

# ***Activity Briefings***

CCOs, CCTOs, and exempt organisations

# *Activity briefing agenda*

- Democracy and Assurance Department's role
- Whangarei District Airport
- Whangarei Art Museum Trust
- Local Government Funding Agency
- Northland Regional Landfill Limited Partnership
- Northland Events Centre Trust

# ***Democracy and Assurance Department***

# *Challenges and benefits*

- CCOs can empower local communities but operate at arms length from Council
- In the 2018 LTP CCOs were managed individually without overarching governance support
- Democracy and Assurance department support CCO governance and have been working closely with Business Owners to meet legislative requirements.

# *What we do*

- Oversee the governance of CCOs, CCTOs, and exempt organisations, including but not limited to:
  - ensure statements of intent are received by Council
  - ensure half-yearly reports and annual reports are received by Council
  - develop a statement of expectations if appropriate
- Oversee the process for appointment of Council representatives to Outside Organisations
- Clarify Local Government Act 2002 requirements for Council Organisations and CCOs

# *Key issues*

- Key issues for 2021 and beyond
  - Ensuring the business owner and point of contact for each CCO is appropriate
  - Improving relationships with CCOs at staff and Elected Member level
  - Encouraging a no surprises approach
  - Clarifying Council's role in influencing future direction for the CCOs via engagement with the statement of intent and providing a statement of expectations (where appropriate)
  - Impact of COVID-19 on CCO operations.

# ***Whangarei District Airport***

Council-Controlled Organisation



# *Key assets and programmes*

- Joint venture Airport with the Ministry of Transport providing a fully serviceable airport for the use of visitors, residents and ratepayers through scheduled and non-scheduled operators.
- Managed as a council-controlled organisation under the Local Government Act 2002.



# *Key issues*

- Emerging issues and risks
  - Post COVID-19 economic recovery
    - Revenue streams significantly reduced (landing fees, car parking)
    - Continued services Air New Zealand
  - Sustainability
    - Income vs operational costs
    - Depleted cash reserves
  - Capital works
    - 50:50 contribution from Joint Venture parties
    - Runway re seal vs New Airport project.

# *Whangarei Art Museum Trust*

Council-Controlled Organisation



# *What we do*

- Whangarei Art Museum
- Hundertwasser Art Centre and Wairau Maori Art Gallery
- Educational programmes and events
- Council's art collection
- Council's Arts, Culture and Heritage Strategy



# *Key Purpose*

- Pillars of Engagement
  - Artistic excellence (kaupapa)
  - Visitor experience (manaakitanga)
  - People (tangata)
  - Sustainability (kawanatanga)



# *Key issues*

- Key issues for 2021 and beyond
  - Risk of construction cost overruns
  - Funding levels and the mechanism for funding
  - Managing the operational relationship between WAMT and Council
  - Potential changes to customer demand caused by COVID-19



# *Local Government Funding Agency*

Council-Controlled Organisation





# ***What we do***

- Providing interest cost savings relative to alternative sources of financing
- Offering flexible short and long-term lending products that meet members' borrowing requirements
- Delivering operational best practice and efficiency for its lending services
- Ensuring certainty of access to debt markets, subject always to operating in accordance with sound business practice.

## SHAREHOLDERS

- ❑ Central Government largest shareholder at 20%
- ❑ 30 councils hold 80% shareholding
- ❑ Can only sell shares to Central Government or local authorities

## GOVERNANCE

- ❑ Board of six directors with 5 Independent and 1 Non Independent
- ❑ Bonds listed on NZX so under listing rules
- ❑ Independent Trustee
- ❑ Issue of securities under the Financial Markets Conduct Act
- ❑ Audited by Audit NZ

## GUARANTORS

- ❑ 54 guarantors of LGFA
- ❑ Guarantors comprise:
  - All shareholders except the NZ Government
  - Any non shareholder who may borrow more than NZ\$20 million
  - Any council shareholder of a CCO that is approved for borrowing by LGFA
- ❑ Security granted by each of the guarantors is over their rates income (property taxes)
- ❑ Guarantors cannot exit guarantee until
  - Repaid all their borrowings
  - Wait for longest outstanding LGFA bond to mature (currently 2033)

## LIQUIDITY

- ❑ NZ\$1 billion liquidity facility from NZ Government
- ❑ NZ\$1.13 billion liquid assets portfolio
- ❑ NZ\$603 million of Treasury Stock currently available for repo

## BORROWERS

- ❑ 67 member councils
- ❑ Approx. 90% market share
- ❑ Under Local Government Act 2002 councils must manage finances prudently – implies must run balanced operating surplus and only borrow for capital expenditure
- ❑ Councils borrow secured against rates
- ❑ Must meet LGFA financial covenants
- ❑ No CCOs have borrowed to date

