



MASTERTON DISTRICT COUNCIL

SERVING THE COMMUNITY

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30 October 2017

Michael Osborne

Email: fyi-request-6625-2d28472d@requests.fyi.org.nz

Dear Michael

Response to Official Information and Meetings Act (OIA) 1982 Request

Thank you for your email dated 2 October 2017, requesting information under the Official Information Act 1982, regarding the reporting of provisions for financial guarantees in the Annual Report 2015/16.

Request

In the Masterton District Council Annual Report 2015/16 on page 140 is the reporting of Provision for Financial Guarantees and the first section is NZ Local Government Funding Agency. The report states, "At 30 June 2016, NZLGFA had lent \$6.22 billion (2015: \$4.955 billion). Financial reporting standards require Masterton District Council to recognise the guarantee liability at fair value. However, the Council has been unable to determine a sufficiently reliable fair value for the guarantee and therefore has not recognised a liability."

- 1. When was the "the guarantee liability at fair value" for NZLGFA last reported/recognised (in accordance with Financial Reporting Standards) and what was the fair value at that time?*
- 2. Please supply all relevant documentation (emails, documents, whiteboard printouts, reports, spreadsheets etc and any other formats) pertaining to the process of and the determination of fair value of the guarantee liability for NZLGFA in the Annual Report 2015/16.*

Response

The guarantee that is provided to NZLGFA as part of Masterton District Council's shareholding in that entity has been acknowledged in each of the five Annual Reports of the Council since the shareholding was taken up in 2011. Disclosures can be found in Note 23, Provision for Financial Guarantees and Note 33, Statement of Commitments and Contingencies

Along with all other guaranteeing shareholding Councils, the fair value assessment of the liability that comes with providing the guarantee has not been possible to determine in a sufficiently reliable way. Therefore no liability has been recognised.

Each year that the Council has made this determination it has taken into account two main factors:

1. we are not aware of any local authority debt default events in New Zealand, and

2. Local government legislation would enable local authorities to levy a rate to recover sufficient funds to meet any debt obligations if further funds were required.

In addition, the NZLGFA has a AA+ credit rating from Standard and Poors. All of these factors have meant the Council, other shareholders and our auditors are all satisfied that the risk of a defaulting borrower from the LGFA causing the guarantee to be called on, is very low and therefore cannot be quantified.

In terms of the second question, there is no specific documentation pertaining to the process of determining the fair value of the guarantee liability for NZLGFA in the Annual Report for 2015/16. The reasoning provided above is clearly stated in the Annual Report. The same wording for the disclosure was used in the 2015/16 Annual Report as that used in the prior years as the basis of the risk had not changed, only the value lent by the NZLGFA.

However, in the first year of the disclosure, 2011/12, there are two relevant documents that pertain to the valuation of the guarantee liability. These documents are attached for your information. The first is a report prepared for the LGFA Shareholder's Council by KPMG. It contains a very detailed analysis of several potential methods with which the liability could be valued. Ultimately the KPMG opinion and suggested methodology was not used. The second document is an email from Matthew Walker, our representative on the Shareholder's Council, where he is advising of the agreed approach to the valuation of the liability.

I trust this information satisfies your request; however you have the right to seek a review, under section 28 of the Official Information Act 1982, regarding the information we have provided.

Kind regards



Danielle Armstrong
Executive Assistant to the Chief Executive