

Rating Action: Moody's affirms Auckland Council's ratings at Aa2; outlook stable

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Sydney, April 01, 2019 -- Moody's Investors Service has today affirmed the long-term issuer, senior secured and senior unsecured debt ratings of Auckland Council (the Council) at Aa2 and the stable outlook on the ratings.

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Moody's has also affirmed the Council's Senior Secured MTN programme rating at (P)Aa2 and Other Short-Term (Foreign) rating at P-1.

RATINGS RATIONALE

The issuer rating reflects the Council's baseline credit assessment (BCA) of a1 and a two-notch uplift to reflect Moody's assessment of a high likelihood of extraordinary support by the Government of New Zealand (the Crown, Aaa stable).

The affirmation of the BCA of a1, reflecting the Council's standalone credit profile, acknowledges the Council's flexibility to adjust revenues and spending, and its strong governance practices, as demonstrated by reporting and planning requirements.

The stable outlook reflects the Crown's well-established institutional framework for local governments, as well as the Council's healthy gross operating balance and robust local economy.

The Council's high debt burden — as measured by net debt and indirect debt as a percentage of operating revenue — at 242% for the fiscal year ended 30 June 2018 (FY2018) — limits its ability to deliver its large infrastructure spending program without a material increase in debt.

This situation is partly mitigated by its strong relationship and close alignment with the Crown and work underway to develop alternate funding strategies with the Crown and private sector to 1) build new infrastructure for the growing population, and 2) meet social and economic needs.

Moody's also notes the strong operating cash flow of the Council, which enables roughly 80% of capital spending to be funded from surplus operating cash flow, as evidenced in FY2018, when only 8% of capital spending was funded by new debt.

Factors that Could Lead to an Upgrade

The Council's ratings could come under upward rating pressure if it shows:

- » Sizeable cash surpluses combined with a significant and sustained reduction in the debt burden; and,
- » A larger and more diverse liquidity base.

Factors that Could Lead to a Downgrade

The Council's ratings could come under downgrade pressure if it shows:

- » A lower level of extraordinary support from the Crown to deliver its large infrastructure program, combined with sustained higher debt levels beyond Moody's expectation; and/or
- » A reduction in rate-setting powers, without access to alternative revenue sources.

The principal methodology used in these ratings was Regional and Local Governments published in January

2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Auckland Council was created on November 1, 2010 through the amalgamation of seven smaller councils and the Regional Council of Auckland and completed its first year of operations in 2010/11. Auckland's population is projected by Council to grow from 1.7 million in 2018 to around 1.9-2.1 million in 2028, largely driven by immigration. Auckland is the largest contributor to the national economy, contributing around 37.5% of national GDP. The city is home to over one-third of the national population.

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