



**The Extraordinary Meeting of the  
Kawerau District Council will be  
held on Tuesday 15 November 2022  
commencing at 9.00am**

**AGENDA**

## **GUIDELINES FOR PUBLIC FORUM AT MEETINGS**

1. A period of thirty minutes is set aside for a public forum at the start of each Ordinary Council or Standing Committee meeting, which is open to the public. This period may be extended on by a vote by members.
2. Speakers may address meetings on any subject. However, issues raised must not include those subject to legal consideration, or be issues, which are confidential, personal, or the subject of a formal hearing.
3. Each speaker during the public forum is permitted to speak for a maximum of three minutes. However, the Chairperson has the discretion to extend the speaking time.
4. Standing Orders are suspended for the duration of the public forum.
5. Council and Committees, at the conclusion of the public forum, may decide to take appropriate action on any of the issues raised.
6. With the permission of the Chairperson, members may ask questions of speakers during the period reserved for public forum. Questions by members are to be confined to obtaining information or clarification on matters raised by the speaker.

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will be held on Tuesday 15 November 2022  
commencing at 9.00am**

**A G E N D A**

**Apologies**

**Declarations of Conflict of Interest**

Any member having a “conflict of interest” with an item on the Agenda should declare it, and when that item is being considered abstain from any discussion or voting. The member may wish to remove themselves from the meeting while the item is being considered.

**1 Approval to Raise a Loan From Local Government Funding Agency (Group Manager, Finance and Corporate Services) (206700)**

**Pgs. 1 - 5**

Attached is a report requesting approval to raise a loan from LGFA.

**Recommendations**

1. *That the report “Approval to Raise a Loan From Local Government Funding Agency” be received.*
2. *That Council approves the raising of \$2.0 million fixed term for a period to April 2025.*
3. *That Council delegates the Chief Executive authority to execute all the necessary documents for the raising of this loan.*

R B George

**Chief Executive Officer**

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**Meeting:** Extraordinary Council

**Meeting Date:** 15 November 2022

**Subject:** Approval to raise a loan from Local Government Funding Agency

**File No:** 206700

## **1 Purpose**

The purpose of this report is to obtain Council approval to raise a loan from the Local Government Funding Agency (LGFA).

## **2 Background**

To date Council has not had to raise any loans apart from two finance leases for the purchase of the copier/printers and the telephone system. This was because Council has been funding the depreciation on its assets and being a relatively young town, much of the infrastructure has not needed renewing, to date.

Council has undertaken more renewals in recent years including the residential developments as well as other capital projects, and it was projected that Council would initially need to borrow money early in 2021. However, due to additional funds being received for the 3 waters and delays to some renewal projects, Council has not needed to borrow funds until now.

Council became a member of LGFA in 2020 following consulting with the community in the 2020/21 Annual Plan. Council also included the proposal of renewing all the AC water pipes and borrowing \$2.0 million annually (for 6 years) in the 2021 – 2031 Long Term Plan. Most submissions received on this proposal supported the replacement of the AC pipes.

The LGFA was established approximately 10 years ago to assist local government throughout the country to borrow funds and to obtain lower interest rates for its members.

LGFA is owned by NZ Government (20%) and 30 shareholder councils (80%) The majority of councils throughout the country are members.

The cashflow budget in the Annual Plan for 2022/23 anticipates that there will be a \$700,000 deficit for the year before borrowing any funds. Council had a cash balance of \$3,666,724 at 1 July 2022.

While this suggests there will be sufficient funds to cover the year's expenditure, there is approximately \$3.0 million of projects carried forward from previous years (including the Netball Pavilion and Dog Pound), as well as around \$900k for the construction of spec duplex units at the Hine Te Ariki subdivision development.

### **3 Funds held to date**

As at 31 October 2022, Council had the following funds:

BNZ (Cheque Account & On- call)	\$381,400
Rabobank (On-call)	\$1,000,600
Other Funds	<u>\$800</u>
<b>Total</b>	<b>\$1,382,800</b>

Council has sent out the second rate instalment and it is anticipated that we will receive approximately \$1.8 million in funds by penalty date (25 November). However, there is some significant expenditure that is planned for the next 3 months which includes construction of the remaining 11 retirement units (although there will be revenue from sales once they are completed), construction of the duplex units in the Hine Te Ariki subdivision, completion of the pool entrance/office/clubroom upgrade as well as other programmed renewals/projects.

