Full Council

12 December 2024

Report for Agenda Item | Rīpoata moto e Rāraki take [3]

Department: Assurance, Finance & Risk

Title | Taitara: Local Government Funding Agency 350% Debt Ratio

Purpose of the Report | Te Take mō te Pūroko

The purpose of this report is for Council to consider approval for officers to review options in relation to applying for the Local Government Funding Agency updated bespoke Revenue to Net Debt ratio of up to 350% (currently 285%)

Recommendation | Kā Tūtohuka

That the Council:

1. **Note** the contents of this report; and
2. **Approve** Council officers reviewing options of borrowing up to 350% of revenue which is currently available via the Local Government Funding Agency.

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3 December 2024

Reviewed and Authorised by:

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3 December 2024

Context | Horopaki

1. Queenstown Lakes District Council (QLDC) secures its debt funding primarily through the Local Government Funding Agency (LGFA).

2. The LGFA is an agency that specialises in financing the Aotearoa New Zealand local government sector. LGFA was established to raise debt on behalf of local authorities on terms that are more favourable to than if council's financed the debt directly.

3. QLDC's is currently able to borrow up to 285% of its revenue based on the LGFA's current financial covenants policy. This will reduce to 280% from the 2025/26 financial year.

4. On 19 November at the LGFA Annual General Meeting, LGFA shareholders voted in favour of a resolution that grants the LGFA Board the ability to grant a bespoke covenant to councils up to 350% of net debt to revenue.

5. LGFA has provided the following guidance as to how a bespoke arrangement might be approved:
   a) Extra headroom might be made available to high growth councils on the basis that investment in growth will provide an additional revenue stream that will support the additional debt. It also recognises that councils can be quite different in their makeup, while LGFA only has the one set of covenants that applies to all councils with an external credit rating.

   b) It would consider applications from tier 1 and tier 2 councils as defined in the National Policy Statement on Urban Development (excluding regional councils).

   c) Within this not all councils would be considered high growth. The expectation is that council's population would be growing by 10% or greater over the next ten years. LGFA will utilise Statistics NZ (SNZ) data in measuring this growth (both recent growth and forecast population growth).

6. QLDC has been informed by the LGFA it is expected to qualify as a high growth council.

7. Guidance from LGFA on what a bespoke arrangement application would be expected to include is as follows:
   a) Forecast population growth analysis (it is possible that a council's own forecasts may differ from that of SNZ).

   b) The net debt to revenue ratio that the council wishes to apply for (the LGFA would also like to know what headroom the council is going to maintain).

   c) What date the net debt to revenue ratio would apply from.

   d) The growth infrastructure that the council is intending to invest in.

   e) The revenue that the growth infrastructure will generate.

   f) The council's strategy for the management of water (e.g. LGFA would not want the council to use the growth covenants for renewal in water infrastructure or improved levels of service).

g) The council's Water Service Delivery Plan.

h) The council would meet the balanced budget i.e. it would not make sense to apply for additional headroom when the council is borrowing for operating purposes.

8. This paper is seeking Council approval for officers to start reviewing options, based on the guidance noted in Paragraph 7, for what a bespoke LGFA 350% net debt to revenue arrangement could entail for QLDC.

9. If a bespoke arrangement is confirmed, then there is potential for a higher debt balance which in turns leads to a higher interest cost.

Analysis and Advice | Tatāritaka me kā Tohutohu

10. This report identifies and assesses the following reasonably practicable options for assessing the matter as required by section 77 of the Local Government Act 2002.

11. Option 1 Enter into a bespoke arrangement with LGFA to allow net debt financing of up to 350% of revenue.

Advantages:

- Allows council to have additional financial capability to fund infrastructure, roads, and other core infrastructure in the district.
- Debt allows for more longer term spread of costs which enables council to invest for long-term growth and pay back the debt across the lifetime of new assets.

Disadvantages:

- Additional long term debt will mean higher borrowing costs.

12. Option 2 Do not seek a bespoke LGFA arrangement and maintain existing debt financing arrangements (status quo)

Advantages:

- QLDC will maintain its Debt capacity based on the current financial covenants which is lower than the potential bespoke LGFA arrangement and therefore not subject to any higher than planned interest costs.

Disadvantages:

- Council is not taking advantage of financial capability on offer to fund key growth programmes.

