

30 June 2020

Dear LGFA stakeholder

Statement of Intent 2020/21

Please find attached the Statement of Intent (SOI) for the 2020/21 year.

LGFA remains focused on delivering strong results for our council borrowers and shareholders.

For our borrowing councils we seek to optimize funding terms and conditions by

- Achieving savings in borrowing costs
- Provide longer dated funding and
- Provide certainty of access to markets.

For our shareholders we are focused on

- Delivering a strong financial performance
- Monitoring asset quality and
- Enhancing our approach to treasury and risk management.

The following points regarding the 2020/21 SOI are worth noting

- The SOI performance targets are similar to the previous year's targets except we have increased the target for both market share and council satisfaction scores to 85% from the previous 80% and 75% targets.
- There remains some uncertainty within the SOI forecasts relating to the amount of both council loans and LGFA bonds outstanding as this depends upon the magnitude and timing of council borrowing. The likely impact of COVID-19 on the financial position of councils and their borrowing requirements is still evolving but we have increased our estimates of council borrowing (and bonds issued) by \$250 million in each of the next three years compared to the Draft SOI that you received in February 2020. While councils are faced with reduced revenue that may lead to a cut in capex, this could be offset by the need to co-invest alongside Central Government to assist with an infrastructure investment led growth recovery.
- The timing and amount of refinancing of council loans maturing in May 2021 and the associated repayment of the LGFA May 2021 bonds might also have an impact on the SOI forecasts.

The changes made to the Final SOI compared to the Draft SOI that you received in February 2020 for comment have been

- We have broadened the objectives to include contributing to the four well beings and to assist the sector with its response to COVID-19.
- Net interest income has reduced by \$200,000 in the 2020/21 year reflecting lower interest rates (approximately 0.75% lower) but has increased by \$300,000 and \$6.7 million in the subsequent years because of the higher level of assets and increase in the base on-lending margin compared to the starting position.
- Expenses have reduced by \$200,000 in the first two years due to a lower expected amount of offshore bond holders reducing our Approved Issuer Levy payments.

We can provide you with a tracked change version of the Draft and Final SOI documents if you wish.

Please feel free to contact me if you have any questions or require further clarification on anything relating to the SOI or LGFA in general.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Butcher', with a stylized flourish at the end.

Mark Butcher
Chief Executive