

Briefing Paper: Progressing a Credit Rating for FNDC

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Ngā whāinga | Purpose

The purpose of this paper is to update Elected Members on the progress towards obtaining a Credit Rating

Horopaki | Context

At Council 9 February 2023, Council approved Bancorp Treasury Services assessing the outcome of a credit rating prior to Council formally seeking an assessment. Staff are now progressing to the next stage of the process to start the assessment.

The Council resolution from the 9 February meeting is included below:

RECOMMENDATION

That Council approves Bancorp Treasury Services to assess Far North District Council's credit rating using a Fitch Ratings methodology.

Ngā kōrerorero | Discussion

With increase costs due to inflation and a focus on infrastructure investment, Council will be close to the current credit ceiling, and in fact might breach it, if a credit rating is not considered. It is felt prudent to do that now so that the work required to obtain a rating can be organised for 2023-24. The future of 3 waters reform is still in flux, with a potential implementation delay as well as a General Election that could further complicate things. In order to put Council in the best possible place, it is recommended that we commence the work for a rating now, so that we can pivot as needed.

If Council obtains a credit rating then the covenants applied by LGFA change from a ceiling based on 175% of revenue (excluding capital subsidy) to a ceiling based on 280%.

It can take around six months to complete the necessary review dependant on the workload of the agency involved. Council's Treasury Advisors recommend that we use Fitch rather than Standards & Poors.

An initial review of various rating metrics from Fitch has scored FNDC at the following levels:

Those metrics it is believed FNDC scores at the 'AA' level are

- Risk Profile Assessment, which encompasses, Revenue, Expenditure and Liabilities and Liquidity.
- Debt Sustainability primary rating metrics.

The metrics it is believed FNDC scores at the 'A' level are

- Socio-Economic Profiles,
- Debt Sustainability, secondary rating metrics.

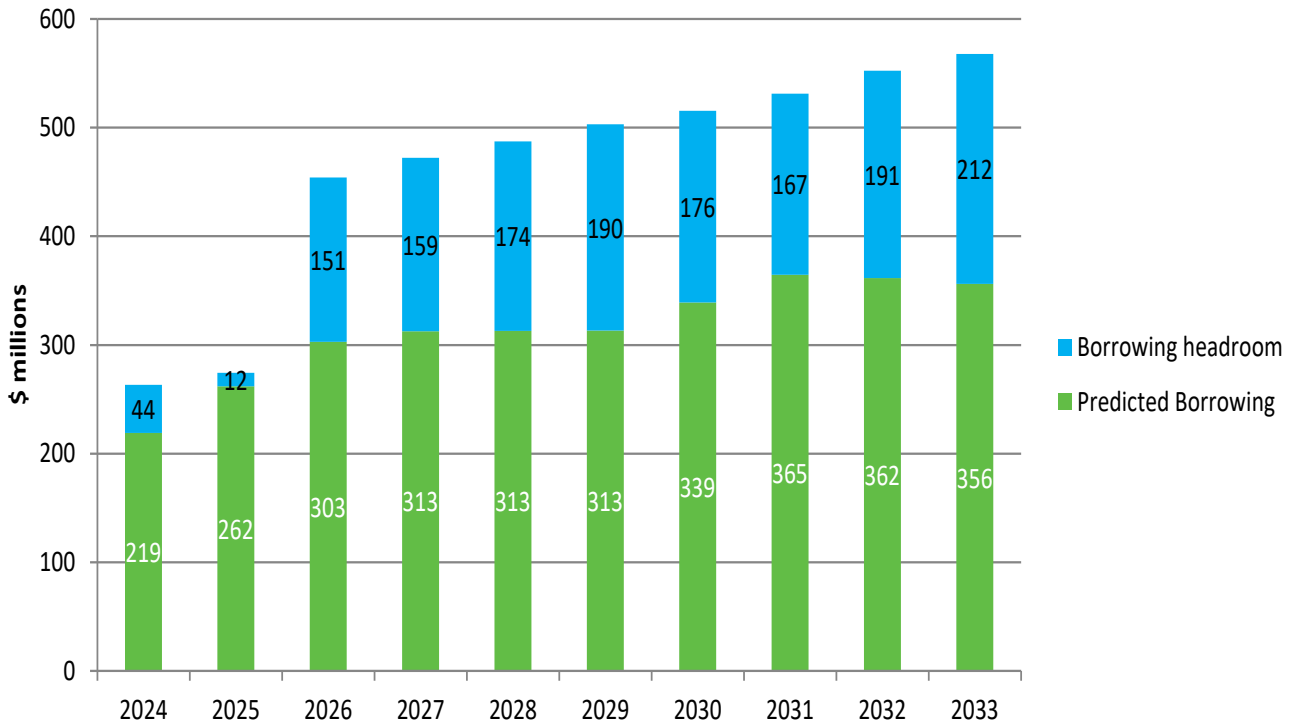
The socio-economic profiles assessment is the most problematic in terms of evaluation, with FNDC scoring poorly in terms of GDP per capita, per capita income and unemployment.

