

Report 11.273
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Committee Council
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Investing in the Local Government Funding Agency and resultant amendment to the Treasury Risk Management Policy

1. Purpose

To finalise the arrangements around Local Government Funding Agency (LGFA) and give the Chief Executive the necessary delegations to effect these.

2. Significance of the decision

The matters for decision in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3) (b) of the Local Government Act 2002. The Investing in the Local Government Funding Agency and amendment to the Treasury Risk Management Policy have been undertaken as part of the annual planning process with the consultation process undertaken in March and April 2011.

3. Background

The proposed amendment to the 2009/19 LTCCP triggered section 76 (3) (b) of the Local Government Act 2002 which meant any changes to the LTCCP are required to be consulted on.

A Statement of Proposal ('the Proposal') was completed (**Attachment 1**) and issued by Greater Wellington in terms of section 83 of the Local Authority Act 2002 as part of Greater Wellington's special consultative process in relation to the LGFA scheme.

The proposal is contained in Greater Wellington's Annual Plan 2011/12-Proposed. The Proposal was circulated along with a summary in the plan and other media announcements to the local community.

Greater Wellington received a number of written and oral submissions in relation to the Proposal on 20 May 2011 and also considered the other matters raised.

The Council, having considered the submissions made on the Proposal, agreed on 2 June 2011 to the Proposal being progressing in its current form.

In essence, the Proposal was to amend the Treasury Risk Management Policy contained in the 2009-2019 LTCCP and to invest in the LGFA.

4. Comment

In order to progress the Proposal the following needs to occur:

The Council needs to formally approve the following, which can be delegated to the Chief Executive to undertake:

Subscription of shares

Subscribe to shares in the LGFA up to the value \$2.5 million. This will provide part of the foundation capital to the LGFA and is expected to pay an annual dividend. This contribution will likely reduce over time as more shareholders come on board. Indications are that there are currently in the vicinity of \$26.5 million in offering for \$20 million of shares, with nine other founding shareholders committing \$2.5 million. At some future point it is expected that our shareholding maybe reduced and funds returned as other Councils join the LGFA.

Subscription to uncalled shares

Subscribe to uncalled capital of \$2.5 million. This amount will remain at a similar level to the issued shares.

Borrowing from the LGFA

Enter into borrowing documentation with the LGFA including the investment in borrower notes, or redeemable preference shares of the LGFA. All borrowing made through the LGFA requires a requisite borrowing of funds to be used to reinvest back in the LGFA as capital. As the LGFA grows its asset base, its capital base also needs to increase to meet banking covenant requirements, or capital adequacy ratio, currently expected to be 1.6% of total LGFA assets.

Entering into a Cross Guarantee

Entering into a cross guarantee arrangement whereby Greater Wellington guarantees the debt obligations of the other guaranteeing Councils and the LGFA. This may mean that in the case of a default Greater Wellington may have to provide additional equity at a future date. This has been discussed with Council previously, and while it is noted as a risk, it was agreed to be a remote one and outweighed by the benefits the LGFA can bring.

Borrowing Security arrangements

Joining the LGFA requires that our security arrangements need to be altered from a Negative Pledge Deed to a Debenture Trust Deed. The Debenture Trust Deed will provide for a charge over our rates and rates revenues. This will require amendments to existing loan documentation and the appointment of a Trustee to monitor the performance of Greater Wellington's financial position. We currently have such arrangements in place with WRC Holdings Ltd, for its borrowings.

Borrowing commitment to the LGFA

As part of being a foundation member of the LGFA, Greater Wellington has committed to providing founding shares and uncalled capital, and as part of this commitment had informally agreed to borrow up to 80% of Greater Wellington's long term debt (excluding WRC Holdings Ltd as its debt is not secured via a charge over rates) from the LGFA, for the first five years of the LGFA operations.

This commitment by Greater Wellington and the other founding shareholders initially ensured the LGFA reached economies of scale, enabling it to run profitably. Currently the LGFA is indicating it will have 35 paid up shareholders with share contributions from \$2.5 million to \$100,000, and an over subscription of capital. The initial concern of the nine founding shareholders was that other Councils may not join the scheme and that they needed to unite and proceed on their own, hence the need to commit a certain percentage of their debt to the LGFA. It appears that interest in the scheme is widespread.

Update Treasury Risk Management Policy

The Treasury Risk Management Policy contained in the Greater Wellington's 2009-2019 LTCCP needs to be updated to reflect the above contemplated changes. A copy of the revised Policy is attached (**Attachment 2**) and the detailed wording of the changes are as per (**Attachment 1**).

The changes are essentially noting that there will be an investment in the LGFA and the process is necessary to achieve this and borrowing from the LGFA. There is also a section on changing from the current Negative Pledge Deed to a charge over rates and rates revenue.

5. Communication

There are no communications required regarding this paper.

6. Recommendations

That the Council:

1. ***Receives*** the report.
2. ***Notes*** the content of the report.
3. ***Amends*** the Long Term Council Community Plan by making the amendments to its Treasury Risk Management Policy, incorporating the Liability Management Policy and Investment Policy as detailed ***in Attachment 1 and 2*** annexed to this report.
4. ***Approves*** the participation by Greater Wellington in the LGFA Scheme as a Principal Shareholding Local Authority, including the following:
 - a) *subscribing for Shares in the LGFA with an aggregate issue price of up to \$2.5 million;*
 - b) *subscribing for Uncalled Capital in the LGFA with an aggregate unpaid amount of up to \$2.5 million;*
 - c) *entering into loan documentation with the LGFA;*
 - d) *subscribing for Borrower notes with the LGFA;*
 - e) *committing to provide additional equity to the LGFA under certain circumstances that may arise in the future;*
 - f) *entering into a joint and several guarantee with the LGFA and other Councils;*
 - g) *committing to meet 80% of the Council long term debt funding needs from the LGFA for a 5 year term;*
 - h) *amending the Greater Wellington's Negative Pledge Deed to provide a charge over rates and rates revenue to secure some or all of its obligations under the LGFA Scheme; and*
 - i) *any other things which are contemplated in the attachments to this report that a Principal Shareholding Local Authority will do; and*
 - j) *anything which is not specifically described in paragraphs (a) to (i) above, but which is ancillary to or not materially different from those.*

5. ***Delegates to the Chief Executive the authority to:***
- a) *Agree the terms on which Greater Wellington participates in the LGFA Scheme as a Principal Shareholding Local Authority, including which of the arrangements described above are entered into and the terms of those arrangements; and*
 - b) *Determine how Greater Wellington exercises its rights under the arrangements entered into in connection with the LGFA Scheme, including, without limitation, the Council's rights as a shareholder in the LGFA.*
6. ***Authorises the Chief Executive to execute such documents and take such other steps on behalf of the Council as the Chief Executive considers it is necessary or desirable to execute or take in connection with Greater Wellington's participation in the LGFA Scheme as a Principal Shareholding Local Authority.***
7. ***Authorises any two elected members of the Council to execute such deeds on behalf of the Council as the Chief Executive considers it is necessary or desirable for them to execute in connection with Greater Wellington's participation in the LGFA Scheme as a Principal Shareholding Local Authority.***

Report prepared by:

Report approved by:

Mike Timmer
Treasurer

Bruce Simpson
Chief Financial Officer

Attachment 1: – Statement of Proposal to amend the Treasury Risk Management Policy contained in the Regional Council's 2009-2019 Long Term Council Community Plan and to invest in the New Zealand Local Government Funding Agency.

Attachment 2: –Treasury Risk Management Policy - including the liability management and investment policies