

Local Government New Zealand

Quarterly Media Briefing

29 October 2014

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Agenda

- > **Welcome, introductions and overview**
- > **Sector financial position**
- > **Current issues and outlook**
- > **Questions and discussion**



Overview

Lawrence Yule, President, LGNZ

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A newly-elected Government – stated priorities

- > A strong focus on housing affordability and land supply
- > Resource Management Act and more effective local planning
- > Rules reduction
- > A review of water infrastructure arrangements
- > Continued work on efficient delivery of roading infrastructure
- > Local government portfolio now number five in Cabinet rankings

Strong parallels with local government's priorities

- > Joint local government/central government strategy for infrastructure including housing, transport funding and water
- > Housing affordability in high growth areas
- > Regional economic development
- > Environmental policy including water standards, natural hazard management and resource management

LGNZ is looking to help deliver a stronger sector with first world infrastructure and vibrant regional economies that are resilient to risk

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Sector financial position

Craig Stobo, Chairman

Mark Butcher , Chief Executive

New Zealand Local Government Funding Agency

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New Zealand Local Government Funding Agency

- > Enabled under the Local Government Borrowing Act 2011
- > Owned by 30 local authority councils and the NZ Government
- > Similar structure to the Scandinavian municipal agency model
- > Primary purpose is to provide more efficient funding costs for NZ local authorities
- > Rated at AA+ (domestic long term) by Standard and Poor's and Fitch Ratings
- > Supported by a NZ\$400 million liquidity facility from the NZ Government

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LGFA 2013-14 financial year highlights

Annual report for June 2013-14 year available at www.lgfa.co.nz

- > \$1.2 billion of lending to the sector – total loans at June 2014 of \$3.7 billion
- > An additional 3 councils joined LGFA bring total eligible borrowers to 43
- > Market share of 76% of council borrowing for 2013 calendar year
- > Credit margin to NZGB and swaps continues to improve
- > Interest cost savings to sector estimated at \$14 million per annum
- > Net Operating Profit of \$6.9 million (from \$2.6 million in 2102/13)
- > Dividend of \$1.765 million to shareholders

