarantee?)

42 The reason that the Shareholders will guarantee the debt of the LGFA jointly and severally and not just severally is primarily to enable the LGFA to get an AA+ rating in line with the credit rating of the New Zealand Government.

LGFA liquidity ratio requirements (What are the rules that determine the amount of cash to be held?)

43 The amount of cash and other liquid investments to be held will be governed by the LGFA liquidity ratio requirement established by the LGFA Board and included in the LGFA Shareholders' Agreement and Treasury Policy.

44 The key liquidity ratio is that 10% of the LGFA assets must be held in cash and liquid investments at any given time. This is in line with international best practice.

45 Capital Adequacy Ratio (What is the minimum level?)

$$\text{The capital adequacy ratio} = \frac{\text{amount of capital held}}{\text{Total Assets}} = \frac{\text{Borrower Notes + Principal Shares}}{\text{Total Assets}}$$

A minimum capital adequacy ratio of 1.6% is self imposed and is stated in the Notes Subscription Agreement and the Borrowing Agreement. This ratio is comparable with and based on the Nordic Local Government Funding Agencies. The Nordic Local Government Funding Agencies (Norway, Sweden, Denmark and Finland) have been operating a number of years and are seen as world leaders in Local Government financing.

Return on Borrower Notes (Likely level?)

46 The return on the Borrower Notes is most likely to be equal to the cost of the funds of the LGFA. Whether the return is the cost of the funds of the LGFA or some slightly higher or lower amount is not a major determining factor in terms of the viability of the scheme. Also if the return is to be capitalised and paid out at the end of the loan maturity as opposed to accumulating on an annual basis, this is not a major issue given the quantum of borrower notes held (equivalent of 1.6% of borrowings) by an individual local authority.

Shareholders' Agreement (commitment to use of LGFA)

47 To ensure the viability of the LGFA, all Shareholders are required to commit to 80% of their debt funding requirements being funded through the LGFA for the first three years. The commitment by establishing shareholders was signalled in the Statement of Proposal but it has now been confirmed at a level of 80% just for the first three years to ensure that the LGFA is able to become established and gain a position of financial strength in the first three year and pass on the projected savings. Based on the financial model the LGFA interest margins will be more attractive than the margins offered by the financial markets.

LGFA Board

48 The LGFA Board has been appointed with Craig Stobo being the independent Chair. He currently chairs the listed company AMP New Zealand Office Limited and OCG Consultants Limited and was formally CEO of BT Fund Management. There are three other independent Directors, Abbey Foote, Phil Corey Wright, John Avery. The two Directors appointed by local authorities are Paul Anderson from Christchurch City Council and Mark Butcher from Auckland City Council. The profiles of the directors are attached as Appendix 5.

Membership of Shareholder Council

49 The members of the Shareholder Council are initially going to be appointees of some of the Tight Nine Councils who are contributing over $2 million each as share capital, plus some other local authorities are contributing more than the minimum $100,000. Two further places have been made available to non Tight Nine Councils and these have been filled by Bay of Plenty Regional Council and Selwyn District Council to provide a geographical spread. Every year at

least two positions will come up for renewal on rotation so Kāpiti will have the opportunity in the future to have a presence on that Council. The Shareholder Council represents the interests of the shareholders of the LGFA.

Draft Statement of Intent (availability for public comment)

50 The draft Statement of Intent has been released to all the proposed Shareholders. It is proposed to be released publically in November. There are no issues included in the Draft Statement of Intent that would undermine this Council's interests.

Independent Review of LGFA

Legal Review/Financial Review of the LGFA on behalf of Shareholders

51 The legal documents have been prepared for the LGFA by Russell McVeagh law firm and the legal documents have been reviewed by Simpson Grierson on behalf of the Tight Nine Councils. Their legal review has been made available to the other proposed shareholders and a summary of the key establishment issues is attached as Appendix 6. Price Waterhouse Coopers has just reviewed and provided an independent approval of the LGFA financial model. This will be made available by the LGFA Board in November.

Costs

Shareholder Subscriptions $100,000

52 This was budgeted to be funded from loans in the 2011/12 Annual Plan but it can now be funded from the projected $177,000 rates surplus for the year ended 30 June 2012 (as reported in the Financial Report to 30 September 2011 Fin-11-394)

53 This projected rate surplus is mainly driven through savings in debt servicing costs through the management of interest rate swaps and the timing of the 2011/12 Capital Works Programme.

Borrower Notes (1.6% of borrowings)

54 Based on the projected borrowings of $66 million from the LGFA the Council will have to invest 1.6% of $66 million or $1.056 million in Borrower notes. These funds will need to be borrowed and reinvested as Borrower Notes in the LGFA.

