

**Chairperson and Committee Members**  
OPERATIONS & FINANCE COMMITTEE

8 AUGUST 2019

Meeting Status: **Public**

Purpose of Report: For Information

## **THE STANDARD AND POOR'S CREDIT RATING**

### **PURPOSE OF REPORT**

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

### **DELEGATION**

- 2 The Operations and Finance Committee has the delegation to consider this matter. The current Governance Structure and Delegations for the 2016-19 triennium states that the Operations and Finance Committee has been delegated:  
*the responsibility to deal with monitoring and decision-making on all broader financial management matters.*

### **BACKGROUND**

- 3 Standard and Poor's provides an annual credit rating which provides an assessment of the Council's financial management based on its historical and planned performance. Standard and Poor's use a number of key rating factors including liquidity, budgetary management and debt burden to determine the overall credit rating.
- 4 The credit rating, as well as being internationally recognised also impacts the 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' or higher. The better the rating from Standard and Poor's the higher the credit limit the Council has for its borrowings and the better the margins at which these borrowings can be made.
- 5 The current report was published on 26 July 2019 and is attached as Appendix 1.

### **ISSUES AND OPTIONS**

#### **Issues**

- 6 The Council's credit rating, as issued by Standard and Poor's revised the Council's credit rating outlook up *two* grades from A+ to AA. Receiving an upgraded rating is the direct result of continued efforts to improve the Council's financial position, a high priority over the past five years.
- 7 The report notes that the outlook from the rating reflects the expectations that Kapiti's experienced financial management will ensure the Council's financial position continues to strengthen.

- 8 The Council improvements in some of its key rating factors have been recognised. This includes the Council's improved budgetary performance which continues to improve through the commitment to fully fund depreciation by 2022 and the Council's focus on the "green line strategy".
- 9 Continuing on this path of improvement could lead to a further 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 the Council's rating.

*Key rating factors that remain strong and / or have improved*

- 10 The Council's liquidity is improving through its pre-funding of long term-debt, ensuring that it has more than enough cash holdings on hand to manage its debt repayment and interest charges.
- 11 The Council's improving budgetary performance support its credit rating. Operating surpluses are expected to remain strong from 2019 to 2022 and the pared down capital expenditure programme will lead to lower after-capital account deficits, a key financial metric used by Standard and Poor's.
- 12 Standard and Poor's view the Council's management as strong and is confident that the management team will successfully deliver the financial outcomes set out in the 2018 long term plan (LTP).
- 13 The Council is also viewed as having strong budgetary flexibility, meaning that it can increase or decrease almost all its revenue streams, should the need arise. However, it is noted that the Council is mindful of the impact of a large rates hike on its community.
- 14 Standard and Poor's also notes that the Council has very low known contingent liabilities and no controlling interests in council-controlled organisations. This is positive as it limits the potential for unforeseen shocks to the Council's fiscal position.

*Other key rating factors*

- 15 Standard and Poor's has again acknowledged the Council's 2018 LTP strategy of reining in capital expenditure and focussing on paying down its debt earlier. They noted that although our pre-funding strategy reduces refinancing risk, it also adds to the Council's gross debt. Our gross debt remains high compared with peers although it is improving.
- 16 In terms of the rating factors, the positive impact of higher liquidity more than offsets the impact of the higher gross debt. For this reason, the pre-funding programme is regarded positively.
- 17 Standard and Poor's also sounded a note of concern that downward pressure on the rating could occur if there was a change in policy resulting in a significantly larger use of borrowings than planned or riskier debt and liquidity policies.

## **CONSIDERATIONS**

### **Policy considerations**

- 18 There are no policy implications.

## Legal considerations

- 19 There are no legal considerations.

## Financial considerations

- 20 The upgraded credit rating means that all new and rolled over debt will benefit from interest being charged at a lower rate due to the lower margins that go with a AA rating rate. For the 2019/20 year this will result in financing costs reducing by \$20,000.

## Tāngata whenua considerations

- 21 There are no issues requiring specific consideration by Tāngata whenua.

## Strategic considerations

- 22 The stronger credit rating contributes to the key 10-year outcome of improved financial position against financial constraints by allowing the Council to achieve lower interest rate costs.

## **SIGNIFICANCE AND ENGAGEMENT**

### Significance policy

- 23 This matter has a low level of significance under Council's Significance and Engagement Policy.

### Consultation already undertaken

- 24 No consultation has been undertaken in the development of this report.

### Engagement planning

- 25 An engagement plan is not needed for this report to be considered.

### Publicity

- 26 The Council issued a media release on the day after the Credit Rating Report was received from Standard and Poor's.

## **RECOMMENDATIONS**

- 27 That the Operations and Finance Committee notes the content of Standard & Poor's Report on Kāpiti Coast District Council's credit rating.

### **Report prepared by**

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### **Approved for submission**

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### **Approved for submission**

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Appendix 1: Standard and Poor's 2019 credit rating for the Kāpiti Coast District Council