

Report 14.135
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Committee Council
Author Mike Timmer, Treasurer

Local Government Funding Agency (LGFA) half year report - 31st December 2013

1. Purpose

To update the Council on the progress of the Local Government Funding Agency, and provide their half yearly report.

2. Background

Greater Wellington Regional Council (GWRC) became a shareholder of the Local Government Funding Agency (LGFA), contributing \$2 million in paid up capital in December 2011. In November 2012 GWRC reduced its shareholding to \$1.87 million by selling 134,021 \$1 shares to other Councils who joined the LGFA. The LGFA has 42 participating Councils, representing 90% of Local Government Sector debt.

At the time the LGFA was set up, a body called the Shareholders' Council was also established. Its role is to monitor the LGFA and to provide a liaison between the LGFA and its shareholders. GWRC is a member of the Shareholder's Council, and is active in providing direction and advice to it through its representative. The author of this report was recently appointed Deputy Chair of the Shareholders Council.

GWRC has borrowed \$125 million from the LGFA in five tranches of \$25 million, maturing in April 2015, 2x December 2017, March 2019 and May 2021 at an average cost of 0.82% margin over the 90 day bank bill rate or swap rate.

3. Comment

The LGFA half year report for the period ended 31st December 2014 is appended to this report as **Attachment 1**.

The Shareholders' Council completed a high level review of the report and it is appended as **Attachment 2**.

The highlights of the report can be found in the Directors commentary on operations on page 3 of the half year report in **Attachment 1**.

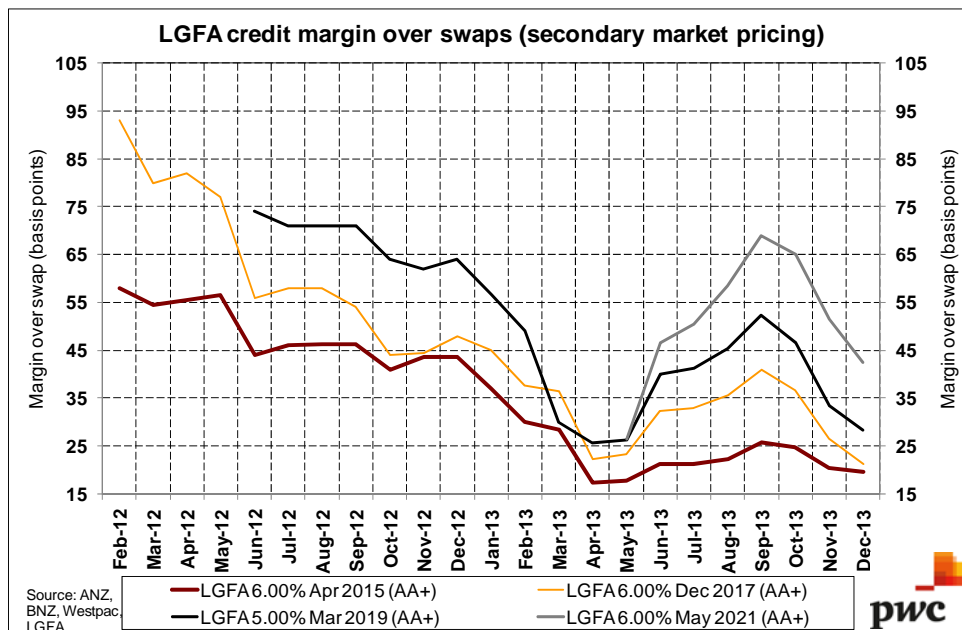
The main benefit the Council is that lending margins are reducing both in terms of the LGFA and also their on-lending to us, the later has improved from 30 points (0.30%) on our first borrowing to 15 points (0.15%) on our most recent borrowing.

This has come about due to the LGFA now gaining critical mass as a borrower. As a result they are able to access overseas investors many of whom will only deal with investments that have high liquidity .i.e. bonds on issues for a particular maturity must be more than \$1 billion.

The Government has reduced its forecasted Bond programme by some \$2 billion, consequently there will be less New Zealand Investments available. The LGFA provides a great alternative at a favourable 71 point (0.71%) over where they can invest in New Zealand Government Bonds. The long term Standard & Poor's credit rating for the LGFA is AA+, the same as the Government.

Council received an inaugural dividend of \$113,078 in October 2013 being a return of 6.06% on Council's \$1.87 million investment. The dividend was twice that anticipated in the LGFA business case.

Recently pricing has been improving as noted in the attached chart, with a record bid cover ratio of 9.84 times achieved in March this year. This also saw improved pricing for Councils. The blip was caused by the sudden increase in long term interest rates when the United States Central Bank (Federal Reserve) announced the beginning of reducing their bond and mortgage security purchasing programme.



Source of Graphs: PWC

At 31st December it was estimated the LGFA was saving Councils like us rated at AA some 20 to 25 points (0.20%-0.25%).

The LGFA is presently looking at options to provide itself with a computer system to complete its settlements as the Debt Management Office (DMO) has indicated it will be upgrading its system and does not intend to renew its service contract for the LGFA.

This introduces an implementation risk for the LGFA which they are clearly aware of and will address. The SOI will expand on this further and is expected presented to Council with the Shareholders Councils comments when they are available.

Officers continue to monitor and report on the LGFA.

4. The decision-making process and significance

No decision is being sought in this report.

5. Recommendations

That the Council:

- 1. Receives the report.*
- 2. Notes the content of the report.*

Report prepared by:

Report approved by:

Mike Timmer
Treasurer

Warren Tocker
Chief Financial Officer

Attachment 1 - LGFA Half Year Report – 31 December 2013

Attachment 2 – Shareholders' Council – Quarter 2 review to 31 December 2013