However, it is likely that FNDC would likely achieve a new rating between 'A+' and 'AA-'.

Obtaining a rating provides Council with an increased debt ceiling as well as a reduction in interest costs of between 10 and 15 bases points (\$5k to \$7.5k on \$5m) dependant on the final grade.

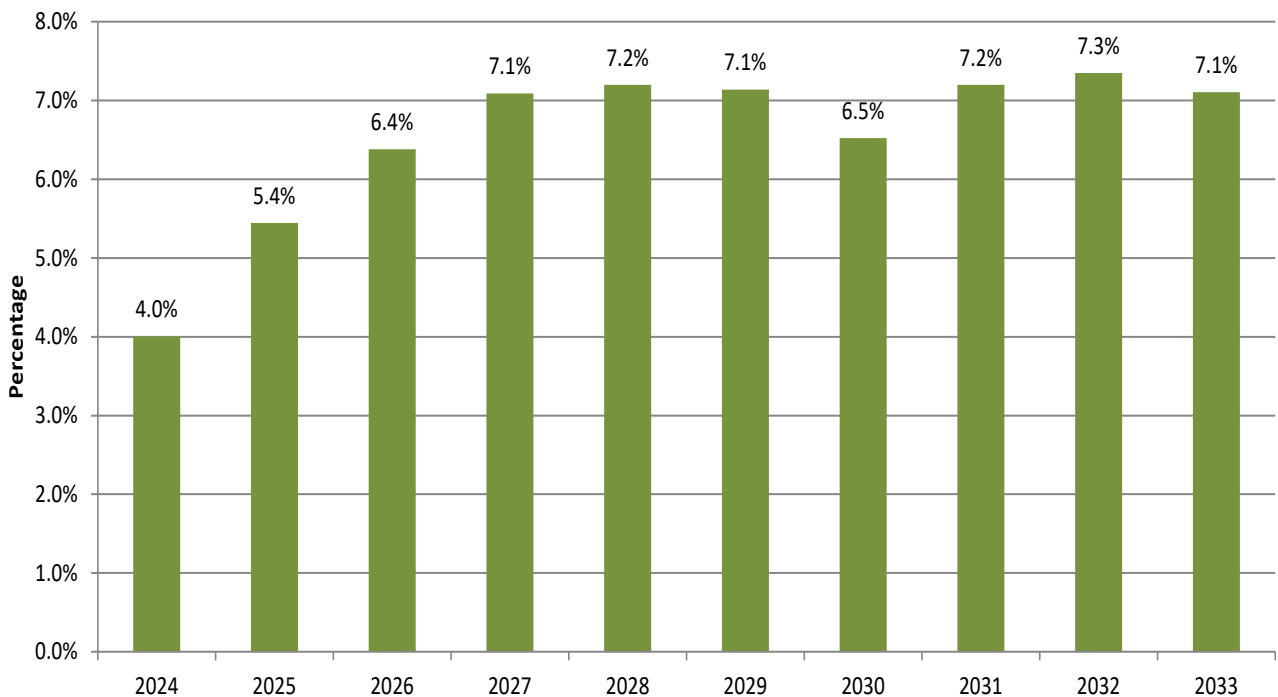
The debt position as included in the November workshop pack planned to obtain a credit rating in 2025/26 and showed the following profile:

Borrowing levels



The debt servicing costs associated with the above debt profile, included in the same pack, were:

Debt servicing



The exact reduction in debt servicing would depend on the value of the borrowing and the terms associated with each tranche.

E whai ake nei | Next Steps

The next step is for Bancorp Treasury Services Ltd to arrange for Fitch to commence the assessment.

This will be started as soon as possible and if workload permits, could be as soon as 6 weeks from now.

Once the assessment has been completed, and a draft rating obtained, a report will be presented back to ARF or Council dependant on the meeting schedules.

Ngā tāpiritanga | Attachments