## CAPITAL STRUCTURE

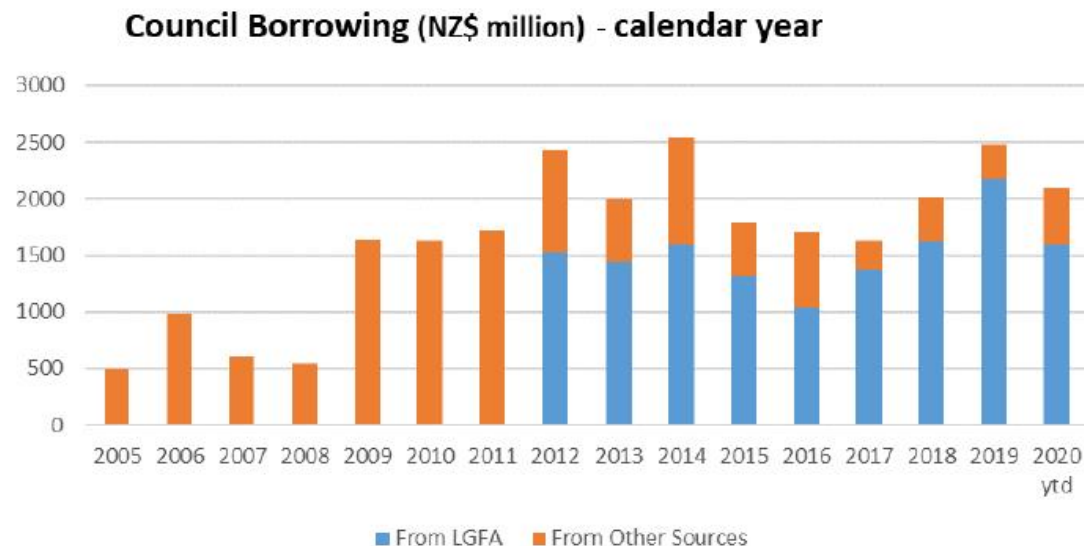
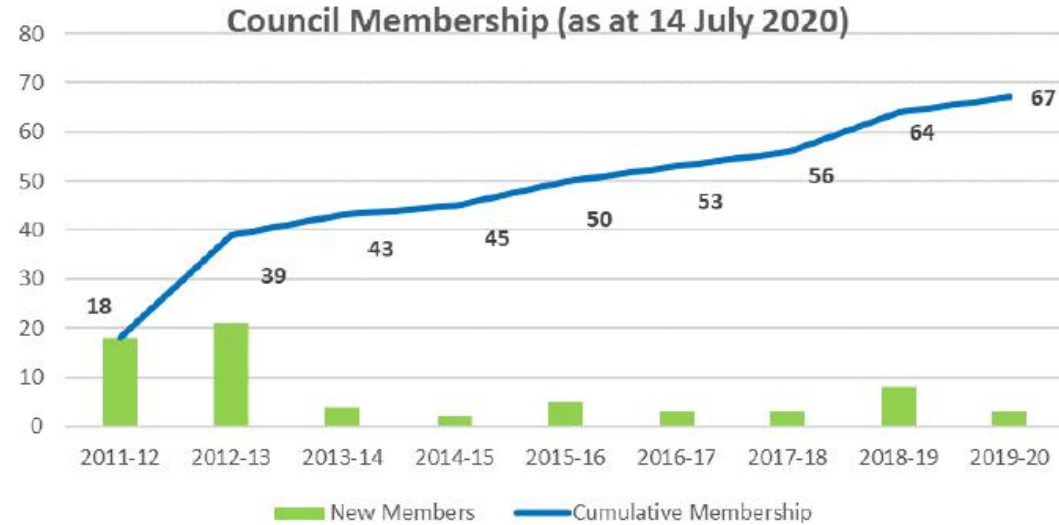
- ❑ NZ\$25 million paid in capital
- ❑ NZ\$20 million uncalled capital
- ❑ NZ\$59 million retained earnings
- ❑ NZ\$169 million Borrower Notes that can be converted to equity
- ❑ Current capital ratio of 2.20% with policy of 2% minimum and target of 3%