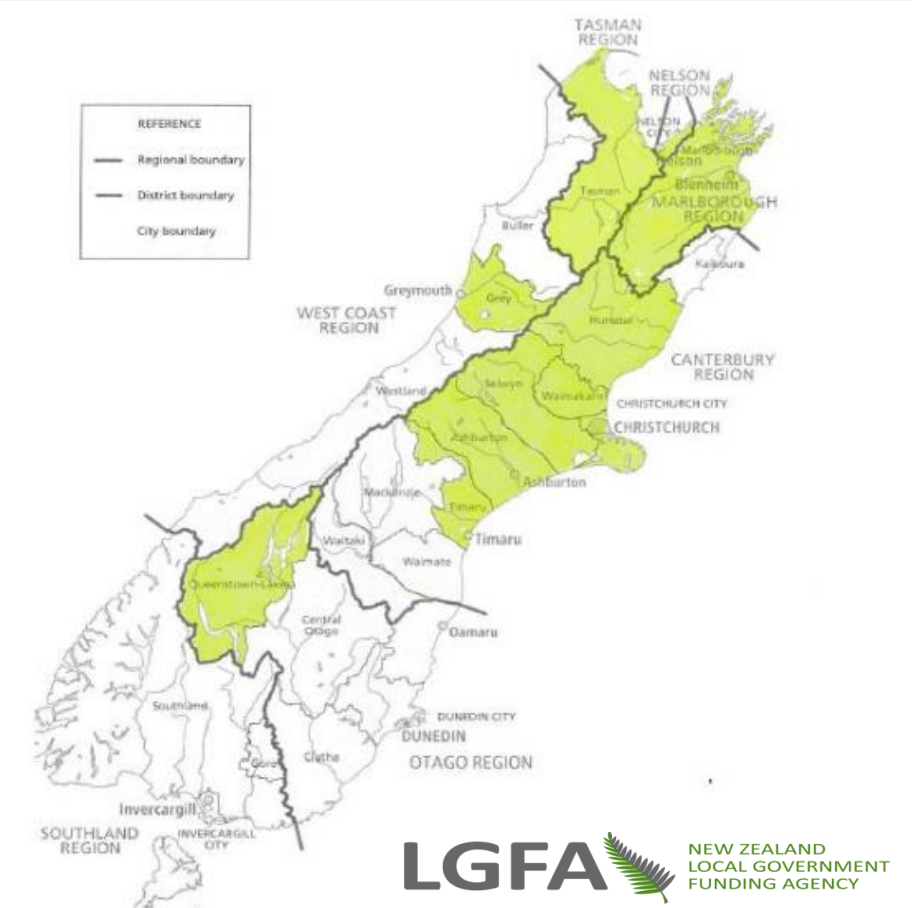
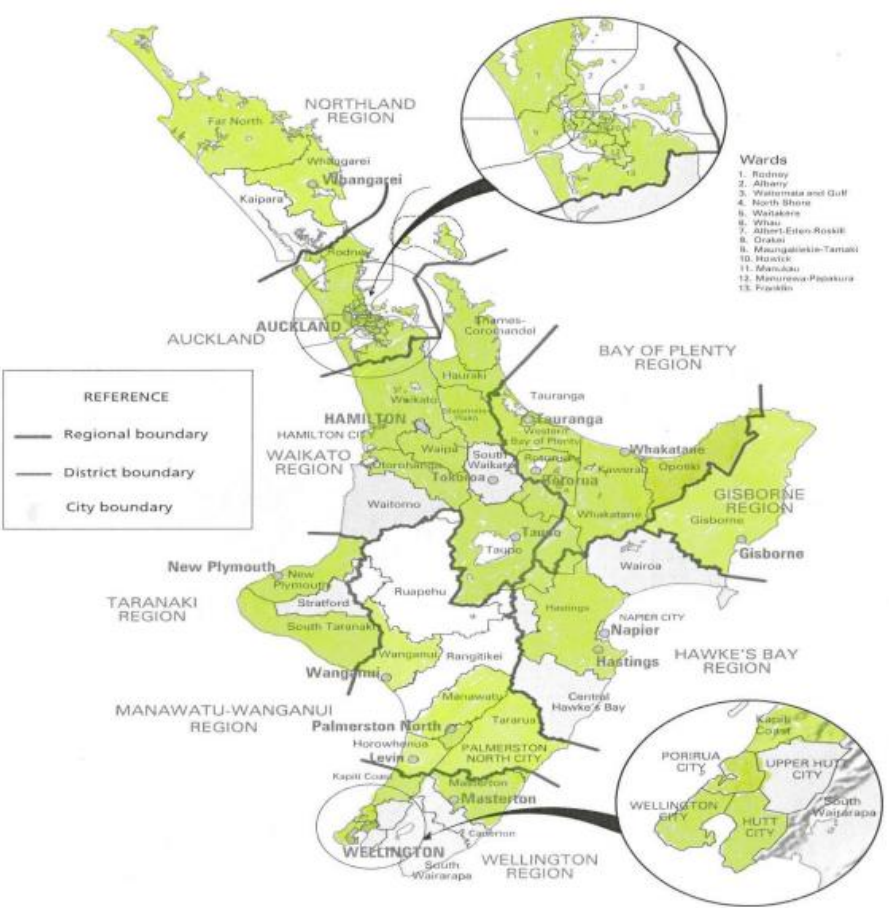
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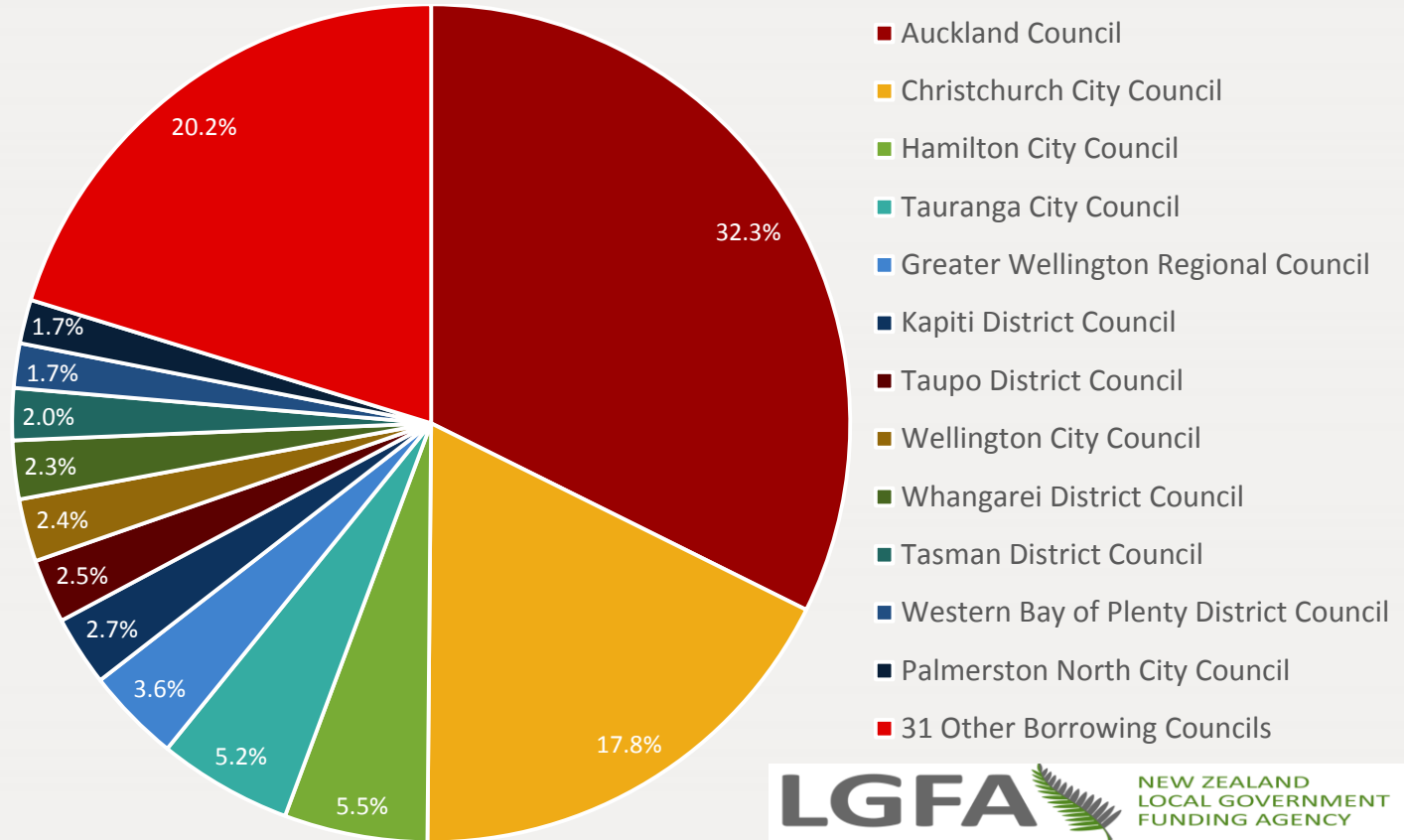
September 2014 quarter developments

