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The purpose of this report is to provide information to the Council on the outcome of a recent review of the Council's credit rating by Standard & Poor's.

### **BACKGROUND**

In September 1993 the Council and Christchurch City Holdings Limited obtained a AA credit rating from Standard & Poor's. In accordance with normal practice Standard & Poor's conduct a comprehensive review of Council and CCHL on an 18 month-2 year cycle. The latest review has just been completed.

### **PROCESS OF REVIEW**

In order to conduct this review Standard & Poor's visited the city and were briefed on a range of issues from the local economic environment to the forward expenditure and borrowing plans. They were provided with Council's detailed financial statements and forward projections as per the Annual Plan together with supporting documentation. They also examined financial information from the key trading subsidiaries.

On this occasion because of the extensive capital repatriation proposals and the complex restructuring which has taken place within the Orion group, Standard & Poor's requested that consolidated forward projections incorporating not only Christchurch City Holdings Limited but also the key trading subsidiaries of CCHL be prepared, so that they could examine the overall financial picture for the whole group structure with a particular emphasis on the level of debt within the group as a whole. This request required a significant amount of additional effort as the consolidation of forward projections had not taken place in the past. In fact it was fortunate that the request came at a time when the subsidiaries were reasonably well advanced with the preparations of their budgets for the forthcoming year. The preparation of these forward projections has, however, been a good discipline and is something which will be perpetuated and monitored for the future.

For the information of the Committee I attach one of the key summaries of the consolidated forward projections which indicates the projected consolidated balance sheet and some of the key ratios derived from the balance sheet.

### **RATING CONFIRMED**

On 29 July 1999 Standard & Poor's advised that they were confirming the AA credit rating with a stable outlook. In addition, as in the past, the short-term rating for debt issuance is A-1+.

In their detailed report which will be published by Standard & Poor's later in August they state:

“The ratings on the Christchurch City Council (CCC) reflect its solid ongoing financial position and structural diversity of the city economy, offset by its rapidly expanding net debt burden. The ratings of Christchurch City Holdings Limited (CCHL) are the same as CCC’s reflecting CCHL’s close integration and identification with CCC.”

It is interesting to observe that a number of the credit ratings within New Zealand are currently going on a negative credit watch outlook probably reflecting the underlying uncertainties in the New Zealand economy. While in the initial part of the review Standard & Poor’s expressed some concerns regarding the growth in debt of the Council, once they had obtained the full consolidated projections they were able to confirm a stable outlook.

The same credit ratings awarded to CCC are also applicable to Christchurch City Holdings Limited in view of the structural financial arrangements between the two parties.

#### **OBSERVATIONS**

Standard & Poor’s have recognised that the Council has a heavy capital expenditure commitment and they will clearly be watching carefully to ensure that the Council operates close to its forward projections if it is to maintain its credit rating status.

Because of the heavy capital expenditure commitments mentioned above, Standard & Poor’s have commented on the importance of applying the capital repatriation moneys to debt reduction.

The Council has committed to a regime of funding 55% of capital expenditure from a combination of cash generated from depreciation and operating surpluses. Standard & Poor’s see this as being a minimum level of internal funding. It is clearly essential that this level of internal funding be maintained and if possible increased over the years ahead.

#### **Chairman’s**

**Recommendation:** That the information be received.