

Report 12.239  
Date 5 June 2012  
File CFO/06/03/01

Committee Audit, Risk and Assurance  
Author Mike Timmer, Treasurer

## Local Government Funding Agency - Quarterly report

### 1. Purpose

To update the Audit Risk and Assurance Committee on the progress of the LGFA up to 31 March 2012.

### 2. The decision-making process and significance

No decision is being sought in this report.

### 3. Background

Greater Wellington (GW) became a shareholder of the Local Government Funding Agency (LGFA), contributing \$2 million in paid up capital in December 2011. Since then, GW has borrowed \$50 million from the LGFA in two tranches of \$25 million, maturing in April 2015 and December 2017 at an average cost of 1.00% margin over the 90 day bank bill rate.

At the same 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. GW is a member of the Shareholder Council and is active in providing direction and advice to it through its representative.

The LGFA reports to shareholders quarterly via the Shareholder Council. The LGFA, also being a Council Controlled Organisation, is obliged to produce a Statement of Intent and report on it.

The LGFA SOI was presented to the Council in March along with the LGFA's half yearly report.

#### 4. **Comment**

The LGFA Quarterly Report for the period to 31 March 2012 is appended to this report as **Attachment 1**. The issuance of debt by the LGFA has been received well by the market as evidenced by the large amount of over subscription. Pricing has been declining and as time goes on it can be expected to improve further. This will occur as the volume of securities on issue increases (liquidity increases), meaning a wider group of investors will be attracted, in particular overseas investors.

At its May meeting, the Shareholders Council met with the LGFA Board of Directors and a question about LGFA savings was raised.

The LGFA will now, as part of its reporting, prepare some market based data to show the savings that the LGFA is achieving for its borrowers. This will assist Councils to report on the savings indicated in their Plans when consultation on investing in the LGFA was undertaken.

This may appear to be a simple task, but there are a number of dynamics working in the market place that make this difficult. For example, the LGFA's establishment has already assisted with margin cost reductions for all Council debt raising. This has seen, for example, the sector's margins contract in relation to other New Zealand companies.

A GW Councillor previously raised the point that the LGFA would be a great investment for Mum and Dad investors and the LGFA should encourage such activity. This was taken up directly with the LGFA Chairman, Craig Stobo, who is now aware of our request.

The LGFA does not, and is unlikely to, issue securities directly to the Public, due to the transactional costs involved. Securities, however, can be purchased on the secondary market via banks and share brokers.

#### 5. **Recommendations**

*That the Committee:*

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

Report prepared by:

Report approved by:

**Mike Timmer**  
Treasurer

**Bruce Simpson**  
Chief Financial Officer

**Attachment 1:** LGFA quarterly report