As at 14 July 2020

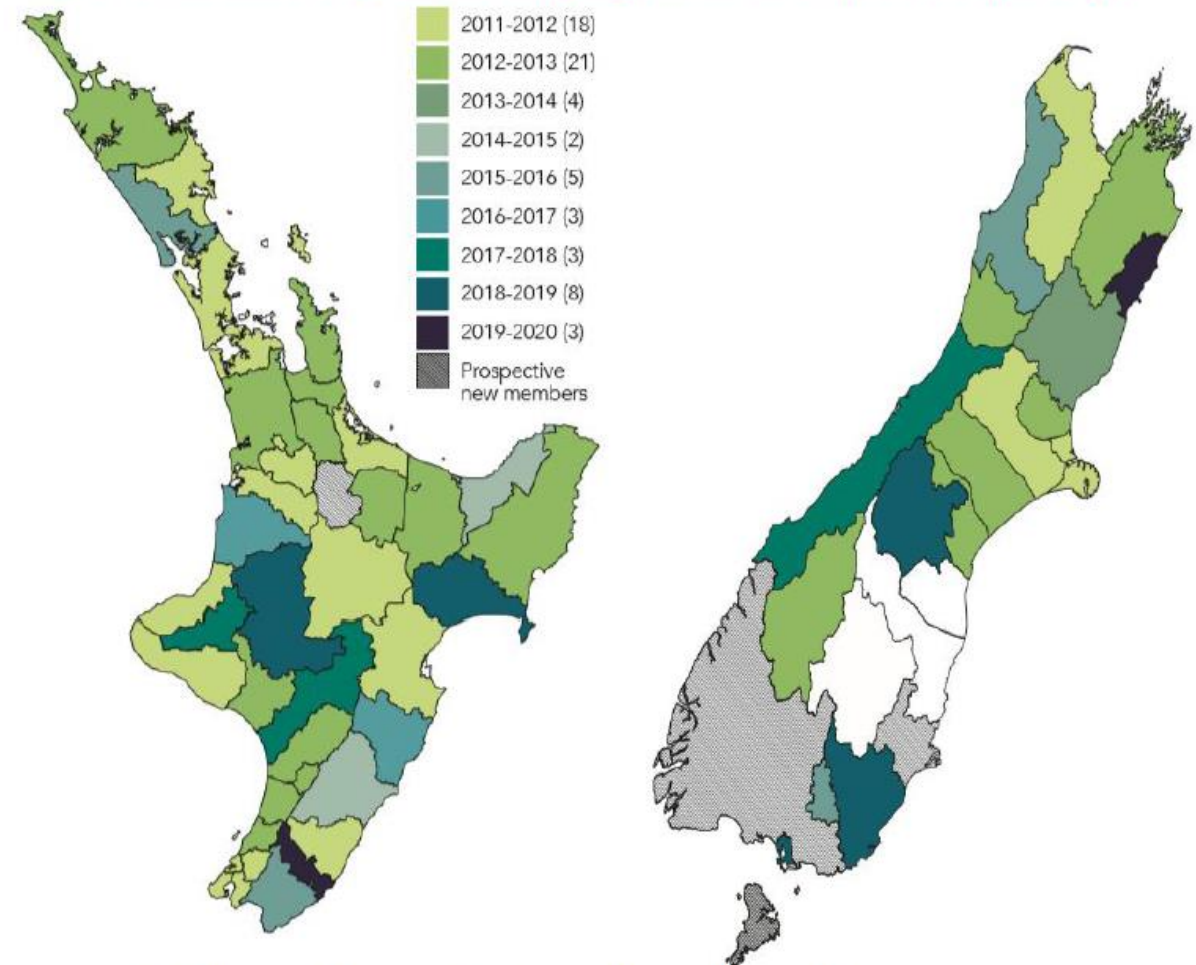
Source: LGFA



# COUNCIL MEMBERSHIP AND BORROWING



## LGFA member councils highlighted with year of joining



Note there are 11 councils not currently members of LGFA. Some of these (notably Regional Councils) may overlap on this map.

Source: LGFA, PwC Quarterly Local Government Debt Report

# WHO DOES LGFA LEND TO AND WHO GUARANTEES LGFA?

Council Borrower	Amount Borrowed (NZ\$ million)	% of Total Borrowing
Auckland	\$2,757	25.4%
Christchurch City	\$1,924	17.7%
Wellington City	\$635	5.8%
Tauranga City	\$525	4.8%
Hamilton City	\$480	4.4%
Wellington Regional	\$425	3.9%
Rotorua District	\$217	2.0%
Hutt City	\$216	2.0%
Kapiti Coast District	\$210	1.9%
Tasman District	\$208	1.9%
57 other member councils	\$3,273	30.1%

Council Borrowing	Volume (NZ\$ million)
Short Term (loan terms less than 12 months)	\$316
Long Term	\$10,553
<b>Total</b>	<b>\$10,869</b>

Borrower Type	Number of councils	Amount Borrowed (NZ\$ million)	% of Total Borrowing
Guarantors	54	\$10,736	98.8%
Non-guarantors	13	\$133	1.2%
<b>Total</b>	<b>67</b>	<b>\$10,869</b>	<b>100%</b>

## Note:

Auckland Council borrowing is capped at 40% of total LGFA lending

Three member councils have yet to borrow from LGFA

Guarantee contains provisions apportioning share to each council based upon their relative share of total rates revenue of all guarantors. A council's obligation under the guarantee is secured against rates revenue.

Council Guarantor	% share of Guarantee
Auckland	31.6%
Christchurch City	8.7%
Wellington City	5.4%
Hamilton City	3.2%
Tauranga City	2.9%
Wellington Regional	2.9%
Hutt City	1.9%
Canterbury Regional	1.8%
Whangarei District	1.7%
Palmerston North City	1.7%
44 other council guarantors	38.1%

