

PROPOSAL TO JOIN THE LOCAL GOVERNMENT FUNDING AGENCY SCHEME



WHAT IS BEING PROPOSED?

The Invercargill City Council proposes to join the Local Government Funding Agency Ltd (LGFA) scheme as a Guaranteeing Local Authority.

WHY IS THIS BEING PROPOSED?

The motivation behind the proposal is cost savings. Council considers that participating in the LGFA scheme provides an opportunity to borrow at lower interest margins, and that this benefit outweighs any costs and risks associated with the LGFA scheme. Through joining the scheme as a Guaranteeing Local Authority the Council anticipates interest savings of \$4,000 or 0.4% for every \$1 million of debt. At our peak debt levels forecast by the Long-term Plan this will equal approximately \$528,000 each year.

WHAT IS THE LGFA?

The LGFA is a council-controlled trading organisation established by a group of local authorities and the Crown. It is designed to allow local authorities to borrow at more favourable interest rates. All local authorities can borrow from the LGFA, but different benefits apply depending on the level of participation. Invercargill City Council is proposing to join as a Guaranteeing Local Authority.

WHAT IS A GUARANTEEING LOCAL AUTHORITY?

A Guaranteeing Local Authority receives more favourable borrowing rates and in return guarantees the obligations of the LGFA. This guarantee becomes a contingent liability on the Council. The guarantee is limited to a council's rates income as a percentage of the rates income of all of the guaranteeing councils. It is estimated that the Invercargill City Council's share of the guarantee would be 0.86%. This means that if a \$100 million call was made under the guarantee, the Invercargill City Council would contribute \$860,000. This figure will change over time as the percentage of total rates income changes.

Currently there are 48 councils who have signed the joint and several guarantee. Council has assessed the likelihood of a:

- council defaulting on its loans;

- loss on the loans even if a council does default; and
- call on guarantors

and consider that all three factors have a very low probability.

WHY IS COUNCIL CONSULTING?

Although Council is not proposing to acquire shares in the LGFA, borrowing under the LGFA scheme will require it to acquire some capital notes issued by the LGFA that could, in some circumstances, be converted into shares in the LGFA. The Local Government Act requires that before Council can become a shareholder in a council-controlled organisation it must undertake consultation.

HOW DO I HAVE MY SAY ON THIS PROPOSAL?

To have your say on this proposal you need to provide feedback to the Invercargill City Council by 5pm, Friday 23 November, 2018.

You can provide your feedback through completing a submission form or writing to:

Submission - LGFA
Invercargill City Council
Private Bag 90104
Invercargill 9840

Or by emailing: policy@icc.govt.nz

CAN I TALK TO THE MAYOR AND COUNCILLORS ABOUT THIS PROPOSAL?

If you would like to speak to the Mayor and Councillors regarding the proposal, the opportunity to do so will be provided on Tuesday 4 December 2018. Please indicate in your feedback if you would like this opportunity.

HOW DO I GET FURTHER INFORMATION?

To get further information on this proposal, view the full proposal on the Invercargill City Council's website www.icc.govt.nz or contact Melissa Brook, Manager- Strategy and Policy on 03 211 1777.

