

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

4 APRIL 2019

Meeting Status: **Public**

Purpose of Report: For Information

**LOCAL GOVERNMENT FUNDING AGENCY HALF-YEAR
REPORT TO 31 DECEMBER 2018**

PURPOSE OF REPORT

- 1 The purpose of this report is to update the Operations and Finance Committee on the Local Government Funding Agency (LGFA) Half-Year Report to 31 December 2018.

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 On 30 November 2012, Council became a principal shareholding local authority in the LGFA. 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 The LGFA meets the Local Government Act (LGA) 2002 definition of a Council Controlled Organisation (CCO) as one or more local authorities have the right, directly or indirectly, to appoint 50% or more of the directors.
- 6 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.

ISSUES AND OPTIONS

LGFA performance for the six months to 31 December 2018

- 7 The half-year results reflect the continued strong performance of the LGFA with total comprehensive income of \$6.08 million, slightly ahead of the 2017 half-year result of \$6.04 million.

- 8 In addition, the total face value of LGFA bonds outstanding increased from \$7.5 billion at 31 December 2017 to \$9.1 billion at 31 December 2018.
- 9 The LGFA continues in its stated objective of providing flexible lending terms with \$800 million of bespoke lending during the period and \$527 million of short-dated lending as at 31 December 2018. The bespoke lending represented 76% of total term lending to council members over that period.
- 10 In terms of achieving its primary objective of savings in annual interest costs for all participating local authorities, the LGFA estimates that as at 31 December 2018 it is providing savings to AA rated councils of between 2 and 17 basis points depending on the term of borrowing. The Kāpiti Coast District Council has a Standard and Poor's credit rating of A+, slightly lower than AA, suggesting a lower but comparable quantum of savings.
- 11 The Council's LGFA gross borrowings were \$222.5 million as at 31 December 2018. If we assume a conservative five basis points saving due to the Council's A+ credit rating, then this equates to annual savings in interest costs of at least \$111,250.
- 12 The table below shows that the LGFA is on track to achieve three of its four key performance measures (KPIs).

Current performance targets		Target	31 December 2018 YTD Result	On Track
1	Average margin above LGFA's cost of funds charged to the highest rated participating local authorities.	Less than or equal to 0.10%	0.095%	Yes
2	Annualised issuance and operating expenses (excluding AIL)	Less than or equal to \$5.67 million	\$2.81 million	Yes
3	Lending to participating councils	Greater than or equal to \$8.105 billion	\$9.268 billion	Yes
4	Savings on borrowing costs for councils relative to other sources of financing and compared to previous years	Improvement since prior year end relative to borrowing by councils directly	As at 30 June 2018 2019s 11bps 2021s 19bps 2025s 10bps	Not met – the lack of single name issuance by councils and shortening of comparable maturity dates.
			As at 31 Dec 2018 2019s 2bps 2021s 17bps 2025s 15bps	

- 13 The LGFA's credit rating was affirmed at AA+ by both Standard and Poor's and Fitch. The LGFA's membership also increased during the period to 61 councils.

- 14 There were no compliance breaches by the LGFA during the six months to 31 December 2018.
- 15 The full LGFA Half-Year Report to 31 December 2018 is attached as Appendix 1.

CONSIDERATIONS

Policy considerations

- 16 In accordance with the LGA 2002, the Council must provide information on all of its CCOs in its Long Term Plan (LTP). Accordingly the 2018/38 LTP contains information on the LGFA, including key performance targets and other performance metrics.

Legal considerations

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

Financial considerations

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

Tāngata whenua considerations

- 19 There are no tāngata whenua considerations.

Strategic considerations

- 20 There are no strategic considerations arising from this report.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

- 21 This matter has a low level degree of significance under the Council's Significance 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 performance of the Local Government Funding Agency in its Half-Year Report to 31 December 2018 (attached as Appendix 1 of report Corp-19-765).

Report prepared by **Approved for submission** **Approved for submission**

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Appendix 1 LGFA Half-Year Report to 31 December 2018