13. This report recommends **Option 1** for addressing the matter because to take advantage of additional financing available to council via the LGFA which is the lowest cost provider. This option also allows for potential capacity to complete additional projects.

Consultation Process | Hātepe Matapaki

Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka

14. This matter is of medium significance, as determined by reference to the Council's Significance and Engagement Policy 2024 because of Council's ability to manage its annual plan within the debt parameters.

15. The persons who are affected by or interested in this matter are residents and ratepayers of the Queenstown Lakes district community.

Māori Consultation | Iwi Rūnaka

16. This recommendation does not require any specific Iwi consultation.

Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka

17. This matter relates to the Financial risk category. It is associated with RISK10029 Ineffective compliance management practices within the QLDC Risk Register. This risk has been assessed as having a high residual risk rating.

18. The approval of the recommended option will allow Council to implement additional controls for this risk. This will be achieved by ensuring any bespoke arrangement to leverage up to the 350% debt on offer from the LGFA.

Financial Implications | Kā Riteka ā-Pūtea

19. There will be additional debt headroom made available to council should it be successful with a bespoke arrangement with LGFA to enable debt covenant to be up to 350% of total revenue.

Council Effects and Views | Kā Whakaaweawe me kā Tirohaka a te Kaunihera

20. The following Council policies, strategies and bylaws were considered:
    - Financial Strategy.
    - Revenue and Financing Policy.
    - 30 year Infrastructure Strategy.

21. The recommended option is consistent with the principles set out in the named Financial and Infrastructure Strategies.

22. This matter was not included in the Long Term Plan/Annual Plan due to this bespoke debt arrangement only becoming available in the past month.

Legal Considerations and Statutory Responsibilities | Ka Ture Whaiwhakaaro me kā Takohaka Waeture

23. The recommended option is consistent with the Council's plans and policies. A bespoke arrangement would need to be confirmed with LGFA to confirm any debt arrangement that is above 280% and below 350%.

Local Government Act 2002 Purpose Provisions | Te Whakatureture 2002 o te Kāwanataka ā-Kīaka

24. Section 10 of the Local Government Act 2002 states the purpose of local government is (a) to enable democratic local decision-making and action by, and on behalf of, communities; and (b) to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future. Any bespoke arrangement will align with council's financial strategy to respond to the needs of the district in responsible and affordable way. As such, the recommendation in this report is appropriate and within the ambit of Section 10 of the Act.

25. The recommended option:
    - will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses
    - is consistent with Council's plans and policies
    - would not significantly alter the intended level of service provision for any significant activity undertaken by or on behalf of Council, or transfer the ownership or control of a strategic asset to or from Council.

Attachments | Kā Tāpirihaka

A	Central Government's reaction to LGFA's announcement of increasing financing to growth councils to 350%

20 November 2024

LGFA increases borrowing capacity to support high growth councils

Hon Simeon Brown

Local Government

The Government is welcoming the decision by the Local Government Funding Agency to increase access to financing tools for fast growing councils to support greater investment in critical infrastructure, Local Government Minister Simeon Brown says.

"Communities across the country are facing an infrastructure deficit and significant population growth is projected in the coming years. With a growing population, it's critically important we are delivering the long-term infrastructure we need to support this growth in our cities and regions.

"The Local Government Funding Agency (LGFA) has now confirmed it can immediately begin lending to high growth councils with leverage up to 350 per cent of their total revenue. This is a significant increase in the standard leverage available to councils at 280 per cent.

"Using debt to spread the costs of long-term assets means that councils can invest for long-term growth and pay back their debts across the lifetime of new assets. This ensures the costs of those assets are paid for by those who use them, rather than simply pushing up rates today.

"The LGFA is the lowest cost provider of financing available to councils, and this arrangement means that councils have additional financial capability to fund infrastructure, roads, and other core infrastructure in their cities and regions."

The LGFA's announcement comes on top of the Local Water Done Well deal which allows council owned water organisations to borrow up to a level equivalent to 500 per cent of operating revenues through the LGFA – around twice that of what existing councils can borrow – meaning the cost of increased investment in water infrastructure can be spread across the lifetime of these assets.

"The Government is a 20 per cent shareholder in the LGFA and has clear expectations that councils will use this additional borrowing capacity to deliver the must-have infrastructure and services that our communities need, such as roading, water, wastewater, and stormwater to unlock land for housing, and invest in the critical infrastructure growing communities need."