- > New debt issued by LGFA of \$555 million
 - > \$115 million of 2020s, \$35 million of 2021s and \$305 million of 2023s
- > Total debt on issue now \$4.25 billion
 - > Third largest issuer of NZD debt securities
- > Long term financing costs continuing to decline
 - > Average yield on the LGFA 2021s of 4.82% in September 2014 quarter compared to 5.13% in June 2014 quarter and 5.34% a year ago
- > Growing interest in LGFA bonds by offshore investors
- > S&P affirm credit ratings at AA+ in October
- > Victoria State councils in Australia adopted a similar model - LGFV

LGFA membership



Council share of borrowing from LGFA



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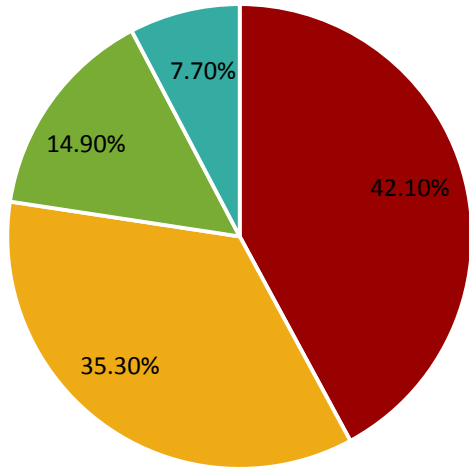
LGFA bond outstandings and future issuance