### **4 Depreciation Reserves**

For the last 25 years Council has been funding the depreciation (from rates) for its significant assets and setting aside these funds in reserves. As a result Council has not needed to borrow money for any of its renewals to date. Also Kawerau, being a relatively new town has not required significant expenditure on renewals, however, it has embarked on a programme to replace all the AC water pipes over a period of the next 6 years.

The balance of the depreciation reserves at 31 October 2022 is \$2,805,200, and from these funds Council has used \$1,680,720 for internal loans to fund other capital projects where there was not sufficient reserves set aside. There are 5 internal loans which are:

- Firmin Lodge \$789,596 – repaid 30 June 2041
- Pool Changing Rooms \$374,143 – repaid 30 June 2041
- Museum Building \$413,247 – repaid 30 June 2042
- Transfer Station \$56,578 – repaid 30 June 2025
- Pool Upgrade \$47,156 – repaid 30 June 2028

The current interest rate charged for these internal loans is 2.5% which is approximately what Council earned from its last term investment.

### **5 Current Interest Rates for borrowing**

The following are the current interest rates for Council to borrow funds:

- LGFA (up to 1 year) - 5.5%pa
- LGFA (up to 4.5 years) - 6.1%pa
- LGFA (up to 14.5 years max) - 6.6%pa

- Overdraft Interest (BNZ) – 9.2% pa as well as a setup fee of \$10,000 and a facility fee of \$2,000 per month

Council would only use overdraft for a short period to cover a cashflow shortage.

It is difficult to predict what the interest rates are likely to do in the future and whether a short term loan or a longer term is going to be better for Council. Essentially, this risk is built into the interest rates quoted.

Council will also need to decide the repayment period for the loan (usually up to a maximum of 50 years for water pipe assets), and set aside funds for the repayment.

## **6 Options and Financial Considerations**

There are three principle options available to Council:

- Borrow funds from LGFA for the short term (up to 1 year) which may allow time for a better projection of Council's cash flow and also interest rates possibly could drop during this period
- Borrow funds from LGFA for a longer term (1 to 14.5 years). Indicators are that interest rates in the short to medium term are going to increase further. However, if Council commits to a longer term fixed loan, future lower interest rates won't be available.
- Finally, arrange an overdraft facility with Council's banker so Council only pays interest on any overdraft that arises.

Council will need to borrow funds in the near future, but there are some unknowns, which makes it a little difficult to know exactly when (and for how long) a loan is raised. There is a table in the appendix which shows the interest rates (both for fixed and floating) for each respective loan period. NB Council is an unrated non-guarantor borrower.

The Government has indicated that it will provide "no worse off funding" of up to \$13.0 million (this is less \$4.5 million committed to community housing) following the establishment of the 4 water entities by 1 July 2024. Therefore, a conservative approach for Council may be to borrow initially up to April 2025 (fixed interest) which will ensure that Council is protected against further interest rate rises in the short to medium term, and if the Government funding is received during 2024/25, Council will be able to repay the loan in full at that time.

## **7 Policy and Plan Considerations / Significance and Engagement**

Council stated in the 2021 – 2031 Long Term Plan that it would be borrowing up to \$2.0 million annually for 6 years to fund the AC water pipe replacements (after consulting with the community).

Also Council is a member of Local Government Funding Agency (LGFA), which was established to provide Councils with greater access to loans at cheaper rates.

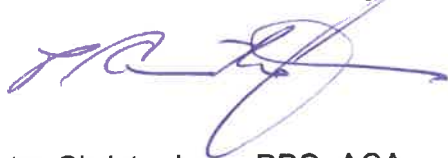
The proposal to borrow funds is consistent with Council's Financial Strategy and complies with Council's Borrowing Policy.

## 8 Appendix

Included in the appendix is the latest interest rates on loans as provided by the Local Government Funding Agency (LGFA).

## 9 RECOMMENDATIONS

1. That the report "Approval to raise a loan from Local Government Funding Agency" be received.
2. That Council approves the raising of \$2.0 million fixed term for a period to April 2025.
3. That Council delegates the Chief Executive authority to execute all the necessary documents for the raising of this loan.



