Chairperson and Subcommittee Members
AUDIT AND RISK SUBCOMMITTEE

16 DECEMBER 2014

Meeting Status: **Public**

Purpose of Report: For Information

STANDARD AND POOR'S CREDIT RATING

PURPOSE OF REPORT

1 This report updates Council on Standard and Poor's most recent Credit Rating Report on Kāpiti Coast District Council.

DELEGATION

2 The Audit & Risk Subcommittee has delegation authority to consider this report under the following delegation in the Governance Structure, Section C.4.

6 Without limiting the generality of this delegation the Subcommittee has the following functions, duties and powers:

External Audit

6.13 receive the external audit reports and review action to be taken by management on significant issues and audit recommendations raised within.

BACKGROUND

3 Council's credit rating, as issued by Standard and Poor's, as at 22 October 2013 was A+ with a stable Outlook.

4 Standard and Poor's provides an annual credit rating which provides an assessment of Council's financial management based on its historical and planned performance. Standard and Poor's use a number of key rating factors to determine the credit rating, including liquidity, budgetary management and debt burden.

5 The credit rating, as well as being internationally recognised also impacts Council's ability to secure debt funding. Unrated councils or councils with a long-term credit rating lower than 'A' equivalent have more restrictive borrowing requirements than councils with a long-term credit rating of 'A'. More importantly, the better the rating from Standard and Poor's the higher the credit limit Council has for its borrowings and the better the margins at which these borrowings can be made.

6 The current report was published on 29 October 2014 and is attached as Appendix 1.

7 Attached as Appendix 2 are the credit ratings for other NZ councils as at 31 October 2014.

CONSIDERATIONS

Issues

8 The key finding of the report is that Kāpiti Coast District Council has retained its Issuer Credit Rating of A+ with a stable outlook, which it was awarded on 11 October 2012. The 2014 rating largely reflects the same strengths evidenced in last year's rating, for example, the predictable and supportive institutional framework that exists in New Zealand. However notable Council improvements in some of its key rating factors have been recognised.

9 Continuing on this path of improvement could lead to an improved rating in years to come. Equally, a decline in performance and/or some of the highlighted risks eventuating could result in a downgrade of Council's rating.

Key rating factors that have improved

10 Council's liquidity rating has improved from 'positive' in 2013 to 'strong' in 2014 which is a key determinant of Council's credit rating. The high level of credit facilities from Council's committed bank lines and forecast cash holdings mean Council has a very comfortable level of debt-servicing coverage. In addition, the discontinuation of its commercial paper program has reduced much of Council's liquidity risk.

11 Standard and Poor's view Council's financial management as 'strong' (compared to 'positive' in 2013), acknowledging the merging of the finance and corporate services department under one Group Manager, and the introduction of qualified and experienced individuals to the finance team.

12 Council is also viewed as having strong (compared to 'moderate' in 2013) budgetary flexibility, meaning that it can increase or decrease almost all its revenue streams, should the need arise. However, it is noted that Council is mindful of the impact of a large rates hike on its large share of the elderly population.

13 Standard and Poor's also notes that Council has very low known contingent liabilities and no controlling interests in council-controlled organisations which is positive as it limits the potential for unforeseen shocks to Council's fiscal position.

Key rating factors that are of potential concern

14 Council's extensive capital expenditure programme is the single largest factor to adversely affect Council's credit rating. Its decision in the 2012 Long Term Plan to accelerate a number of major projects significantly increased its after-capital deficits (its cash operating result after net capital expenditure is deducted). Council's focus on inter-generational equity means that these capital projects are funded with long-term loans rather than via rate increases, thus significantly increasing Council's debt burden.

15 The after-capital deficits, which are significantly worse than Standard and Poor's benchmark criteria, and the level of debt should start to improve after the 2016 financial year, when most of the big-ticket capital projects will have been completed.

Financial Considerations

16 If Council maintains its current credit rating then all new and rolled over debt will benefit from interest charges at existing levels. A downgrade in its rating, or not being rated at all would result in a higher risk profile and accordingly higher interest costs.

Legal Considerations

17 There are no legal considerations.

Consultation

18 No consultation was required in relation to this report.

Policy Implications

19 There are no policy implications.

Tāngata Whenua Considerations

20 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

21 This matter has a low level of significance under the Council Policy.

Publicity Considerations

22 There are no publicity considerations.

RECOMMENDATIONS

23 That the Audit & Risk Subcommittee notes the content of Standard & Poor's Report on Kāpiti Coast District Council's Credit Rating.

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Approved for submission by:	**Approved for submission by:**
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ATTACHMENTS:

Appendix 1 – Standard and Poor's Credit Rating Analysis
Appendix 2 – Other Councils' Standard and Poor's Credit Ratings