55 Offsetting the borrowing cost will be the LGFA's interest return on the Borrower Notes which is likely to be the LGFA's cost of funds. The difference in marginal costs between borrowing costs and investment returns from the Borrower Notes is likely to be in the order of 0.4%. Therefore for the $1.056 million of Borrower Notes the annual marginal cost would be $4,300 per annum.

Borrower Notes $m	Marginal Interest Rate	Marginal Interest Costs p.a. $000
1.056	0.4%	4.3

Note for $100 million of borrowings $1.6 million of Borrower Notes are required which at a marginal interest cost of 0.4% would cost $6,400 per annum.

Benefits

56 Potential savings in debt servicing costs for the 2011/12 year by funding through the LGFA compared to funding from the local financial market

Debt Requirements	Debt $m	Difference in credit margin between financial markets and LGFA – 5 year funding	Interest savings per annum
Debt funding 2011/12 based on $46.7 million capex	36	0.3%	$108,000
Debt to be refinanced (currently funded from 3 month Commercial Paper)	30	0.3%	$90,000
Total Debt to be funded 2011/12	**66**	**0.3%**	**$198,000**

Potential savings in debt servicing costs for existing debt levels over the longer term

57 Comparative cashflows based on the potential cash savings that could be made over the longer term (for the total projected debt level of $100m as at 30 June 2012) compared to the financial markets are shown as follows:

Total Debt	Interest margins for 5 year funding provided by the Financial markets	LGFA	Anticipated Savings per annum
$100m	1.2%	0.9%	0.3%

This is a snapshot of the current market in October 2011.

	Total Debt	Projected difference in credit margin between financial markets and LGFA 5 year funding	Anticipated Savings per annum
Total projected debt 30 June 2012	$100m	0.3%	$300,000

58 This potential saving of $300,000 per annum (based on the current market) would continue, even if Council did not raise any further debt above the level committed in the 2011/12 Annual Plan.

Political support

59 The LGFA proposal has been supported by all political Government parties. None of the Tight Nine early establishment local authorities has received any substantive submissions from the ratepayers of their areas. The submissions from the Kāpiti area asked important questions which we believe have been addressed in this report.

LGFA advantages versus Banks' funding (fixed margin versus variable margin)

60 Since the Global credit crisis the Banks have been very wary of fixed credit margins for long term. Generally the longest period they have provided fixed margins for is twelve months before they are subject to review. This means that if the credit market tightens the Banks have the ability to increase their credit margins after only 12 months.

61 With the LGFA funding the long term credit margins will be locked in with the investors for the period of the Agreement i.e. up to five years, which will provide greater certainty for local authorities.

Banks real cost of credit (and local authorities potential long term savings)

62 Currently the Banks are aggressively pricing the credit interest margins due to the threat of the establishment of the LGFA. Based on the credit margins that the Banks are currently paying for funding, they should be pricing credit margins for local authorities with a credit rating of AA- at around 1.8%, yet they are currently offering credit margins of 1.2% for five year funding.

63 Based on the banks' long term cost of credit, the banks' credit margins of 1.2% (for 5 year funding) are unlikely to be sustained over the long term. Therefore, the real savings for Councils is potentially another 0.6% on top of the current 0.3% saving giving a total potential "opportunity cost" saving of 0.9% ($900,000 per annum)

Other Issues

Delay timing of becoming a Shareholder of the LGFA until June 2012

64 The motive for Council to be an Establishment Shareholder is not just to save up to $120,000 in debt servicing costs on this year's capital programme but also to assist in establishing the LGFA as soon as possible by supporting it so the economies of scale will give it a greater chance of success as an established alternative in the market.

65 If all Councils held back on supporting the establishment of the LGFA then it would take longer for the LGFA to cover its set up and overhead costs before it could pass on the debt servicing savings to Councils.

66 Council could fund this year's programme using short term facilities but this would actually mean Council would face greater liquidity risk through having most of its loan funding maturities renewing over a short period of time.

Impacts of future structure of Local Government in the Wellington Region

67 The future structure of Local Government in the Wellington Region is not likely to impact on this proposal. All the Councils in the region have long term debt that would have to be addressed within any restructuring proposal.

