

LOCAL GOVERNMENT FUNDING AGENCY

Wellington City Council is proposing to join with the Government and other local authorities to establish a new funding body – the Local Government Funding Agency (LGFA).

To have your say, fill out this form and send it to one of the addresses listed below.

No. 1

Your details * Mandatory fields

Mr / Mrs / Ms / Miss / Dr (circle one)

First name(s) * BERNARD

Last name * O'SHAUGHNESSY

Street address * 139 A Daniell Street NEWTON

Phone/mobile 021 1888-289

Email Bernardboss@yahoo.co.uk

I am making a submission

- As an individual

☒

- On behalf of an organisation

☐

(Name of organisation)

I would like to make an oral submission to Councillors ☒ Yes ☐ No

If yes, provide a phone number above so that a submission time can be arranged.

Submissions close 5pm, Friday 22 July 2011.

Have your say

1. Do you agree with the Council's proposal to participate in the establishment of the LGFA? ☐ Yes ☐ No

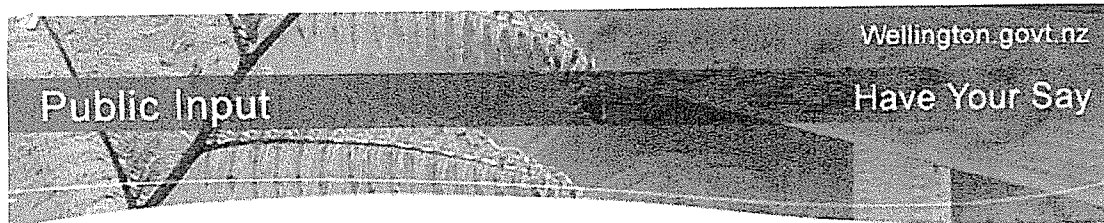
2. Write your comments below.

→ With Reservation

It make's sense to join together to
gain the advantage of like minded
bodies having similar aims

BUT

More emphasis must be put on
RATEPAYERS having acceptable rights to
OBJECT to expensive projects and associated
costs eg. Karori Sanctuary, & expenditure
on stupid Rugby world cups.



Local Government Funding Agency - Submission

Wellington City Council would like your views on joining with the Government and other local authorities to set up a new funding body - the Local Government Funding Agency.

Complete the form below and send it by:
5.00pm Friday 22 July 2011.

No. 2.

Note: All submissions (including name and contact details) are published and made available to elected members and the public. Personal information will also be used for the administration of the consultation process. All information collected will be held by the Wellington City Council, 101 Wakefield Street, Wellington, with submitters having the right to access and correct personal information.

Privacy Statement

Submitter Details

Mandatory fields x

First Name:	Heather Marion	x
Last Name:	SMITH (Miss)	x
Street Address:	14 Broughton Street	x
Suburb:	Wanganui East	x
City:	WANGANUI 4500	x
Phone:	06/343-3038	
Email:	heathermsmith@slingshot.co.nz	

I would like to make an oral submission.
(If yes, provide a phone number above, so that a submission time can be arranged.)

- ☒ Yes
☐ No

I am making this submission:

- ☐ as an individual
☒ on behalf of an organisation

Organisation Name:
Democrats for Social Credit

Questions / Comments

Q. Do you agree with the Council's proposal to participate in the establishment of the Local Government Funding Agency?

- ☐ Yes
☒ No

Q. Comments: *see attached page.*
And.

Democrats **for social credit** *'here for good'*

PO Box 5164, Waikiwi, Invercargill 9843 Phone/Fax: 0064 3 215 7170
Email: democrats@democrats.org.nz Website: www.democrats.org.nz

Submission to the Wellington City Council on its Proposal to be an Establishment Shareholder of proposed Local Government Funding Agency. (July 2011)

In our submission to the Council on its Draft Annual Plan (2011/2012) Democrats for Social Credit expressed strong reservations about the Minister of Local Government's proposal to establish a Local Government Funding Agency. To support our verbal presentation on 18th May we tabled information which should have persuaded councillors and staff that the Funding Agency as described in the Local Government Borrowing Bill is quite unnecessary. Not only are we disappointed that the WCC recommends participation as an establishment shareholder, but we question the terms of reference on which the Statement of Proposal is based.

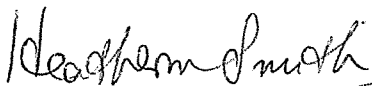
In spite of Council's stated intention to "diversify its funding options", those offered on page 5 exclude credit-lines from our central bank. Yet the Debt Management Office in Treasury promises a credit facility under certain circumstances. As one of our Wellington members suggested, why not simply rephrase the words on page 31 to read: "The Debt Management Office will provide a credit facility for Council." Eliminates the need for a complicated LGFA bureaucracy. And if Council genuinely seeks lower borrowing costs and risk reduction, it is duty bound to favour Reserve Bank/Treasury credit lines at nil to 1% interest and encourage public support for same. Refusing to offer this option is frankly dishonest, revealing a lack of faith in the principle of this nation's economic sovereignty.