As at 30 June 2020

Source: LGFA

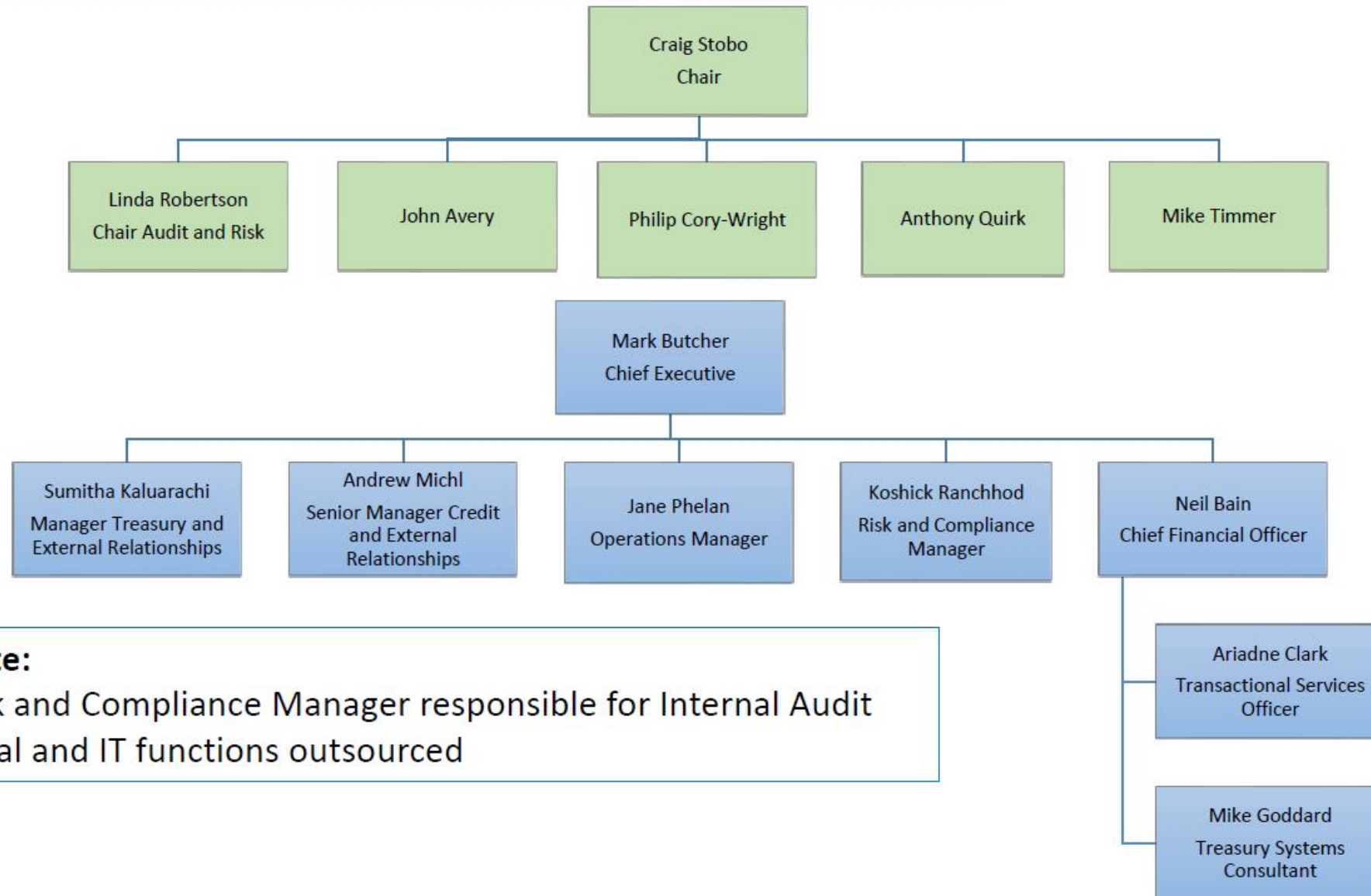
# LGFA HISTORIC FINANCIAL PERFORMANCE

Financials (NZ\$ million)	2012	2013	2014	2015	2016	2017	2018	2019	2020 estimate
Interest Income	\$10.9	\$73.7	\$149.1	\$222.8	\$278.2	\$320.7	\$342.8	\$361.1	\$370.2
Interest Expense	\$9.9	\$68.1	\$138.9	\$208.9	\$262.6	\$303.2	\$323.9	\$342.3	\$351.9
Net Interest Income	\$1.0	\$5.7	\$10.2	\$13.9	\$15.5	\$17.5	\$18.9	\$18.8	\$18.3
<b>Total Income</b>	<b>\$1.0</b>	<b>\$5.7</b>	<b>\$10.2</b>	<b>\$13.9</b>	<b>\$15.5</b>	<b>\$17.5</b>	<b>\$18.9</b>	<b>\$18.8</b>	<b>\$18.3</b>
Operating Expenses	(\$5.2)	(\$3.0)	(\$3.2)	(\$4.7)	(\$6.0)	(\$6.5)	(\$7.1)	(\$7.6)	(\$7.7)
<b>Net Profit</b>	<b>(\$4.2)</b>	<b>\$2.6</b>	<b>\$7.0</b>	<b>\$9.2</b>	<b>\$9.5</b>	<b>\$11.0</b>	<b>\$11.8</b>	<b>\$11.2</b>	<b>\$10.6</b>
Liquid Assets Portfolio	\$52.8	\$66.3	\$101.7	\$107.9	\$266.3	\$327.5	\$482.8	\$448.1	\$1,254.8
Loans to Local Government	\$832.7	\$2,514.9	\$3,742.5	\$5,031.9	\$6,451.3	\$7,783.9	\$7,975.7	\$9,310.6	\$10,899.8
Other Assets	\$57.5	\$107.0	\$74.0	\$271.9	\$539.7	\$380.0	\$321.1	\$610.1	\$1.0
<b>Total Assets</b>	<b>\$943.0</b>	<b>\$2,688.2</b>	<b>\$3,918.2</b>	<b>\$5,411.8</b>	<b>\$7,257.3</b>	<b>\$8,491.4</b>	<b>\$8,779.6</b>	<b>\$10,382.3</b>	<b>\$12,155.6</b>
Bonds on Issue	\$908.9	\$2,623.6	\$3,825.3	\$5,247.3	\$6,819.7	\$7,865.4	\$8,101.0	\$9,612.4	\$12,039
Bills on Issue	\$ nil	\$ nil	\$ nil	\$ nil	\$223.9	\$348.2	\$473.4	\$503.2	\$647.0
Borrower Notes	\$13.2	\$40.7	\$61.9	\$85.1	\$108.4	\$131.6	\$135.1	\$154.2	\$182.3
Other Liabilities	\$0.2	\$0.6	\$2.1	\$16.1	\$61.0	\$92.3	\$5.8	\$38.5	\$38.5
<b>Total Liabilities</b>	<b>\$922.3</b>	<b>\$2,664.8</b>	<b>\$3,889.3</b>	<b>\$5,375.6</b>	<b>\$7,213.0</b>	<b>\$8,437.5</b>	<b>\$8,715.3</b>	<b>\$10,382.3</b>	<b>\$12,072.0</b>
Shareholder Equity	\$20.8	\$23.4	\$28.8	\$36.3	\$44.2	\$53.9	\$64.3	\$74.1	\$83.6

