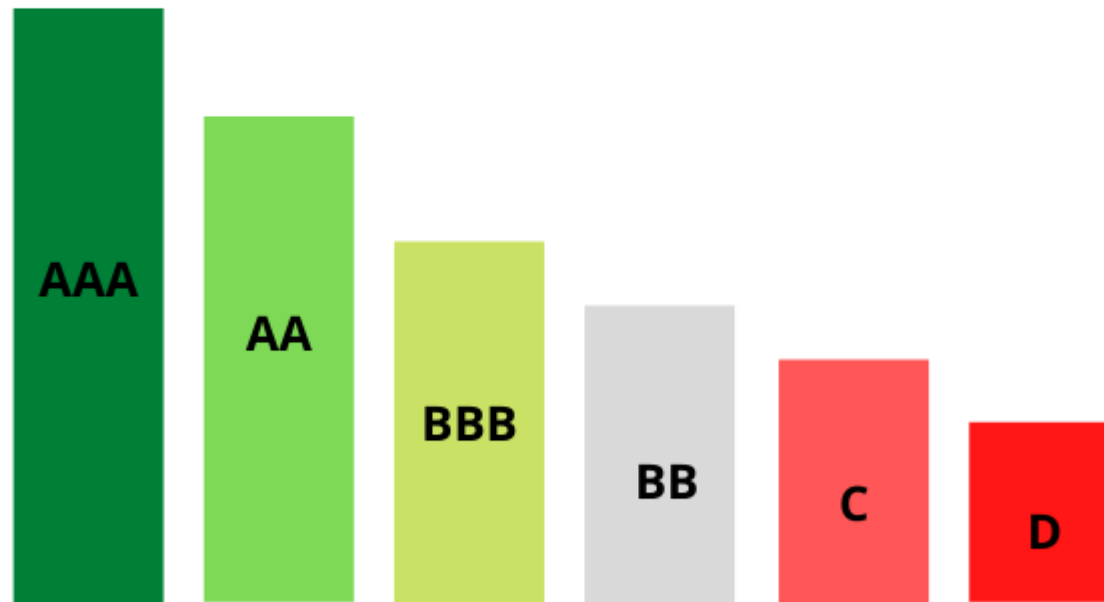


Credit Ratings and Credit Scores



Credit Rating for MDC

How Council could get a credit rating

History

- 3-4yrs ago Executive looked at credit ratings
- Decided to leave it due to 3 waters uncertainty
- The cost of the set up and ongoing would be repaid in future years

2023/24

- Audit and Risk wanted to relook at credit rating options with the intent to reduce interest costs rather than increase borrowing capacity.

What is a credit rating

- A credit rating provides an independent assessment of the credit quality of an entity, with borrowers utilising the rating to support their funding arrangements by giving comfort to investors and lenders when making investment or lending decisions.

Who provides credit ratings

FitchRatings

\$55,000 to establish rating *(need to recheck this price)*

\$57,000 per annum to maintain yr 2 onwards *(price is recent)*

S&P Global

\$67,500 to establish rating *(need to recheck this price)*

\$67,500 per annum to maintain *(need to recheck this price)*

What are the advantages of being rated

Higher debt cap – you can borrow more

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<280%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

Net Debt to total revenue ratio moves from under 175% to under 280%

Higher debt = more assets = more depreciation (or loan repayments) and interest costs = higher rates (or Development Contributions)

What are the advantages of being rated

Cheaper interest rates on new borrowings

Long-term Credit Margin (added to Base Lending Margin)

AAA	AA	AA-	A+	Unrated Guarantor
0 bps	0 bps	5 bps	10 bps	20 bps

➤ The LGFA has differential pricing according a borrower's credit rating, this is as follows:

- 'AA' is nil
- 'AA-' is 0.05%
- 'A+' is 0.10%
- Unrated is 0.20% (which MDC currently is)

Loan amount:	1,000,000				
	AAA	AA	AA-	A+	Unrated
Base interest rate	5%	5%	5%	5%	5%
basis point to add	0	0	5	10	20
Interest rate payable	5%	5%	5.05%	5.10%	5.20%
Interest cost pa	50,000	50,000	50,500	51,000	52,000
Savings possible	2,000	2,000	1,500	1,000	

