

Report 12.110
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Committee Council
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Local Government Funding Agency (LGFA) update, Half yearly report and Statement of Intent

1. Purpose

To present and seek comment on the LGFA Statement of Intent from the Council/Shareholder.

To provide an update on the LGFA's half year financial results and the Shareholder Councils meetings.

To approve the remuneration of the Acting LGFA CEO in the early establishment phase.

2. The decision-making process and significance

The matter requiring decision in the report has been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (the Act).

Officers have considered the significance of the matter, taking the Council's significance policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining consideration of the decision-making process is required in this instance.

3. Background

The LGFA was established on 6 December 2011 and being a Council Controlled Trading Organisation (CCTO), it is required to prepare a Statement of Intent to its Shareholders.

Greater Wellington (GW) has been a promoter of this organisation and holds \$2 million of the \$25 million share capital, being one of the 18 non-Government founding shareholders.

GW has a representative on the Shareholders' Council, which is a group consisting of the nine Councils which originally promoted the LGFA.

The principal role of the Shareholder Council is to monitor the LGFA and to provide a focal point for LGFA communication. The Council has formal meetings and has met twice since the LGFA was established. It is presently formulating a Charter.

4. LGFA half yearly report

The LGFA half yearly report (refer **Attachment 1**) has been provided by the LGFA and notes that the LGFA has only recently commenced operation. It covers the first LGFA tender results.

The financial statements principally show the set up costs the LGFA has incurred, eg, establishment costs, legal fees, etc.

5. Inaugural Bond issue

The LGFA had its first bond issuance on 15 February. The tender was a resounding success with a total of \$1,320 million in bids for \$300 million of two bonds maturing in April 2015 and December 2017. The pricing received after the LGFA margin was around 0.10% better than where Auckland Council could have funded itself. The first tender of any new issuer has a degree of price discovery and over time once the total debt on issue increases one can expect the pricing margin to improve.

GW raised \$25 million on each maturity from the LGFA on the back of this. GW's total cost of funds, expressed as a margin over the swap rate, was 0.88% for the April 2015 maturity and 1.22% for the December 2017 maturity.

The Floating Rate Note debt instruments Greater Wellington issued to the LGFA in relation to this are currently costing GW an average interest rate of around 3.75%.

6. LGFA remuneration of the Chairman Acting as Chief Executive

During the period between incorporation of the LGFA and the inaugural Directors' meeting of the LGFA, Craig Stobo acted as Chief Executive to assist with its establishment leading up to the first Bond Issuance.

Remuneration of, or any benefits paid to Directors, other than those already agreed to by Council's collectively as Shareholders, require an ordinary resolution of shareholders.

A detailed explanation of this is contained in **Attachment 3** and a resolution for Council to consider is contained in **Attachment 4**

7. Statement of Intent

The Statement of Intent (refer **Attachment 2**) is now available to shareholders for comment. A brief summary of the financial information reveals the following:

A \$1.2 million profit in the 2012/13 year climbing to NZ\$1.6 million in 2013/14 and reducing to \$1.4 million in 2014/15.

An inaugural dividend of \$700,000 is forecast for 2012/13 and 2013/14, increasing to \$1.5 million in 2014/15.

Total assets (mostly lending to Local Authorities) increase from \$1.0995 billion in 2012/13 to \$2.102 billion in 2014/15.

The performance targets have the LGFA's average cost of funds set at 0.50% above NZ Government Stock for the 2012/13 year and reducing to 0.40% for the subsequent two years.

The Shareholders' Council has made three comments in relation to the SOI which are contained in **Attachment 3**.

The comments are in relation to the Accounting Policies, the forecasted overhead expenses in the 2015 year, which appears to be driving the net profit reduction, and the LGFA charter.

8. Recommendations

That the Council:

1. **Receives** the report.
2. **Notes** the content of the report.
3. **Resolves** that a payment of \$29,371.58 be made by LGFA to the Acting LGFA Chief Executive during the early establishment phase of the LGFA.
4. **Authorises** The Chief Executive to sign the Shareholders resolution in relation to the remuneration of the LGFA Acting CEO role in a form as in Attachment 4.
5. **Receives** the draft Statement of Intent of the Local Government Funding Agency and forwards any comments or recommendations to the CFO for communication to the Shareholder Council to provide to the LGFA.

Report prepared by:

Report approved by:

Mike Timmer
Treasurer

Bruce Simpson
Chief Financial Officer

Attachment 1: Half yearly report for LGFA

Attachment 2: Statement of Intent for LGFA

Attachment 3: Letter to all LGFA Shareholders

Attachment 4: LGFA Shareholder Resolution.