Peter Christophers, BBS, ACA

**Group Manager Finance and Corporate Services**

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## Short term borrowing

In the past fortnight the domestic markets have become nervous about how strong the underlying economy is and increased their expectations of additional rate hikes in 2023 to a peak of 5% in mid 2023. Following today's stronger than expected Sept CPI outturn at 7.2% yoy vs forecast of 6.5% they will now likely price in a 75 bps OCR hike on 23 November as the next OCR Review date is February 2023 an increased peak OCR to 5.2%. Money market yields have risen over the past fortnight with the 3 month rate up 18 bps and the 1-year rate up 53 bps (with 17 bps coming post the CPI result this morning)

### Rates

Short Term loans	BKBM Base rate	Borrowing yield Rated councils	Borrowing yield Unrated councils
1 month	3.540%	3.690%	3.740%
2 month	3.774%	3.924%	3.974%
3 month	4.007%	4.157%	4.207%
4 month	4.141%	4.291%	4.341%
5 month	4.276%	4.426%	4.476%
6 month	4.410%	4.610%	4.660%
1 year	4.990%	5.190%	5.240%

### Margins

Short term margins	30 to 181 days	182 to 364 days
Rated councils	15 bps over BKBM	20 bps over BKBM
Unrated councils	20 bps over BKBM	25 bps over BKBM

## Long term borrowing

The bond market volatility continues with large intraday yield movements in global bond markets. LGFA bond yields have risen between 59 bps (2024s) and 68 bps (2029s) over the past fortnight after an approx. 30 bps fall the week prior. US 10 year bonds are up 25 bps over the fortnight with NZ bond yields rising further on the inflation outlook. LGFA borrowing spreads have pushed wider between 4 bps and 7 bps as high grade credit spreads in general are under pressure and following our syndication last week of 2025s and 2029s.

Fixed rate long term	Base yield	Borrowing yield AA+/AA rated councils	Borrowing yield AA- rated councils	Borrowing yield A+ rated councils	Borrowing yield Unrated guarantors	Borrowing yield Non-guarantors
Apr-24	5.31%	5.51%	5.56%	5.61%	5.71%	5.81%
Apr-25	5.34%	5.54%	5.59%	5.64%	5.74%	5.84%
Apr-26	5.36%	5.56%	5.61%	5.66%	5.76%	5.86%
Apr-27	5.33%	5.53%	5.58%	5.63%	5.73%	5.83%
May-28	5.36%	5.56%	5.61%	5.66%	5.76%	5.86%
Apr-29	5.42%	5.62%	5.67%	5.72%	5.82%	5.92%
May-31	5.45%	5.65%	5.70%	5.75%	5.85%	5.95%
Apr-33	5.53%	5.73%	5.78%	5.83%	5.93%	6.03%
May-35	5.68%	5.88%	5.93%	5.98%	6.08%	6.18%
Apr-37	5.81%	6.01%	6.06%	6.11%	6.21%	6.31%

Floating rate long term	Base margin	Borrowing margin AA+/AA rated councils	Borrowing margin AA- rated councils	Borrowing margin A+ rated councils	Borrowing margin Unrated guarantors	Borrowing margin Non-guarantors
Apr-24	24 bps	44 bps	49 bps	54 bps	64 bps	74 bps
Apr-25	30 bps	50 bps	55 bps	60 bps	70 bps	80 bps
Apr-26	37 bps	57 bps	62 bps	67 bps	77 bps	87 bps
Apr-27	43 bps	63 bps	68 bps	73 bps	83 bps	93 bps
May-28	47 bps	67 bps	72 bps	77 bps	87 bps	97 bps
Apr-29	52 bps	72 bps	77 bps	82 bps	92 bps	102 bps
May-31	55 bps	75 bps	80 bps	85 bps	95 bps	105 bps
Apr-33	64 bps	84 bps	89 bps	94 bps	104 bps	114 bps
May-35	72 bps	92 bps	97 bps	102 bps	112 bps	122 bps
Apr-37	76 bps	96 bps	101 bps	106 bps	116 bps	126 bps

Note: All the above borrowing yields and spreads are fully inclusive of the applicable base lending and credit margins outlined below

### Margins

Long term base lending margin	Standard - Terms beyond 1 year	GSS Loans - terms beyond 1 year
	20 bps	15 bps

Long term credit margin (+ Base lending margin)	AA+ and AA	AA-	A+	Unrated guarantor	Non-guarantor
	0 bps	5 bps	10 bps	20 bps	30 bps

Disclaimer: This is intended for information purposes only and contains commercially sensitive information, therefore please do not distribute. Borrowing margins and rates are indicative only and subject to change. For further information contact Andrew Michi, Sumitha Kaluarachi, Jane Phelan or Mark Butcher

### Upcoming bond tender dates

9 November 2022  
 14 December 2022  
 1 February 2023  
 1 March 2023  
 12 April 2023  
 10 May 2023