A basis point is 1/100%

Basis Points	Percentage
1	0.01%
10	0.10%
50	0.50%
100	1.00%
275	2.75%
400	4.00%
1,000	10.00%

How long will it take for 'break even'

Assumes:

- Credit rating as at 1 Jan 2025
- The cost of being credit rated stays at \$57,000pa
- Commercial papers stay at same level (the short term papers)
- Using the rates as at 8 Aug 2024
- **Using the Council debt as per LTP (includes 3 Waters)**

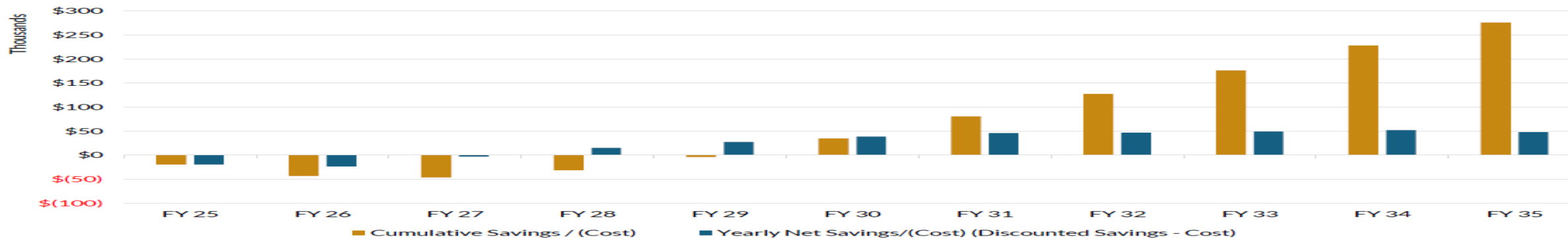
Note – May take 1-2yrs longer as MDC do not do their full budgeted debt draw each year

A/A+ Credit Rating

FY End	A/A+ Rating	Discounted Savings	Yearly Cost	A/A+ Yearly Net Savings / (Cost)	A/A+ Cumulative Savings / (Cost)
FY 25		8,758	-28,500	-19,742	(19,742)
FY 26		33,359	-57,000	-23,641	(43,383)
FY 27		53,928	-57,000	-3,072	(46,455)
FY 28		72,031	-57,000	15,031	(31,424)
FY 29		84,488	-57,000	27,488	(3,937)
FY 30		95,664	-57,000	38,664	34,728
FY 31		102,863	-57,000	45,863	80,590
FY 32		103,774	-57,000	46,774	127,364
FY 33		105,824	-57,000	48,824	176,188
FY 34		109,039	-57,000	52,039	228,227
FY 35		104,793	-57,000	47,793	276,020
<u>Totals (\$)</u>		<u>874,520</u>	<u>598,500</u>	<u>276,020</u>	

Councils include: Horowhenua A+ Upper Hutt City Council A+ Tauranga City Council A+