Ratepayers are entitled to know (a) who pays government appointees to the Council Controlled Organisations required by the Borrowing Bill and (b) which financial institutions are to be consulted re the management of derivatives usually employed to counteract exposure to the volatility of the currency markets.

We ask councillors responsible for New Zealand's beautiful capital city to show leadership by rejecting the proposal and opt for what is sovereign, sustainable and sensible.

"Absolutely, Positively Wellington!" A great motto. Time to give it meaning.

Written for Democrats for Social Credit, Wellington Region,
by Heather Marion Smith, B.A., Dip. Soc.Sci.(Econ.) - Local Government spokesman.



LOCAL GOVERNMENT FUNDING AGENCY

Wellington City Council is proposing to join with the Government and other local authorities to establish a new funding body – the Local Government Funding Agency (LGFA).

To have your say, fill out this form and send it to one of the addresses listed below.

No. 3

Your details * Mandatory fields

☒ Mr ☐ Mrs ☐ Ms ☐ Miss ☐ Dr (Circle one)

First name(s) * Ronald William

Last name * ENGLAND

Street address * 8/6A Lynahurst Road, TAWA

Phone/mobile 04/897 0583

Email r7were@yahoo.co.nz

I am making a submission

- As an individual ☒
- On behalf of an organisation ☐ (Name of organisation)

I would like to make an oral submission to Councillors ☒ Yes ☐ No

If yes, provide a phone number above so that a submission time can be arranged.

Submissions close 5pm, Friday 22 July 2011.

Have your say

1. Do you agree with the Council's proposal to participate in the establishment of the LGFA? ☐ Yes ☒ No

2. Write your comments below.

SEE ATTACHED SHEET

A NEW??? FUNDING AGENCY

Everybody's hope is for steady trustworthiness in affairs financial, including local and central, governments. But overseas money-merchants? Can banks anywhere in the world expect trust in them after the wall street bubble? Some say the recession is over – managers' bonuses can go back to 2008!!! The evidence shows instead, a long "stagnation" – not unknown – allowing time to bring in sensible prosperity.

Do we want loans from overseas again – LGFA allows it – haven't we learned from 2008???
N.Z. is a wealthy country, when it uses its wealth wisely. While writing this, our wealth is flowing out of N.Z. – 85% of the banking system is overseas owned – 97% of the money we use comes through commercial banks-- my wallet is emptying!!!

There is public good, (also private good), they are water, sewerage, public transport, energy, health, education. These are for the public good - not for making private profit over-seas – joint ventures perhaps. Market rates in the market place. But should be rarely, if at all, in rate-payer charges.

Surely the RESERVE BANK – our bank—on its own – can fund the Public Good without corrupt overseas input. It is able to have positive effects on this economy instead of "trying " to control inflation. Previous N.Z. governments funded state housing, producer boards –meat, dairy, wool-- using RESERVE BANK low interest monies!
LGFA will be part of the "ratings" game. Does it mean anything? How many of the wall street "bubblers" were rated?

When will W.C.C. ask for KIWIBANK to be available for local authorities? Or use the Public Service Investment Society, or Taranaki Savings Bank? Some would say there's treason in the use of overseas banks, to our economic deprivation.

There is much talk of innovation and international competitiveness, and other slogans. Why not in money? Shouldn't governments of all kinds live up to, or beyond such statements, or use more exact and achievable aims. And take an independent approach – other countries do!!! We don't need to be blind followers lost in the smog that rolls down from parliament hill to Civic Square and beyond!

TWENTY—SECOND JULY 2011

R.W.ENGLAND 8/16A LYNTHURST ROAD TAWA WELLINGTON 5028

No. 4

Warwick Hayes

From: herfins@xtra.co.nz
Sent: Sunday, 26 June 2011 12:58 p.m.
To: Warwick Hayes
Subject: Local Government Funding Agency

The following details have been submitted from the Local Government Funding Agency form on the www.Wellington.govt.nz website:

First Name: Gavin
Last Name: Kennedy
Street Address: 1/41 Aurora Terrace
Suburb: Kelburn
City: Wellington
Phone: 04 472 5385
Email: herfins@xtra.co.nz

Would you like to speak in support of your submission: Yes

I am making this submission: as an individual

Comments: Submission to Wellington City Council on Local Government Financing Authority

I feel that money lending even to organisations in the same sector is not a core business activity of the Wellington City Council. Furthermore the whole drive of this proposal is to save interest costs (a laudable objective), but that somehow the current market for Local Government ("LG") debt is somehow broken and dysfunctional

In the first instance I have no dispute that there could be savings of 0.4% PA based on Local Government Financing Authority ("LGFA") NZ\$ securities being rated "AAA" and offering higher liquidity. But the dollar quantum of savings to the Wellington City Council ("WCC") is trivial at \$740,000 PA. There is a suggestion that the LGFA is a sensible step to take given the constraints on funding evident during the Global Financial Crises ("GFC") period. I believe the GFC produced exactly the opposite situation for Government and Local Government securities: A flight by investors towards them because of their essential service aspect, security and high credit standings (rated or otherwise). In my view the GFC presented an opportunity to LG issuers, not a threat.

