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# Proposal to join the Local Government Funding Agency

Consultation Document

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Submissions close 4pm, Wednesday 16 March 2022



**Waimate**  
District Council

## Introduction

The Waimate 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 which specialises in financing the New Zealand local government sector, its 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](http://www.lgfa.co.nz)

Our Council has historically had no or little external borrowing. We are now requiring external funding to meet all planned and anticipated projects, activities and capital investments. 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. Put simply, it just makes a lot of sense.

We are proposing that our participation is as a guaranteeing borrower whereby we will receive pricing that is 0.10% lower than what applies to non-guarantors. As a guarantor we will not be subject to the restriction of borrowing a maximum of \$20 million from the LGFA. Joining the LGFA does not mean Council has any legal obligation to use LGFA for its borrowings. Council is free to borrow from whatever source is the cheapest or most suitable at the time of borrowing.

Should membership of the LGFA be confirmed then Council will need to amend its Liability Management and Investment Policies to expand the options of where funding can be secured from. The current policies, with the proposed changes, are included as supporting information for this consultation, available from our Council website.

Before any of this can happen though, we need to ask the community what they think. The proposal is outlined in this Consultation Document, along with an indication of Council's preferred option and details on how to make a submission.

## Summary of the Proposal

The Council is proposing to participate in the LGFA scheme as a guaranteeing member 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 provides that a proposal to establish a CCO, or to acquire shares in one, must be adopted by special consultative procedure before a local authority may establish or become a shareholder in that CCO. Although Council is not proposing to acquire shares in the LGFA, borrowing under the LGFA scheme will require it to acquire some capital (Borrower Notes) 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 guaranteeing member – option 2.

The Council is consulting on this proposal as required by legislation as outlined above in the "Statutory Considerations" section.

# Analysis of Reasonably Practicable Options

The reasonably practicable options are:

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

These options are outlined below:

## 1. To not pursue LGFA membership

If the Council decides not to participate in the 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 unable to access the benefits of borrowing on the most favourable terms available. Council would be at risk of not being able to access funding quickly.

Council therefore proposes that option 1 is not adopted.

## 2. Seek to join the LGFA as a guaranteeing member (preferred option)

Membership of the LGFA provides the most cost-effective source of financing available to local government. It will produce an important saving on interest costs compared to other sources of finance. The advantages of LGFA Funding are:

- Pricing
- Immediacy of funding
- Flexibility and duration of funding tenors
- Increased certainty of funding
- Ease of issuance

The following advice was received from Bancorp Treasury Services Limited, who is assisting Council in joining the LGFA and to provide on-going funding and interest rate risk management advisory services, to provide an estimate of the pricing savings that could be achieved by joining the LGFA.

*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 uncertain if it would be able to source any bids from investors, as the large majority of institutional investors now require councils to have a credit rating before investing in their debt instruments. Therefore, capital markets debt issued by Council is not regarded as a viable option.*

*Pricing for bank debt for the local government sector varies according to the bank and the actual 'name' of the council. There is even differentiation within the same bank for councils with similar credit characteristics.*

*To calculate the potential savings that the LGFA could deliver we have used the following assumptions:*

- Nominal debt of \$10 million.
- Bank margin of 3.20% (with nil line fee) and a facility term of 3 years. Note this pricing is consistent with Council's current pricing).
- LGFA margin is assumed to be an average 0.60% as a guaranteeing unrated borrower and 0.70% as non-guaranteeing unrated borrower, with the LGFA tenor based on a debt portfolio with tenors ranging from 3 months to 7 years and an average tenor of 4.1 years, thus giving the LGFA portfolio a longer duration.

*Based on these assumptions, we calculate that the gross savings from LGFA borrowing to be approximately \$260,000 over the next year. However as there are costs associated*

*with joining, the net benefit to Council of joining the LGFA would be approximately \$219,000 in the first year of borrowings. For the following 4 years thereafter net savings of approximately \$244,000 per annum are anticipated.*

It is noted that Council's Long Term Plan 2021-31 forecast external debt projections for Council to peak at \$15.5 million in 2023.