A/A+ Credit Rating

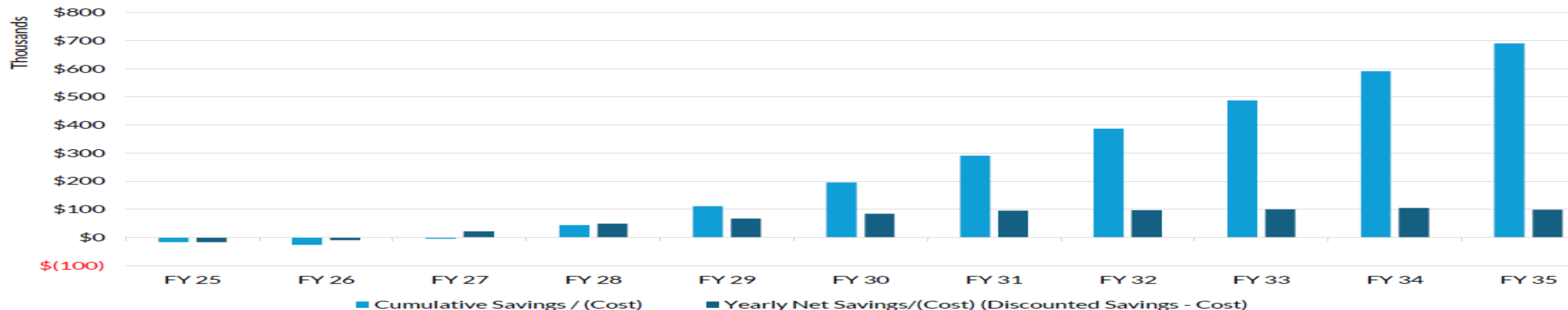


AA- Credit Rating

FY End	AA- Rating	Discounted Savings	Yearly Cost	AA- Yearly Net Savings / (Cost)	AA- Cumulative Savings / (Cost)
FY 25		11,801	-28,500	(16,699)	(16,699)
FY 26		47,402	-57,000	(9,598)	(26,298)
FY 27		78,342	-57,000	21,342	(4,956)
FY 28		105,596	-57,000	48,596	43,640
FY 29		124,399	-57,000	67,399	111,039
FY 30		141,276	-57,000	84,276	195,315
FY 31		152,183	-57,000	95,183	290,498
FY 32		153,646	-57,000	96,646	387,144
FY 33		156,821	-57,000	99,821	486,965
FY 34		161,738	-57,000	104,738	591,703
FY 35		155,476	-57,000	98,476	690,179
<u>Totals (\$)</u>		<u>1,288,679</u>	<u>598,500</u>	<u>690,179</u>	

Council Include: Hamilton, BOP regional, Hastings, Porirua Queenstown Lakes, Clutha, Timaru, Waipa, Whakatane

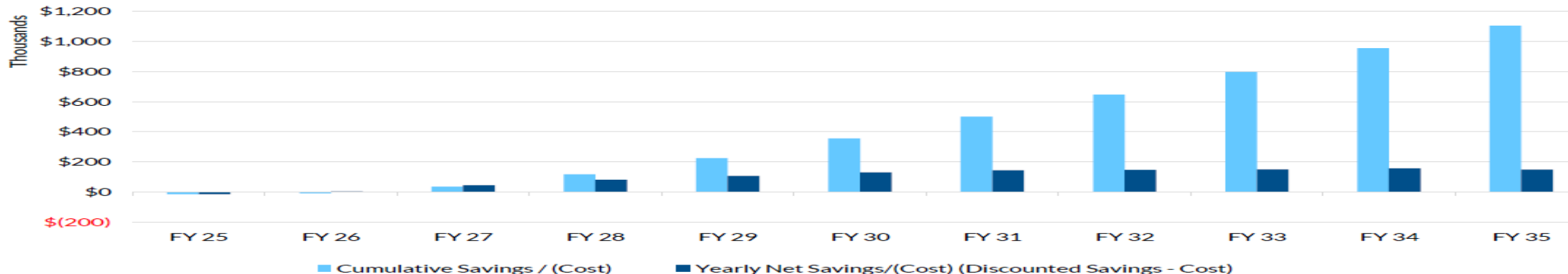
AA- Credit Rating



AA/AA+ Credit Rating

FY End	AA/AA+ Rating	Discounted Savings	Yearly Cost	AA/AA+ Yearly Net Savings/(Cost)	AA/AA+ Cumulative Savings / (Cost)
FY 25		14,843	-28,500	(13,657)	(13,657)
FY 26		61,444	-57,000	4,444	(9,213)
FY 27		102,756	-57,000	45,756	36,543
FY 28		139,162	-57,000	82,162	118,705
FY 29		164,310	-57,000	107,310	226,015
FY 30		186,888	-57,000	129,888	355,903
FY 31		201,503	-57,000	144,503	500,406
FY 32		203,519	-57,000	146,519	646,925
FY 33		207,817	-57,000	150,817	797,742
FY 34		214,436	-57,000	157,436	955,178
FY 35		206,160	-57,000	149,160	1,104,339
<u>Totals (\$)</u>		<u>1,702,839</u>	<u>598,500</u>	<u>1,104,339</u>	

Councils Include: Auckland, Ashburton, Chch City, Dunedin, Invercargill, New Plymouth, PNCC, Taupo, Waimakariri, Selwyn, Whanganui, Western BOP, Whangarei, Waikato Regional