Maturity	Coupon	Amount on Issue (NZ \$ million)	Date of initial Issuance
15-Apr-2015	6.00%	240	15/02/2012
15-Dec-2017	6.00%	960	15/02/2012
15-Mar-2019	5.00%	1,070	6/06/2012
15-Apr-2020	3.00%	215	13/08/2014
15-May-2021	6.00%	1,105	15/05/2013
15-Apr-2023	5.50%	640	2/04/2014
	Total (as at Sept 2014)	4,250	

Announcement date	Tender date	Settlement date
03 Nov 2014	05 Nov 2014	10 Nov 2014
08 Dec 2014	10 Dec 2014	15 Dec 2014
02 Feb 2015	04 Feb 2015	10 Feb 2015
09 Mar 2015	11 Mar 2015	16 Mar 2015
07 Apr 2015	08 Apr 2015	15 Apr 2015
02 Jun 2015	03 Jun 2015	08 Jun 2015

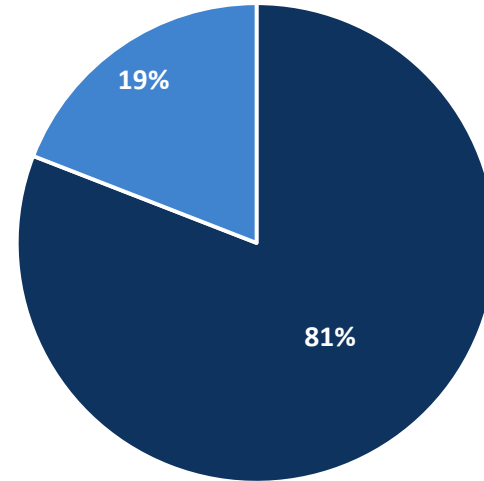
LGFA investor composition – August 2014

Investor type



■ Institutional ■ Bank ■ Custodian ■ Retail

Investor domicile



■ NZ ■ Offshore (incl offshore based but managing NZ assets)

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Council Annual Reports

Annual Report requirements

Under the Local Government Act 2002 each local authority is required to:

1. Complete and adopt its annual report, containing audited financial statements, within four months after the end of the financial year (31 October 2014)
2. Make its annual report publicly available within one month of adopting it (30 November 2014)

LGFA interest

- Look for financial results that are consistent with the annual plan
- Outcomes of the financial prudence benchmarks
- Financial Management including:
 - Debt burden
 - Budgetary performance (balanced budget)
 - Budget flexibility
 - Cash operating balance
 - Liquidity (committed funding lines)
 - Is depreciation being fully funded?
 - Contingent liabilities
- Compliance with LGFA financial covenants
- Commentary from the mayor and chief executive to identify key issues and challenges

Council Long Term Plans

Long Term Plan requirements

Under the Local Government Act 2002 each local authority is required to:

1. A long-term plan must be adopted before the commencement of the first year to which it relates, and continues in force until the close of the third consecutive year to which it relates (30 June 2015)
2. A local authority must, within 1 month after the adoption of its long-term plan make its long-term plan publicly available (31 July 2015)

LGFA interest

- 30-year Infrastructure Strategy – that the council is
 - Providing infrastructure that meets the needs of the community
 - Meeting or will meet legal requirements
 - Not under investing in infrastructure
- Disclosure of risk management arrangements
 - Adequate insurance cover
- The financial strategy of the council
 - Planned level of rate increases that are affordable to the community
- That the council's financial projections are consistent with LGFA financial covenants over the life of the LTP
- Consistency with the previous LTP – if there are major changes what are these?
- Council specific issues
- Population trends

Current issues and outlook

Lawrence Yule, President, LGNZ

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7 strategic policy priorities