If the Council joined the LGFA scheme as a guaranteeing local authority it would not be subject to the restriction of borrowing a maximum of \$20 million from the LGFA. Also, as a guarantor Council will receive pricing that is 0.10% lower than what applies to non-guarantors.

However, a guaranteeing borrower is subject to the joint and several guarantee whereby the debts of the agency are guaranteed in proportion to each individual council's rating base. It is an important point to note that councils are guaranteeing the financial obligations of the LGFA, not other councils, and the LGFA has never called on the guarantee. It has the statutory ability to rate for debt recovery, strong liquidity and can comfortably absorb a default from most borrowers.

Due to these mitigating factors, Council has assessed the likelihood of a call on the guarantee as low.

Although Council is not presently forecasting borrowings of more than \$20 million, after considering the low likelihood of a guarantee being called on and the lower interest margin for borrowing (thereby enabling the securing of funding at the lowest possible cost to maintain cost effectiveness and do the best for our community), Council recommends option 2 as its preferred option.

### **3. Seek to join the LGFA as a non-guaranteeing member**

As a non-guaranteeing local authority Council would be restricted to borrowing a maximum of \$20 million from the LGFA and face additional costs of 0.10% (or 10 basis points).

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.

As the cost of borrowing is higher, Council proposes that option 3 is not adopted.

## **Liability Management and Investment Policies**

Our policies do not presently include provisions to allow borrowing from the LGFA so need to be updated if LGFA membership is pursued. The amendments will not fundamentally change the policies or how the debt will be used, but instead expand the options about where the funds may be secured from. Although it is not necessary to consult on changes to these policies, they are included as supporting information to this Consultation Document for completeness.

The current policies with the proposed changes are available from our website [waimatedc.govt.nz](http://waimatedc.govt.nz)

## **Key Dates**

<b>Wednesday 16 February 2022</b>	Submissions open
<b>Wednesday 16 March 2022</b>	Submissions close at 4pm
<b>Tuesday 29 March 2022</b>	Submission hearings and decisions
<b>Wednesday 30 March 2022</b>	Notification of Council decision

# Submission Form

Proposal to join the Local Government Funding Agency



## Personal details

First Name: \_\_\_\_\_ Last Name: \_\_\_\_\_

Organisation: \_\_\_\_\_

Postal Address: \_\_\_\_\_

Home Phone: \_\_\_\_\_ Mobile: \_\_\_\_\_

Email: \_\_\_\_\_

## Speak to your submission

Do you wish to speak to your submission at the Submission Hearing on Tuesday 29 March 2022?  Yes  No

*If yes, please ensure your daytime phone number is recorded above so we can contact you to arrange a suitable time.*

## Privacy

A full copy of all submissions will be made publicly available. Would you like your contact details withheld?  Yes  No

## Your feedback

Which of the following options do you prefer (please select only one)

- Option 1.** Do not pursue Local Government Funding Agency membership, status quo
- Option 2.** Seek to join the LGFA as a guaranteeing member (Council's preferred option)
- Option 3.** Seek to join the LGFA as a non-guaranteeing member

Tell us why, or let us know if you have any other comments. Please use additional paper if needed.

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## How do I make a submission?

All submissions must be received by **4pm, Wednesday 16 March 2022.**

- **Online:** [waimatedc.govt.nz](http://waimatedc.govt.nz)
- **Email:** Scan and email your submission to [submissions@waimatedc.govt.nz](mailto:submissions@waimatedc.govt.nz) ('LGFA submission' in subject field)
- **Post:** LGFA Submission, Attention Policy Team, Waimate District Council, PO Box 122, Waimate 7960
- **Deliver:** To Council reception at 125 Queen Street, Waimate



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