Ratings of Councils

Influenced by both Council actions, Govt Policy and budget pressures

[S&P revises credit rating outlook for Wellington, Dunedin, New Plymouth councils | RNZ News](#)

- Feb 2024 S&P Global Ratings has revised the outlook for 15 councils and two council controlled organisations from "stable" to "negative" and said the overall financial trend is weakening.
- Among those having their outlooks downgraded were the **Greater Wellington Regional Council, and councils in Dunedin, New Plymouth, Whanganui, Upper Hutt , Tasman and Nelson.**
- The outlook revision is not a rating downgrade. Most local councils and their associated commercial organisations are rated AA, which are underpinned by the country's national top tier AA+ rating
- "Rising infrastructure budgets and responsibilities are exerting pressure on the finances of New Zealand's local governments. Revenues and central government grants are not rising enough to cover this additional spending,"
- "This is leading to widening revenue and expenditure mismatches, as seen in large deficits and rising debt compared with similar systems.
- S&P said the outlook for council finances was further dimmed by uncertainty about the future direction of policies on key issues

MDC position with 3 Waters as external entity

Using LTP budget figures (not credit rated) - And no adjustment for retained overheads

Borrowing	Council without 3 Waters									
	LTP	LTP	LTP	LTP	LTP	LTP	LTP	LTP	LTP	LTP
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Loans										
Opening Balance	51,206	50,859	49,168	51,033	50,986	51,887	48,971	48,078	47,272	46,863
Loans Raised new (via internal loans)	4,552	2,305	2,162	4,827	4,927	4,024	4,400	4,761	4,942	4,660
Growth Loans raised (see internal loans workpaper)	0	0	3,791	0	742	0	295	356	847	1,267
Growth Loans Repaid	(1,434)	(208)	0	(486)	0	(1,820)	0	0	0	0
	(3,169)	(3,483)	(3,793)	(4,190)	(4,563)	(4,953)	(5,581)	(5,917)	(3,245)	(6,471)
	(296)	(306)	(295)	(198)	(205)	(167)	(7)	(6)	(2,953)	0
Closing Balance	50,859	49,168	51,033	50,986	51,887	48,971	48,078	47,272	46,863	46,320
Debt Max (@ interest less than 20% total revenue)	268,715	283,286	303,951	324,185	343,294	363,858	378,712	393,742	414,231	425,741
Debt Max (@ interest less than 25% rates)	180,397	193,915	211,768	220,747	238,688	253,028	265,326	277,856	297,841	308,507
Debt Max (financial accomodation less > 110%)	208,216	185,496	204,112	196,731	225,857	253,733	298,003	337,566	428,474	491,687
Debt Max (@ 175% of revenue)	95,179	100,340	107,660	114,826	121,595	128,879	134,140	139,464	146,721	150,798
Debt Max to use	95,179	100,340	107,660	114,826	121,595	128,879	134,140	139,464	146,721	150,798
Debt Cap (max less \$5m)	90,179	95,340	102,660	109,826	116,595	123,879	129,140	134,464	141,721	145,798
Available Debt	39,320	46,172	51,626	58,840	64,708	74,907	81,062	87,192	94,857	99,478

We are yet to determine – what is the impact on the three waters ‘entity’

Advantages to credit ratings

Increases Councils ability to borrow

- But this increases interest and loan repayments (impacts rates)

Reduces the cost of interest

- But takes multiple years to recover the overall cost of the credit rating

Long-term Credit Margin (added to Base Lending Margin)

AAA	AA	AA-	A+	Unrated Guarantor
0 bps	0 bps	5 bps	10 bps	20 bps
	Approx 2yrs	Approx 3yrs	Approx 5yrs	

Initial cost to be rated \$55,000
Annual cost \$57,000

Next steps / considerations

We could get a 'shadow rating' \$15k from Bancorp

We could investigate further:

- What is involved in being rated
- What do they consider going forward
- What actions of Council could impact the rating in the future

- Is this something we should be considering after decision on three waters?
- Three waters decisions will impact council debt and therefore the financial viability of the credit rating (take longer to repay the rating cost)

Credit ratings are revisited ANNUALLY