Secondly I have not seen evidence that any LG entity has had difficulty raising funds in NZ. Even through the GFC there were continuing issues by LG including two in the public markets by ACC. However pricing is variable depending on the market's perception of the credit standing of the issuer at the time of issue and this is totally healthy. The investors who take the risk price the securities. There remains strong demand evident from the NZ public for LG debt despite a reluctance by many LG entities to go through the public offer process.

Thirdly there is currently a restriction in the LG Act which prohibits councils accessing the offshore capital markets. This is a limitation and in my view an unnecessary restriction on LG powers. However rather than using the LGFA to access these markets, the LG sector could seek a repeal of this restriction from Central Government.

The equity structure for LGFA is not commercial. I consider the return on equity being

effectively at the subscriber's cost of debt to be a totally inadequate return on equity. Indeed it is clear that no real return on equity is contemplated other than through the interest savings on funds raised through borrowing from LGFA.

It is clear that the credit rating to be achieved is a function of the deeply subordinated equity, both subscribed and unsubscribed, the subordinated debt issued by LGFA which mandatorily subscribed to by borrowers in the ratio of 1.6% to their borrowings, and which pays an inferior rate of return equal to their cost of funds (effectively a transaction like guarantee), and the joint and several guarantees. It is the joint and several guarantee that I have the biggest problem with. Joint & several means in law that each of the guarantors are undertaking to guarantee all of the obligations of the LGFA. There are no ifs or buts about that. At full stride WCC will be a guarantor of NZ\$11 billion of debt to save NZ\$740,000 PA in interest costs.

It is stated that LG borrowings are very low risk. I agree but this does not mean no risk. There are a number of past instances of LG default or near default: Southland Electric Power Board and about 20 LG entities (Mainly electric power boards in the mid nineteen eighties who refused to service their Local Area hydro loans taken at government direction from the National Provident Fund and only saved from default by a NZ\$200 million government injection).

In the event a default by a borrower the receiver of that LG entity will seek compensation by striking a special rate on the ratepayers of the defaulter. Whilst I am not sure whether there are any precedents for this action it's not clear to me that in all cases the ratepayers would be able or willing to meet the default in a timely manner. In a major failure it is quite likely that the LGFA itself may be under threat. In this case any receiver of LGFA would seek to recover under the guarantees on the basis that they hit up the strongest first. This means the WCC is in the cross hairs. The smaller guarantors would be approached last.

In paragraph 7.1 there is a lightly once over discussion about lending policies. Given the security of the structure relies initially on the credit worthiness of the borrowers I would have expected a much more robust set up for making decisions about lending. Indeed it seems that if the LG entity meets the covenant criteria at the time of borrowing, a loan will be automatically forthcoming, much like online applications for finance companies. There is no discussion how these lending decisions are made, who or what organ vets the applications for funding, or what due diligence of borrowers is undertaken.

It's harped on about the security available on the loans made by LGFA but little discussion about the continuing capacity of borrowers to service these loans. Prudent lenders first look at the capability of the borrowers to service the obligations and then lastly at the security which is available should the worst happen. I would expect to see a credit committee established to approve each loan, conduct regular reviews, and take action if covenants are breached. Given that LG financial statements can be older than 12 months, reliance on public domain information is simply not adequate given the sums involved. I note the DMO is proposed as treasury manager for LGFA. I have full confidence in their ability to undertake that task but none whatsoever on their ability to discharge the credit assessment on loans. If not them who is going to do it?

There is also suggestion that loans will be priced off some form of pricing matrix. This seems to lack flexibility to take into account each borrower's circumstances at the time of borrowing.

Pricing of loans should form a fundamental part of the credit assessment. In addition it is stated that loans will only be made to LG entities. But who or what is the 20% liquidity pool of what is composed of? There is a suggestion that it may contain bank and government securities. Is there anything else contemplated? It's therefore no true to say it only lends to LG, but rather it lends to them on a longer terms basis but to other entities on a short term basis, up to 20% of funds raised.

From the moment the proposal was aired I saw the LGFA as a solution looking for a problem. It simply is not necessary for LG fundraising. There is nothing wrong with the existing system. In effect WCC ratepayers ultimately are guaranteeing NZ\$11 billion of debt, albeit low risk, for a trivial saving of \$740,000PA, with seemingly inadequate credit assessment process, and a move by council into a money lending area which is not a core function of any council. Leave it to the banks and financial markets as it is now.

Gavin Kennedy