Note: As at 30 June each year or for the twelve month period ending 30 June each year. Source: LGFA Annual Reports and management estimate



# ORGANISATION STRUCTURE CHART



**Note:**

Risk and Compliance Manager responsible for Internal Audit  
Legal and IT functions outsourced

# 2019-2020 LENDING ACTIVITY

## Long Term Lending over 2019-20:

- 53 councils borrowed long term
- 205 individual term loans
- Average borrowing term of 5.4 years

### Long Term Lending by Quarter 2018-19

September Quarter	\$419,000,000
December Quarter	\$313,300,000
March Quarter	\$805,265,000
June Quarter	\$793,500,000
	<b>\$2,330,865,000</b>

### Council Long Term Borrowing From LGFA for the year to June 2020

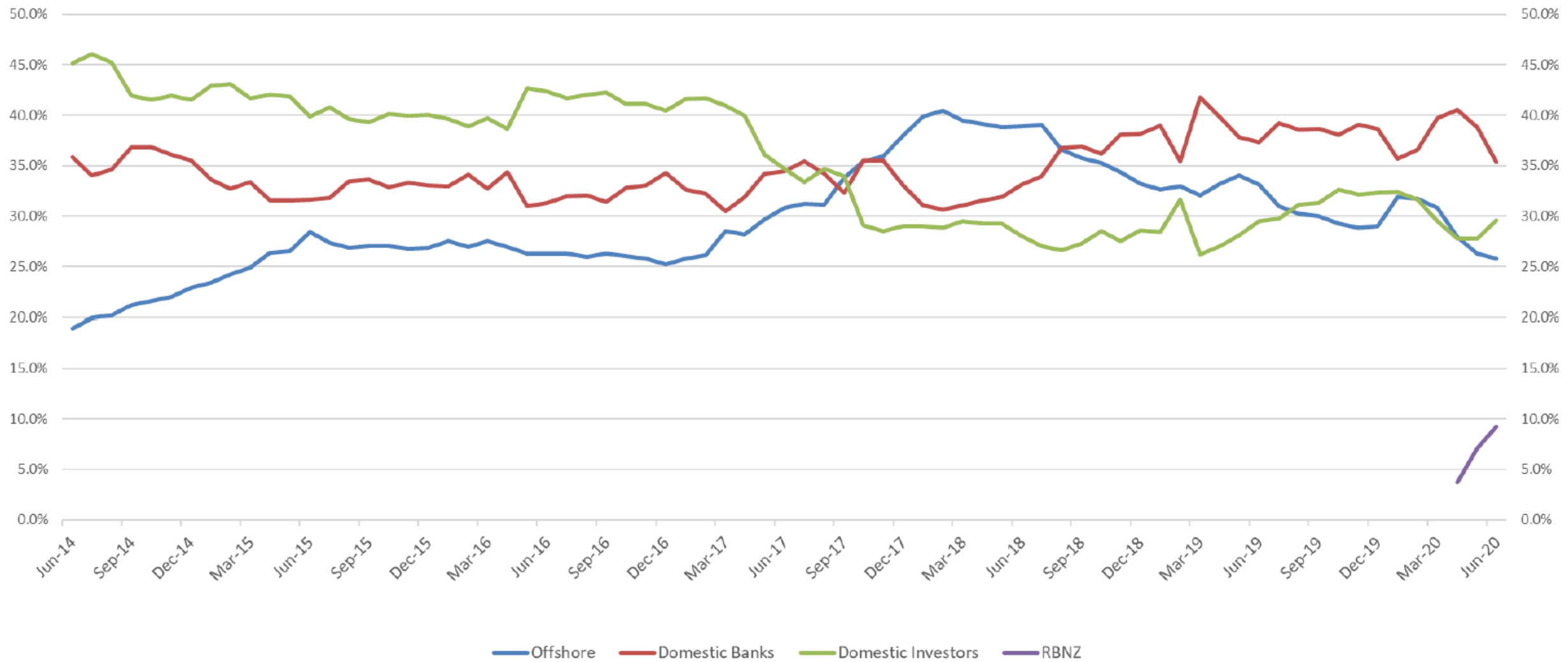
Auckland Council	\$575,000,000	Horowhenua District Council	\$14,000,000
Christchurch City Council	\$384,365,000	Tararua District Council	\$14,000,000
Hamilton City Council	\$150,000,000	Waikato Regional Council	\$12,000,000
Bay of Plenty Regional Council	\$140,900,000	Upper Hutt City Council	\$12,000,000
Tauranga City Council	\$130,000,000	Marlborough District Council	\$12,000,000
Wellington City Council	\$123,500,000	Hauraki District Council	\$11,000,000
Hastings District Council	\$54,500,000	Nelson City Council	\$10,000,000
Tasman District Council	\$50,000,000	Thames Coromandel District Council	\$10,000,000
Kapiti Coast District Council	\$45,000,000	Queenstown Lakes District Council	\$10,000,000
Porirua City Council	\$45,000,000	Whakatane District Council	\$10,000,000
New Plymouth District Council	\$40,500,000	Ashburton District Council	\$10,000,000
Waimakariri District Council	\$40,000,000	South Wairarapa District Council	\$7,000,000
Hutt City Council	\$40,000,000	Gore District Council	\$6,500,000
Invercargill City Council	\$35,000,000	Masterton District Council	\$6,100,000
Palmerston North City Council	\$33,000,000	Wairoa District Council	\$5,500,000
South Taranaki District Council	\$31,000,000	Buller District Council	\$5,000,000
Whangarei District Council	\$30,000,000	Matamata-Piako District Council	\$5,000,000
Greater Wellington Regional	\$25,000,000	Stratford District Council	\$5,000,000
Waipa District Council	\$25,000,000	Manawatu District Council	\$4,000,000
Selwyn District Council	\$25,000,000	Ruapehu District Council	\$4,000,000
Wanganui District Council	\$21,000,000	Opotiki District Council	\$3,500,000
Waikato District Council	\$20,000,000	Kaikoura District Council	\$3,000,000
Central HB District Council	\$18,000,000	Horizons Regional Council	\$2,000,000
Far North Council	\$16,500,000	Clutha District Council	\$2,000,000
Canterbury Regional Council	\$16,000,000	West Coast Regional Council	\$1,000,000
Gisborne District Council	\$16,000,000	Westland District Council	\$1,000,000
Rotorua District Council	\$15,000,000		