1. Governance and performance excellence
2. A shared national approach to addressing regional development and growth across all of New Zealand
3. Developing a sustainable funding model for local government
4. Leading effective infrastructure development around funding policies
5. Setting an agenda of regulatory reform and development of more effective policy setting in areas impacting local government
6. Sector-led policy on important environmental issues for effective management of natural capital
7. Strengthening local democracy and the value of local government

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Four major projects

1. 3 Waters project
2. Local government funding review
3. Insurance review
4. Natural hazards management



3 Waters project

- > 3 Waters “issues paper” released today
- > A proactive and collaborative effort by local government, central government and the water sector to improve asset performance and services in potable, wastewater and stormwater across New Zealand
- > The paper presents the key issues facing the sector that need to be addressed to achieve sustainable solutions for New Zealand and measurable improvements over time



3 Waters issues paper

- > Seventy councils out of 78 provided detailed information about the state of their assets and services to help fill the gap on the local government owned water services
- > Represents potable and wastewater services delivered to 95% and stormwater to 75% of New Zealand's population
- > This data has been analysed by NZIER and we have developed a robust report based on that data that outlines what the project team believes are the issues facing the sector



3 Waters issues paper

We have identified three core issues facing at least a subset of councils:

- > Investing to replace and renew existing assets
- > Investing to meet rising standards and increasing expectations
- > Providing end-users with the right incentives to use water infrastructure and services efficiently



3 Waters issues paper

Next steps:

- > Seeking feedback from members and stakeholders on whether we have identified the right issues
- > We will workshop the feedback with the Advisory Group and Steering Committee on 3 December
- > Develop a solutions paper for release early 2015 including a best practice framework and recommendations for the sector



3 Waters issues paper – governance and oversight

Steering Group includes

- > Cranleigh
- > Department of Internal Affairs
- > LGNZ
- > Office of the Auditor-General
- > New Zealand Council for Infrastructure Development
- > SOLGM
- > The Treasury
- > Water New Zealand

Advisory Group includes

- > Hutt City Council
- > Institute of Public Works Engineering Australasia (IPWEA)
- > LGNZ
- > Marlborough District Council
- > Tasman District Council
- > Tauranga City Council
- > The Treasury
- > Upper Hutt City Council
- > Wellington City Council

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Local Government Funding Review

- > Formed to find a sustainable model for the future as demographic and economic factors continue to change
- > Emerging trends: adequacy of rating base; improving council decision-making funding and financing; imposed costs from central government; sustaining small and less economically vibrant areas; and affordability
- > The consultation paper is due out before the end of the year

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Insurance review

- > The New Zealand Local Government Insurance Market Review, written by the Chairman of LGFA Craig Stobo

It recommends:

- > Councils spend more resources on risk profiling and management
- > Create a local authority-owned agency
- > Work closely with the Crown on co-funding arrangements

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Natural hazards think piece

Managing natural hazard risk in New Zealand – towards more resilient communities

This think piece states that two core ideas dominate natural hazards management:

1. the need for issue and place-specific responses; and
2. the need for integration and collaboration to develop and deliver those effective responses across the many players with a role to play.

Yet integration and collaboration are a great deal easier to require than they are to deliver. That is a key challenge.

There are myriad issues – this paper takes a helicopter view to progress a conversation.

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Natural hazards think piece - recommendations

Managing natural hazard risk in New Zealand – towards more resilient communities

Three recommendations:

1. **A single hazard information portal:** including guidance material for practitioners, and information on the nature and location of natural hazards accessible to the public
2. **A pan sector natural hazards management and community resilience strategy** which should be nationally lead and supported
3. **A mechanism to research and resolve natural hazards policy issues**

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Other policy areas arising from sector AGM remits

- Re-organisation** > Seeking a re-consideration of government policy in relation to re-organisation referenda including:
- Referenda rules
 - Independent cost-benefit analysis
 - LGC to be subject to the OIA
- Fluoridation** > That LGNZ urges the Government to amend the appropriate legislation so that the addition of fluoride to drinking water supplies is a decision made by the Director-General of Health
- Earthquake strengthening** > That LGNZ advocate for the Government to introduce financial incentives for strengthening earthquake-prone buildings and tools for meeting the challenge of high insurance costs

Questions and discussion

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Who's
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our
communities'
future?

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