



Report **05.165**
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Committee **Planning and Monitoring Sub Committee**
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Council's Credit Rating

1. Purpose

To provide the Committee with background information on the Council's credit rating.

2. Significance of the decision

The matters in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

3. Background

As noted previously to Councillors, Standard and Poor's have put the Council on credit watch negative.

4. Current Rating

Standard and Poor's current rating of the Council is AA, credit watch negative.

All credit ratings have a rating outlook, which can be one of three options;

- a) A stable outlook means that there are no matters in the future which should impact on the current rating.
- b) A negative outlook means that future events are more likely to decrease the rating rather than remain the same.
- c) A positive outlook means that future events are more likely to increase that rating market than remain the same.

As part of their rating process, Standard and Poor's will take possible/probable future events into account. For those events which have sufficient certainty, this is taken into account in the rating. For those events which have less certainty Standard and Poor's consider these in assessing their rating outlook.

The credit watch negative placed on GWRC recently is due to the Council's intention to purchase/own the new/refurbished rolling stock.

As a result of this proposed purchase our debt will increase from \$57 million to \$130 million.

It is this increase in debt that may cause the rating downgrade to AA-.

In previous years it had been assumed that any upgrade to the rail system would be funded by the operation with GWRC paying a share of this upgrade through the annual grants.

However the Government's transport package and the higher costs to GWRC of Toll funding the upgrade means that it is more economic for GWRC to own the new rolling stock.

While it is a logical argument that interest/principal payments to a bank are similar economically to making grant payments to Toll, Standard and Poor's do not see it that way. Their focus is on the increased debt level. The fact that our rate increases over the next few years are similar under both scenarios does not seem to sway them.

Standard and Poor's are of the view that once the Annual Plan/LTCCP is approved (and it includes the rolling stock) then it is probable that our rating will be downgraded to AA-. However, the downgrade is not certain.

5. Effect of Potential Downgrade

A downgrade to AA- will not have any affect on our current cost of borrowings.

In respect of future facilities/debt programs it is likely that any increase in our debt margins will be small.

For example, an increase of 3 basis points (100 basis points = 1.0%) which would be at the upper level of any increase, adds \$300 for every \$1.0 million of debt on an annual basis.

6. Comparable Ratings

GWRC's current rating of AA or a probable AA- is still very high when compared with other New Zealand organisations.

Some examples:

AAA New Plymouth District Council

AA+ Auckland City Council
 Christchurch City Council

AA Transpower New Zealand Ltd

AA- ASB Bank
Bank of New Zealand
Fonterra

A Telecom

7. Short Term Rating

GRWC short term rating ie. the rating for facilities/borrowings of less than a year will remain at A-1 + the highest possible.

8. Next Steps

Standard and Poor's will complete their rating report in the next month and send it to us for comment (mainly to correct factual errors). Their rating committee will then meet, probably in late May/June to decide on the current rating.

9. Recommendations

That the Committee recommend that Council:

- 1. receive the report and note its contents.*

Report prepared by:

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