## Short Term Lending as at 30 June 2020:

- 27 councils had short term borrowings outstanding
- \$316.1 million market value of loans outstanding

# LGFA INVESTOR HOLDINGS OVER TIME (%)

LGFA Bond Holdings by Investor Group



Source: LGFA

# COVID-19 IMPACT ON LGFA BONDS IN SECONDARY MARKET

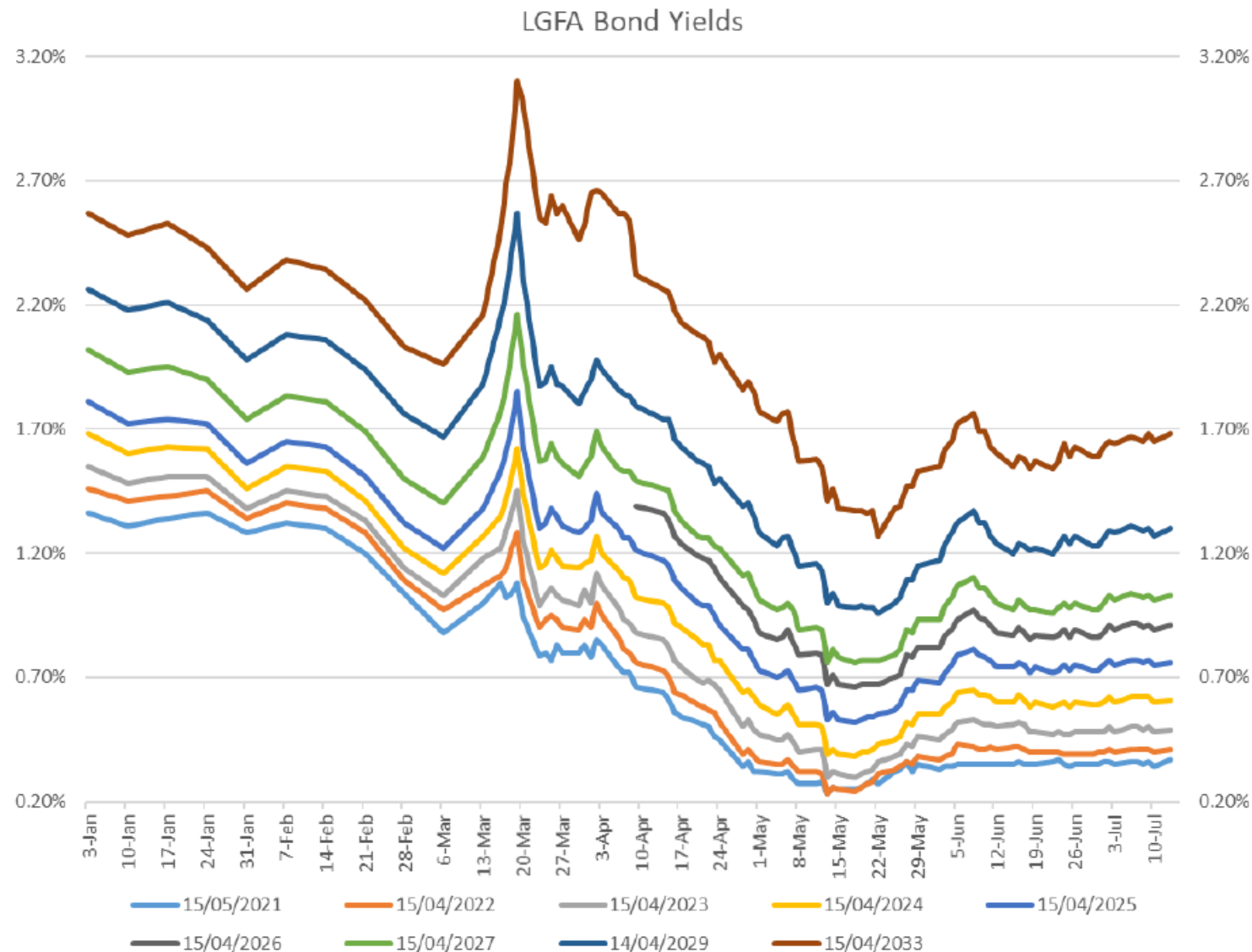
## Initially:

- ☐ Higher outright yields, steeper yield curve and wider spreads to NZGB and Swap
- ☐ Wider bid ask spreads in secondary market
- ☐ Secondary market turnover in line with 12 month average

## Following RBNZ Large Scale Asset Purchase Programme:

- ☐ Downward decline in yields continued
- ☐ Spreads to Swap and NZGB tighter
- ☐ Tighter bid ask spreads
- ☐ Record secondary market volume in June quarter
- ☐ Positive flow on impact to other high grade issuers
- ☐ Stability in yields throughout June-July

Source: LGFA secondary market end of day yields sourced from BNZ and Bloomberg





## Central Government policy impact

- ❑ Post COVID focus on all regions
- ❑ Infrastructure Funding and Financing Act and Crown Infrastructure Partners finance additional infrastructure – substitution or incremental impact on debt levels and at what additional cost?
- ❑ Review of water infrastructure delivery
- ❑ Reintroduced the “four well beings” as focus for Local Government

## Changes to LGFA operating model

- ❑ Implementing lending to CCOs
- ❑ Implementing green, social and sustainable loans to councils
- ❑ Standby facilities
- ❑ Look at lending documentation
- ❑ Growing asset base but shrinking margins
- ❑ Increased LGFA capital requirements
- ❑ LGFA position with SPV, PPP financing
- ❑ LGFA position with water industry reform
- ❑ Modest increase in staff and expenses

## Markets

- ❑ COVID volatility
- ❑ Credit spreads tight + yields at historic lows
- ❑ Spread between NZGBs + offshore markets dampens offshore investor appetite
- ❑ Crowding out by Central Government
- ❑ RBNZ support welcome but not forever

## Council borrowing, credit quality and LGFA bond issuance

- ❑ 6 new council members likely
- ❑ How much new council debt to be financed by LGFA given infrastructure capacity constraints?
- ❑ Credit quality of councils unlikely to improve from current position
- ❑ LGFA credit rating on positive outlook but NZ Govt dependent
- ❑ May 2021, Apr 2022, Apr 2023 council loans and LGFA bond refinancing imply \$2b plus annual issuance requirement
- ❑ Further syndications likely
- ❑ At what stage is offshore issuance needed?



LGFA undertakes its own internal credit assessment and rating process for all member councils using most recent annual reports (June 2019)

## Primary Criteria

- Debt levels relative to population – affordability
- Debt levels relative to asset base
- Ability to repay debt
- Ability to service debt – interest cover
- Population trend

## Secondary Criteria

- 30 Year Infrastructure Strategy
  - Quality of Assets
  - Capital Expenditure Plan
- Risk Management
  - Insurance
- Governance
- Financial flexibility
- Cashflow
- Budget performance (balanced budget)
- Affordability of rates / Deprivation Index
- Natural hazards
- Group activities (CCOs)

**LGFA member councils by internal rating category**

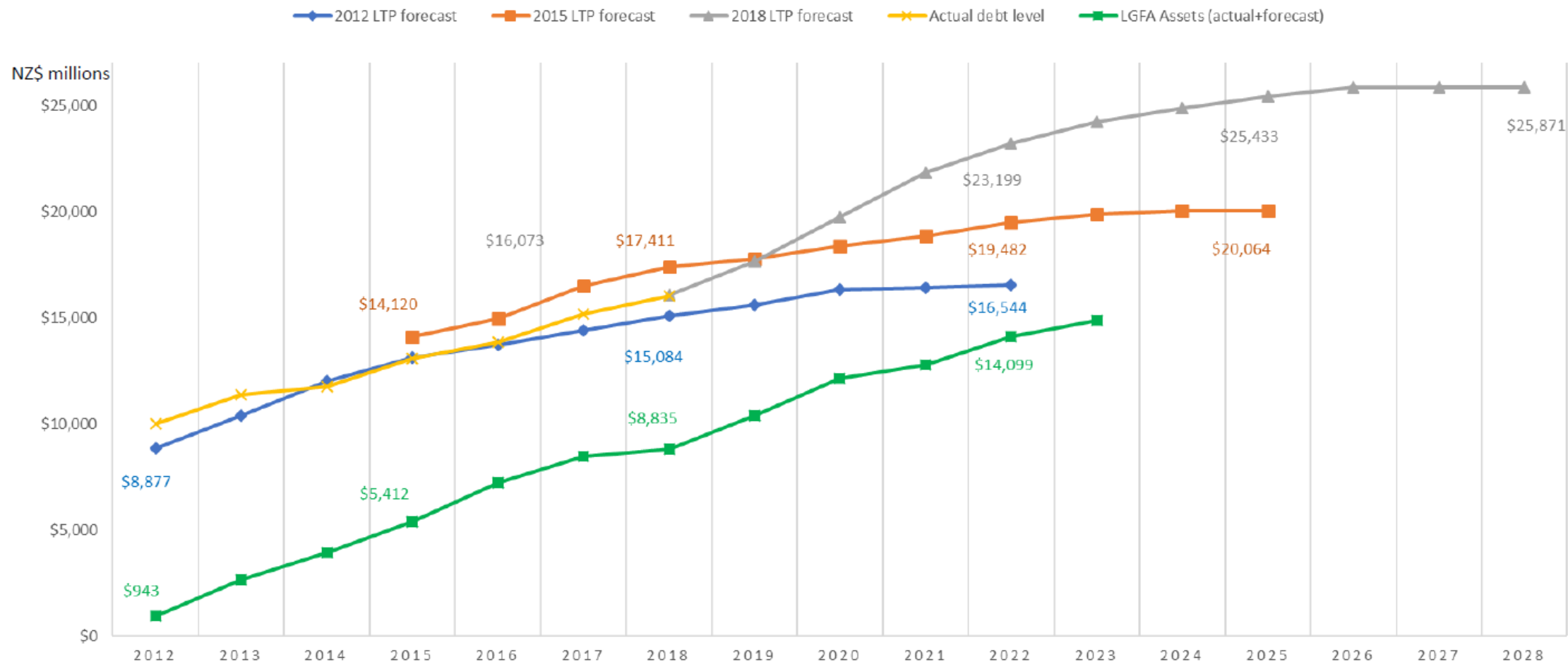
LGFA Internal Ratings	2012	2013	2014	2015	2016	2017	2018	2019
AA+	1	2	2	4	4	6	7	8
AA	12	12	12	10	12	13	19	17
AA-	13	13	16	15	19	17	19	23
A+	8	6	3	11	10	12	13	10
A	6	10	11	6	6	3	4	4
A-	5	2	1	1	0	2	2	2

