

**Chairperson and Committee Members**  
CORPORATE BUSINESS COMMITTEE

12 MAY 2016

Meeting Status: **Public**

Purpose of Report: For Information

**LOCAL GOVERNMENT FUNDING AGENCY DRAFT 2016/17  
STATEMENT OF INTENT**

**PURPOSE OF REPORT**

- 1 The purpose of this report is to update the Corporate Business Committee on the Local Government Funding Agency (LGFA) draft 2016/17 Statement of Intent (SOI).

**DELEGATION**

- 2 The Corporate Business Committee has delegated authority to consider this report under the following delegation in the governance Structure, Section B.3.7.

*Without limiting the generality of this delegation, the committee has the following functions, duties and powers.*

*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 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 On 30 November 2012, Council became a Principal Shareholding Local Authority<sup>1</sup> 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.
- 5 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.

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1 Principal Shareholding Local Authorities are those which invest capital in the LGFA, and are expected to receive a return on that capital.

- 6 As a shareholder, Kāpiti Coast District Council is statutorily required to review the draft SOI and, as soon as is practicable after receiving it to either agree to it or, if it doesn't agree to provide feedback with regard to any changes it wishes to be made. Feedback can be provided either directly to the LGFA Board or through the Shareholders Council.
- 7 The Shareholders Council comprises five to ten appointees from the Council shareholders and the Crown and as part of its role is required to make recommendations to the shareholders in relation to the draft SOI.

## ISSUES AND OPTIONS

### Issues

- 8 The report summarises the key intentions and expectations of the LGFA 2016/17 SOI.
- 9 The LGFA has a primary objective of optimising debt funding terms and conditions for its members. The two key performance targets it uses to assess the achievement of this objective are:
  - 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 2016/17 SOI;
  - 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 2016/17 SOI.
- 10 The above targets for both of these performance measures are in line with previous SOIs.
- 11 The LGFA local government loans, and hence its profits are forecast to steadily increase over the three years of this SOI. Profits are forecast to increase from \$10.1 million in 2016/17 to \$13.5 million in 2018/19. If achieved, these forecast profits, assuming the same level of dividend (\$0.0706 per paid up share in 2015) would see retained earnings increase to \$57.6 million by 30 June 2019.
- 12 As noted in relation to previous years' SOIs, the LGFA's stated intention of maximising benefits to Participating local Authorities as borrowers rather than shareholders might better be achieved by a reduction in the forecast retained earnings through a decrease in the LGFA margins that it on-charges to local authority members. The LGFA considers that it needs to ensure it has sufficient capital to match the growth in its balance sheet.
- 13 The SOI also sounds a note of caution with regard to the markets in which the LGFA borrows becoming more challenging compared to previous years though the LGFA does not appear to have altered its forecast performance to reflect this.
- 14 The LGFA draft 2016/17 Statement of Intent is attached as Appendix 1.

## CONSIDERATIONS

### Policy considerations

- 15 In accordance with the LGA 2002, the Council has provided information on all of its CCOs in its 2015/35 Long Term Plan.

### Legal considerations

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

### Financial considerations

- 17 Council has an obligation in respect of uncalled capital which is considered in detail in report Corp-16-1890.

### Tāngata whenua considerations

- 18 There are no tāngata whenua considerations.

## SIGNIFICANCE AND ENGAGEMENT

### Degree of significance

- 19 This matter has a low level of significance under Council policy, and it is not significant.

### Consultation already undertaken

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

### Engagement planning

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

### Publicity

- 22 There are no publicity considerations.

## RECOMMENDATIONS

- 23 That the Corporate Business Committee notes the contents of the Local Government Funding Agency draft 2016/17 Statement of Intent.

**Report prepared by**

**Approved for  
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## ATTACHMENTS

Appendix 1 – LGFA draft 2016/17 Statement of Intent