

ABERDEEN CITY COUNCIL

COMMITTEE	City Growth & Resources
DATE	27 November 2018
REPORT TITLE	Credit Rating Annual Review
REPORT NUMBER	RES/18/303
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TERMS OF REFERENCE	Purpose 6

1. PURPOSE OF REPORT

- 1.1 To provide an overview of the recent credit rating annual review and report the outcome of the review.

2. RECOMMENDATION(S)

- 2.1 That the Committee note the outcome of the annual review was affirmation of the Aa3 rating with a stable outlook.

3. BACKGROUND

Background

- 3.1 During 2016/17, Aberdeen City Council became the first local authority in Scotland to be awarded a credit rating and subsequently secure funding towards its capital investment programme, by issuing bonds of £370 million on the London Stock Exchange (LSE).
- 3.2 The credit rating must be maintained over the term of the bonds with the credit rating agency conducting a review at least once every twelve months.
- 3.3 At its meeting on 14 December 2016, Council considered a report "Bond Financing Strategy – Implications for the Council" which provided details on the implications of the award of a credit rating by Moody's Investor Services. The report can be viewed using the following link (item 15):
<http://councilcommittees/ieListDocuments.aspx?CId=122&MId=3897&Ver=4>
- 3.4 A credit rating, from a recognised credit rating agency, had to be secured to enable the Council to issue bonds. In determining a credit rating, the agency considered the strength of the institutional framework within which a Scottish local authority operates as well as considering the performance of the economy within which the local authority operates.

- 3.5 In addition, the Council was required to submit detailed financial information to the ratings agency in order to demonstrate its stewardship, including annual accounts; past, present and future budgetary information and analysis including the main income streams; capital programmes and major projects; analysis of past and projected future reserves and balances; treasury management policy and strategy; credit metrics; and 35 year projected income statement, cashflow statement and balance sheet.

Annual Review Process

- 3.6 The first annual review took place in October 2017 and on 20 November 2017, Moody's issued their credit opinion, Aa3 with a stable outlook, no change from that issued in September 2017. This was reported to the Finance, Policy & Resources Committee on 1 December 2017 and can be viewed using the following link (item 14):

<https://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=146&MId=4336&Ver=4>

- 3.7 As advised in last year's report, the Economic Policy Panel (EPP) was established to produce an annual economic report which, as independent validation of economic policy and performance, would provide a robust economic analysis to Moody's from 2018 onwards.
- 3.8 The timing of the 2018 credit rating annual review was therefore dependant on the publication of the EPP's first annual report and as such, with the Panel's report being launched at the State of the Cities Conference on 2 November 2018, the review meeting was set for 6 November 2018.
- 3.9 The meeting focussed on providing information the past, current and future financial position, treasury and debt management, governance and Brexit implications as highlighted by Moody's as their main areas of interest. The EPP's report was shared with Moody's on 2 November and they were given the opportunity to ask questions on this.

Annual Review Outcome

- 3.10 On 22 November 2018, Moody's issued their credit opinion, Aa3 with a stable outlook, no change from that issued in November 2017. The full published credit opinion is included in Appendix 1 and can be summarised as follows:
- 3.10.1 The credit profile reflects a strong institutional framework, a strong track record of operating performance and a wealthy local economy in addition to a high debt burden, which is likely to decline going forward, to finance their capital programme and key project risk from the development of The Event Complex Aberdeen (TECA).
- 3.10.2 The credit profile also reflects a high likelihood that the UK government (Aa2 stable) intervene in the event of acute liquidity stress.

- 3.10.3 The credit opinion highlights those factors which could lead to a future upgrade or downgrade, with these including changes in financial performance, significant changes in the size and/or complexity of debt and changes in the risks associated with ambitious capital projects both in terms of delivery and future revenue streams. In addition, a downgrade in the sovereign rating, a change in the relationship between Scotland and the UK or a dilution of the regulatory or institutional framework for Scottish Local Authorities could exert downward pressure on the rating.

Future Annual Reviews

- 3.11 As previously mentioned, the credit rating must be maintained over the period of the bonds. This means a formal review of this nature will take place annually. We expect each review will have a strong focus on the current and projected financial position of the Council and therefore continued strong financial governance and reporting is imperative to support the maintenance of the current level credit rating.

4. FINANCIAL IMPLICATIONS

- 4.1 Whilst there are no direct financial implications arising from the recommendations of this report, it is important to note that the bond issuance places a financial commitment on the Council until 2054.
- 4.2 In addition, financial stability and strong financial management are key elements to maintaining a credit rating throughout the period of the bonds.

5. LEGAL IMPLICATIONS

- 5.1 There is a specific requirement within the bond documentation that a credit rating be maintained throughout the period of the bonds.
- 5.2 While the Council's bonds are trading on the LSE, the Council is required to comply with the Market Abuse Regulations, the Disclosure and Transparency Rules, the Listing Rules and ongoing obligations as set out in the LSE Admission and Disclosure Standards.
- 5.3 The Bond Governance Project Board has oversight on ensuring all governance requirements in relation to the bond issuance are in place.

6. MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	<p>The Council must endeavour to maintain a suitable credit rating. Should the credit rating fall the liquidity of the bonds in the secondary market will drop. If concerned, bondholders may call a meeting which would analyse the Council's financial position and the Council are obliged to respond honestly to all questions.</p> <p>Further if the credit rating falls such that it is three notches below the UK sovereign rating, the bondholders can request repayment of the bonds.</p> <p>In addition, if the credit rating falls then the Council's ability to obtain other financial products in market place may become more expensive and/or difficult to access. This is due to the perceived risk in investing in a lower credit rated body.</p>	L	<p>These risks are mitigated by having robust governance processes in place which ensures the Council can react and act promptly to address issues arising. The Bond Governance Project Board monitors the key work programmes identified to ensure these risks are mitigated as far as possible.</p>

	Risk	Low (L), Medium (M), High (H)	Mitigation
Legal	Failure to adhere to the relevant legislation, rules and regulations may result in the Financial Conduct Authority (FCA) seeking to investigate the governance arrangements in place to comply with the LSE requirements. This could be on a corporate and/or individual basis and represents both a legal and reputational risk.	L	These risks are mitigated through monitoring of key governance programmes by the Bond Governance Project Board.
Employee	<p>Council employees and councillors have access to an array of information which may be confidential and/or inside information in terms of the relevant legislation, rules and regulations that come with being an LSE listed organisation.</p> <p>It is important that all employees and councillors understand the implications of being a listed organisation and having a credit rating and the specific requirements this puts on them.</p>	L	These risks are mitigated by a programme of training in place through the Bond Governance Project Board.
Customer	None identified		
Environment	None identified		
Technology	None identified		
Reputational	None identified		

7. OUTCOMES

Local Outcome Improvement Plan Themes	
	Impact of Report
Prosperous Economy	The bond issuance has provided a source of financing which allows investment in the city through the projects identified within the Council's capital programmes.
Prosperous People & Place	Investment in the city enhances the lives of its citizens and those of the wider region through the provision of better facilities.

This report does not impact on the design principles of the Target Operating Model.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. BACKGROUND PAPERS

Bond Financing Strategy – Implications for the Council (Council 14/12/16)
Moody's Credit Opinion (22 November 2018)

10. APPENDICES

Appendix 1 – Moody's Credit Opinion (22 November 2018)

11. REPORT AUTHOR CONTACT DETAILS

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