As at 30 June each year

Source: LGFA internal models

# 2018-28 LTP FORECAST DEBT LEVELS OF SECTOR HIGHER THAN PREVIOUS LTPs

## COUNCIL DEBT LEVELS - LTP FORECASTS AND ACTUAL



Source: LGFA with underlying data sourced from each councils' Long Term Plan (LTP). LGFA assets from Annual Reports and SOI 2020-21

# ***Northland Regional Landfill Limited Partnership***

Council-Controlled Trading Organisation



# *What we do*

- NRLLP is operated under a limited partnership agreement between Council (50%) and Northland Waste Ltd (50%). Whangarei Waste Ltd is the general partner and an exempt organisation. NRLLP is a CCTO.
- The main objectives of NRLLP are:
  - To develop and operate the Puwera Landfill to provide waste disposal to the partners and third party waste operators
  - To operate the Re:Sort Resource Recovery Park to provide a waste collection point for domestic and commercial customers in the Whangarei District
  - To invest in other waste and recycling services where economically viable
  - To be a profitable business providing regular distributions to the partners.

# *Our key assets*

Re:Sort Resource Recovery Park



Puwera Landfill





# *Performance Targets*

- To open Puwera landfill and Re:Sort facilities for a minimum of 40 hours each week
- Ensure the principal contractor employed to run Puwera and Re:Sort maintains health and safety systems to enable retention of Safe Plus branding
- Ensure no notifiable health and safety incidents occur at all operational sites owned by NRLLP
- Ensure Re:Sort facilitates a minimum of 40% refuse per cubic metre of airspace used
- Ensure 6 months landfill capacity is maintained at all times
- Achieve a minimum of 70% landfill gas destruction.

# *Key issues*

- Key issues 2021 – 2024
  - Development of landfill gas to energy capacity at Puwera
  - The implementation of higher rates of landfill levy expected from 2021
  - Accessing central government investment in waste infrastructure as part of the COVID-19 recovery package
- Key issues medium to long term
  - Implementation of mandatory product stewardship schemes for various waste streams
  - Implementation of the government's plans and policies aimed at developing a more circular economy

# *Northland Events Centre Trust*

Exempt organisation





# *What we do*

- The Deed of Trust established the NECT to:
  - Operate and maintain a high-quality multipurpose events centre
  - Provide a regional sporting, cultural, convention and events centre
  - Provide a wide range of activities and events for the benefit of the public of the Region.
- In addition to the purposes and objectives under the Deed the Community Committee recently outlined Councils expectations for the facility.



# 2021 – 2024 (*and beyond*)

- Key issues for the next 12 months and beyond
  - Support to NECT in delivery of the objectives and purpose
  - Working together on a change management process to:
    - Implement necessary governance arrangements
    - Determine 'scale' and direction
    - Have a statement of intent in place by 1 March 2021
    - Develop a business plan to support delivery against the statement of intent
    - Implement systems and support
    - Work through Council's obligations as a good employer
  - Asset management and maintenance responsibilities
  - Working through the impact of COVID-19
  - Removal of NRC from the trust deed





# Key Issues

- To be a leader in the Venue industry, who are Super Hosts and employer of Choice
- To have a Trust with a Effective, Agile Governance Structure
- Have a trust that is forward thinking , financial savvy, and proactive
- Have a plan that is Financially supported



# *To get there*

- Focus on revenue growth
- Improve commercial income
- Deliver more sponsorship opportunities
- Apply to Change the Resource consent conditions to enable more events
- Grow a reserve account (our share) to enable applications to outside funders
- Retain NRC appointee of one Trustee, to reflect Northland and regional focus
- Set and confirm direction over next three years - and into a 10 year plan





# *To attract*

- Set the Stadium up to attract an All Blacks game and more international sporting fixtures of many codes
- More concerts (SIX60) and provide promoters a high class venue , alongside a suite of community events.



# *Questions*