

Report No:	RCN11-06-07
File No:	
Date:	1 June 2011
Decision Required	

REPORT SUMMARY

Report to: Tasman District Council
Meeting Date: 9 June 2011
Subject: Local Government Funding Agency Scheme
Report Author: Murray Staite, Corporate Services Manager

EXECUTIVE SUMMARY

Council has consulted with the community as to whether it should participate in the Local Government Funding Agency Scheme (LGFA) as a principal shareholding authority. Twelve submissions were received with three submitters concerned particularly over the issuing of guarantees. Council's options range from the status quo to full participation in the scheme.

RECOMMENDATION/S

That the Tasman District Council adopts the draft resolution below.

DRAFT RESOLUTION

THAT the Tasman District Council:

- a) receives and notes the contents of the Local Government Funding Agency Scheme Report (RCN11-06-07); and
- b) approves in principle, subject to a further staff report on the final details of the funding scheme, the proposal to join the Local Government Funding Agency Scheme as a Principal Shareholding Local Authority

and

- c) agrees to add the following wording to the Investment policy of the Council's Treasury Management policy contained within the Ten Year Plan 2009 – 2019:

"New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this Investment Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

The Council's objective in making any such investment will be to:

- (a) obtain a return on the investment; and**
- (b) ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for the Council.**

Because of this dual objective, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA."

- d) agrees to add the following wording to the Liability Management policy of the Council's Treasury Management Policy contained within the Ten Year Plan 2009 – 2019.**

"New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this Liability Management Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- (a) contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA;**
- (b) provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;**
- (c) commit to contributing additional equity (or subordinated debt) to the LGFA if required;**
- (d) subscribe for shares and uncalled capital in the LGFA; and**
- (e) secure its borrowing from the LGFA, and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue."**

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1. Purpose

- 1.1 To consider whether after consultation with the community Council should participate in the Local Government Funding Agency Scheme (LGFA) and to what extent, and , therefore, where it should amend its Treasury Management Policy contained in the Ten Year Plan 2009-2019.

2. Background

- 2.1 At its meeting of 23 February 2011 Council considered the pros and cons of participating in the LGFA and subsequently passed the following resolution:

THAT the Tasman District Council:

- a) Receives and notes the contents of the local government funding agency scheme report RCN 11-02-13**

and;

- b) Approves the proposal to join the local government funding agency scheme as a principal shareholding local; authority and related amendments to the treasury management policy, and that the proposal be subject to the special consultative process in accordance with the Local Government Act in conjunction with the 2010 and 2011 Annual Plan process**

3. Matters to be Considered

- 3.1 Council in accordance with the provisions of the Local Government Act 2002 has consulted with the community and the results of that consultation process are noted below.
- 3.2 Twelve submissions were received in regard to the Treasury Management Policy Amendment with seven being in favour, three against and two unsure.

The providing of guarantees was a principal concern of those who were not in favour of the amendment.

4. Options

4.1 Option 1 – Status Quo

Maintain the current process and methodology for funding.

Benefits

- No risks associated with having a shareholding in LGFA.
- No risks associated with providing guarantees associated with LGFA ownership.

Risks

- Limited access to long term (10 years +) funding at reasonable margins.

4.2 Option 2 – Full Participation in the LGFA Scheme

Join the LGFA Scheme and subscribe for equity as a principal shareholding council. The return on equity advanced is predicted to be 2% over and above the Council's cost of borrowing.

Benefits

- Net interest savings estimated conservatively from \$228,000 to \$280,000 per annum. It is important to note that debt pricing has been steadily reducing meaning that net interest savings as noted above may not be as high as first thought.
- Access to long term (10 years +) funding at reasonable margins.
- Voting as a shareholder for the appointment of directors to the LGFA.
- Influence over governance of the LGFA.

Risks

- Shareholding risks associated with LGFA (assessed as minimal risk).
- Guarantees associated with LGFA shareholding (assessed as minimal risk).

4.3 Option 3 – Limited Participation in the LGFA Scheme as a Guaranteeing Borrower

Join the LGFA Scheme and subscribe for one share.

Benefits

- Net interest savings estimated conservatively from \$228,000 to \$285,000 per annum. It is important to note that debt pricing has been steadily reducing meaning that net interest savings as noted above may not be as high as first thought
- Access to long term (10 years +) funding at reasonable margins.

Risks

- Shareholding risks associated with LGFA (assessed as minimal risk).
- Guarantees associated with LGFA shareholding (assessed as minimal risk).
- Limited control over the governance of LGFA.
- In the event that a majority of councils select this option there would be insufficient capital for the LGFA Scheme to proceed.

4.4 Option 4 – Non-Shareholding Borrower

Maintain the current process and methodology for funding.

Benefits

- No risks associated with having a shareholding in the LGFA.
- Only very limited funding available, likely to be not more than \$20 million.

Risks

- Limited access to long term (10 years +) funding at reasonable margins.

5. Significance

5.1 The decision to change Council's Treasury Management Policy to allow for investment in the LGFA was a significant matter.

5.2 The Local Government Act 2002 required Council to use the special consultative procedure to make that change. The special consultative procedure was undertaken as part of the Draft Annual Plan 2011/2012 process and the requirements of the Local Government Act 2002 have been met. This matter is a formal amendment to the Ten Year Plan 2009 – 2019.

6. Recommendation/s

6.1 That the Tasman District Council adopts the suggested recommendations.

7. Timeline

7.1 It is expected that regulation to enact the Local Government Funding Agency will be passed later this calendar year.

8. Draft Resolution

THAT the Tasman District Council:

- a) receives and notes the contents of the Local Government Funding Agency Scheme Report (RCN11-06-07); and**
- b) approves in principle, subject to a separate staff report on the final details of the funding scheme, the proposal to join the Local Government Funding Agency Scheme as a Principal Shareholding Local Authority.**

and

- c) agrees to add the following wording to the Investment policy of the Council's Treasury Management Policy contained within the Ten Year Plan 2009 – 2019:**

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Because of this dual objective, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA."

d) agrees to add the following wording to the Liability management policy of Council's Treasury Management Policy contained within the Ten Year Plan 2009 – 2019:

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- (e) secure its borrowing from the LGFA, and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue."**

Murray Staite
Corporate Services Manager