

Proposal to join the Local Government Funding Agency Consultation Document

Introduction

The Council has not required any external borrowing for a significant period of time however a number of factors have changed this position and we will now require external funding to meet all planned and anticipated future capital investments. As well as this, the potential impact of COVID-19 and Council's desire to support the community and stimulate the economy means that it is no longer financially prudent or desirable to meet our funding needs from existing banking facilities. The impact of COVID-19 and the need for the Council to respond has increased the urgency of securing additional funding at the lowest possible cost.

The Waitaki District Council (the Council) is considering participating in the New Zealand Local Government Funding Agency (LGFA) scheme. The scheme is designed to allow local authorities to borrow funds at more favourable interest rates than the banking sector.

The LGFA is a Council-Controlled Organisation (CCO) operating under the Local Government Act 2002. The LGFA specialises in financing the New Zealand local government sector, the primary purpose being to provide more efficient funding costs and diversified funding sources for New Zealand local authorities. The LGFA was established to raise debt on behalf of local authorities on terms that are more favourable to them than if they raised the debt directly. More information can be found on the LGFA website www.lgfa.co.nz.

The Council is proposing to participate in the LGFA scheme because it provides an opportunity to borrow at lower interest rates and provides greater certainty and duration of funding.

The proposal and submission form follows. You can make a submission online at www.waitaki.govt.nz, by email or in writing. See the submission form below for more details on how to make a submission.

Summary of the Proposal

The Council is proposing to participate in the LGFA scheme because it provides an opportunity to borrow at lower interest rates and provides greater certainty and duration of funding.

Statutory Considerations

Section 56 of the Local Government Act 2002 (LGA 2002) requires that before a local authority may establish or become a shareholder in a CCO organisation, the local authority must undertake consultation in accordance with section 82 of the LGA 2002. Although the Council is not proposing to acquire shares in the LGFA, borrowing under the LGFA scheme will require it to acquire some capital issued by the LGFA that could, in some circumstances be converted into shares in the LGFA.

Reason for the proposal

The Council believes that participating in the LGFA scheme provides an opportunity to borrow funds at more favourable interest rates than the banking sector and that this benefit outweighs any costs and risks associated with the LGFA scheme.

The Council is proposing it will participate in the LGFA as a non-guaranteeing local authority.

The Council is consulting on this proposal for the reasons set out above under “Statutory Considerations”.

Analysis of Reasonably Practicable Options

The reasonably practicable options are:

1. **Not pursue LGFA membership**
2. **Seek to join the LGFA as a non-guaranteeing member (preferred option)**
3. **Seek to join the LGFA as a guaranteeing member**

These options are outlined below:

1. **Not pursue LGFA membership**

If the Council decides not to participate in LGFA then it will not be able to borrow from the LGFA. If the LGFA offers the best terms in the market then Council will be excluded from the benefits of borrowing on the most favourable terms available.

Council proposes that option 1 is not adopted.

2. Seek to join the LGFA as a non-guaranteeing member

As a non-guaranteeing local authority Council will be restricted to borrowing a maximum of \$20 million from the LGFA and in all but the situations where commercial paper is used as the borrowing mechanism the cost will be 0.10% higher for a non-guarantor. Commercial paper is an unsecured promissory note typically issued by banks and companies to finance working capital and other short-term requirements.

A non-guaranteeing local authority is not subject to the joint and several guarantee whereby the debts of the LGFA are guaranteed in proportion to each individual council's rating base.

Current external debt projections for Council are as follows:

- September 2020 = \$5 million
- December 2020 = \$10 million
- June 2021 = \$15 million
- June 2022 = \$20 million

The following is advice received from Bancorp Treasury Service Limited which assists Councils to join the LGFA and then manage their borrowing and membership requirements.

It is difficult to establish with a high degree of accuracy the pricing related to bond issuance by Council, but we would estimate that it would be at least 30 basis points higher than the LGFA. However, as Council does not have a credit rating it is doubtful if it would be able to source any bids from investors, especially in the COVID-19 environment. Therefore, capital markets debt issued by Council is not regarded as a viable option.

Pricing for bank debt is varying widely at present due to the volatility in the funding markets induced by COVID-19. Currently Council has a Customised Average Rate Loan ("CARL") facility provided by BNZ. The cost of this facility seems high for a local authority and, in reality, might not be the best product for Council to borrow at. To calculate the potential savings that the LGFA could deliver we have used what we would regard as more realistic pricing, which for a 3 year facility we are assuming a line fee and margin of 1.65% (this does not factor in any establishment fee). This number could change in a short space of time given the current market disruption and consequent pricing volatility.

Using the debt figures detailed above and the estimated bank facility pricing of 1.65%, we calculate that the gross savings from LGFA borrowing in the period to June 2022 (assuming a start date of September for LGFA borrowing) to be approximately \$224,000.

However, as there are cost associated with joining, the net benefit to Council of joining the LGFA (excluding any bank facility establishment costs and using a LGFA liquidity facility) would be approximately \$189,000 in the period to June 2022.

Option 2 is Council's preferred option

3. Seek to join the LGFA as a guaranteeing member

If the Council joined the LGFA scheme as a Guaranteeing Local Authority it would be able to borrow more than \$20 million from the LGFA and would be charged a lower interest margin for its borrowing.

However as a guaranteeing local authority Council would be subject to the joint and several guarantee whereby the debts of the LGFA are guaranteed in proportion to each individual council's rating base.

Council does not anticipate borrowing more than \$20 million and therefore Council proposes that option 3 is not adopted

Liability Management and Investment Policy

This policy does not contain provisions to allow borrowing from the LGFA and therefore will need to be amended if membership to the LGFA is secured. Although it is not necessary to consult on changes to this policy it has been included with the consultation material for completeness.

A copy of the current policy with the proposed changes is available at: www.waitaki.govt.nz

Tell us what you think

Which of our options do you prefer (please select one)

- Not pursue LGFA membership
- Seek to join the LGFA as a non-guaranteeing member
- Seek to join the LGFA as a guaranteeing member

Comments

Is there anything else you would like to tell us? (attach additional comments to this form)

Deliberations

Would you like to speak to Councillors about your submission at the deliberations on 14 July 2020?

- No I do not want to speak to Councillors about my submission
- Yes I would like to speak to Councillors about my submission

If yes please provide your details so you can be contacted to arrange a time to speak.

Name

Phone number.....

Email.....

All submissions will be carefully considered before final decisions are made.

You can also find a copy of the current Liability Management and Investment Policy with the proposed changes at: www.waitaki.govt.nz or you can inspect a copy at the Council's office, at 20 Thames Street, Ōamaru, or at District Council service centres and libraries.

Making a submission

Submissions must be received by 4pm on Wednesday 8 July 2020.

Online: www.waitaki.govt.nz

Email: consult@waitaki.govt.nz ('LGFA submission' in subject field)

Post:

LGFA Submission
Attention Policy Team
Waitaki District Council
Private Bag 50058
Ōamaru 9444

Or deliver your clearly-labelled submission by hand to the reception desk at:
20 Thames Street, Ōamaru.

What happens next?

Submissions open: 17 June 2020

Submissions close: 8 July 2020

Submissions heard and deliberated upon: 14 July 2020

Council decision regarding application to join the LGFA: 28 July 2020