CONCLUSION

68 Summary of Benefits and Costs/Risks

Benefits

Anticipated long term benefits			
Potential annual savings on 30 June 2012 debt		\$300,000	per annum
Potential annual savings per ratepayer	=	\$300,000	
		25,000	ratepayers
	=	\$12	plus GST per annum

Risk of Default (low risk)

Potential impact on Kāpiti ratepayers if another Council defaults on \$100m loan			
Potential costs for 18 month period (low risk)		\$144,000	for 18 months
Potential costs per ratepayers (low risk)	=	\$144,000	
		25,000	ratepayers
	=	\$6	plus GST for 18 month period

This would be repaid by the Receiver for the defaulting Council within the 18 month period

Default Risk	Relatively low
	Local Authorities Debt secured over rates

Costs

Shareholder Subscription	\$100,000

Funded from projected 2011/12 rates surplus as a result of savings in debt servicing costs

Borrowing Notes

1.6% of total borrowings is required to be invested in Borrower Notes with the LGFA until each loan is repaid

The marginal cost differences between borrowing costs and investment returns on Borrower Notes is likely to be around 0.4%

\$100 million of borrowings will require \$1.6 million of Borrower Notes

Marginal Cost of \$1.6 million @ 0.4% = \$6,400 per annum

69 Under the current financial climate, it is becoming more important that local authorities have a position of strength in the financial markets similar to the government to secure debt funding at affordable levels. The Local Government Funding Agency needs to be set up and established as soon as possible with a viable level of local authority support.

70 Based on the above issues it is recommended that the Council proceeds with the proposed 2011 LTCCP Amendment (as set out in FIN-11-274) and joins the Local Government Funding Agency as an Establishment Shareholding local authority and approve related amendments to the Treasury Policy.

71 The submissions asked important questions about the structure, conditions and potential risks and impacts of the joint and several guarantee in relation to the Local Government Funding Agency.

72 Despite the risks of a default by a local authority or Local Government Funding Agency which are considered to be extremely low, the anticipated benefits from lower borrowing costs over the long term far outweigh the possible costs that could arise from a major default under the joint and several guarantee.

73 The Local Government Funding Agency needs to be established and supported by Local Government so that it can build and maintain a position of strength similar to the Nordic Local Authority Funding Agencies.

74 Even if Council did not take on any additional debt, the potential savings to this Council on an annual basis would amount to $300,000 per annum conservatively. Without the LGFA the real cost of credit for local authorities could increase substantially and the opportunity “cost savings” could be substantially higher ($900,000 per annum).

Financial Considerations

75 The Council has made provision in its 2011/12 Annual Plan for the minimum Establishment Shareholder subscription of $100,000 which was originally budgeted to be funded from loans. Now it is proposed that the $100,000 will be funded from the projected 2011/12 rates surplus which has arisen through savings in interest costs.

Legal Considerations

76 Simpson Grierson has provided legal advice to the “Tight Nine” Councils which has been shared with the ten other proposed shareholders. The LGFA legal documentation has been reviewed by Simpson Grierson and they have provided a summary checklist to use before signing the LGFA documents. Simpson Grierson have provided legal guidance in relation to the recommendations.

Delegation

77 Only the Council has authority to approve an amendment to the 2009 LTCCP.

Consultation

78 Consultation on this Statement of Proposal was undertaken for the period 22 August to 22 September 2011.

Policy Implications

79 Amendments to the Treasury Management Policy will result (if the Statement of Proposal is approved) as attached in Appendix 2.

Tāngata Whenua Considerations

80 There are no specific Treaty of Waitangi considerations in relation to this issue.

Publicity Considerations

81 A press statement will be prepared on the Committee's decision on this issue.

RECOMMENDATIONS

82 That the Corporate Business Committee recommends to Council that it:

- notes the submissions and the Corporate Business Committee's consideration of them in Report Fin-11-360;
- approve the amendments to the Treasury Policy as listed on Appendix 2 to Report Fin-11-360;
- approve the Statement of Proposal for the Council to join LGFA as a shareholder at the minimum subscription of $100,000 with an aggregate unpaid amount up to $100,000;
- delegate to the Group Manager Finance and Chief Executive authority to agree the final terms on which the Council participates in the LGFA scheme in accordance with the preceding resolution;
- authorise the Chief Executive to execute such documents as may be required to give effect to the Council's participation and also authorise the Mayor and the Chairperson of the Corporate Business Committee to execute such deeds as may be required; and
- authorise the Chief Executive to make such payments and take any other steps as are necessary or desirable to give effect to the Council's participation in the LGFA.

83 That the Corporate Business Committee recommends that the Council approve that the $100,000 shareholder subscription to join the LGFA be funded from the projected rates surplus for the 2011/12 year of $177,000 achieved through savings in debt servicing costs.

Report prepared by:

Warwick Read
Group Manager Finance

ATTACHMENTS:

Appendix 1: Statement of Proposal
Appendix 2: Treasury Management Policy (with amendments)
Appendix 3: Written Submissions received by 22 September 2011
Appendix 4: Written copies of verbal updates provided by Submitters at the Hearing on 27 September 2011
Appendix 5: LGFA Director Profiles
Appendix 6: Establishment Issues – Simpson Grierson