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Ratings

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New Plymouth District Council

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Economic base is wealthy; financial management and institutional settings support creditworthiness.	Increased capital spending on asset renewals will lead to moderate deficits, although liquidity remains exceptional.
--New Plymouth district is wealthy compared with peers, although exposure to oil and gas and dairy industries leads to some volatility.	--Operating surpluses to remain strong, supported by above-average growth in property rates income. After-capital-account deficits to widen as New Plymouth pushes ahead with growing capital expenditure (capex).
--Council's strong management supports our ratings. We anticipate policy continuity despite recent changes to executive leadership and triennial council elections.	--Liquidity remains a key credit strength, buttressed by council's large Perpetual Investment Fund (PIF).
--Institutional framework for local government sector remains excellent.	--Potential impact of "three waters" reforms is uncertain; not yet incorporated in our base case.

Our long-term issuer credit rating on New Plymouth District Council (New Plymouth), a New Zealand local government, is 'AA+'. The rating balances the council's exceptional liquidity, strong financial management, and wealthy economy against its moderate deficits.

Financial metrics are solid compared with most domestic peers. We expect after-capital-account deficits to average a moderate 7.1% between 2021 and 2025 as New Plymouth ramps up spending on infrastructure. With growth in operating revenues, particularly from property rates, the council's gross debt burden will remain relatively flat. New Plymouth has exceptional liquidity, buttressed by its NZ$339 million PIF (balance as of June 30, 2022).

Our base case excludes potential effects of the Crown government's (New Zealand central government) proposed "three waters" reforms. The reform program, as currently envisaged, could take away responsibility for drinking water, wastewater, and stormwater assets from councils and amalgamate delivery under four new regional water service entities from mid-2024. We expect legislation later in 2022 to provide further clarity on the reforms and implementation.

Outlook

The stable rating outlook reflects our expectation that New Plymouth will continue to prudently manage its budgetary performance and debt burden as it spends higher capex. Although debt will rise, the council's relatively large PIF helps to sustain a very high level of liquidity.

Downside scenario

We could lower our ratings on New Plymouth if its after-capital-account deficits are larger or more prolonged than we currently expect, resulting in a persistent rise in the council's debt burden. This scenario could occur, for example, if the council further adds to its infrastructure spending pipeline without concomitant revenue increases, or if the Crown government's three waters reforms adversely affect the council's credit profile.

We would also lower our ratings on New Plymouth if we were to take similar action on New Zealand.

Upside scenario

We could raise our ratings on New Plymouth if we were to do the same for New Zealand and if there were a substantial improvement in New Plymouth's stand-alone credit metrics. A sustained upturn in budgetary performance, leading to a declining debt burden, would be evidence of this. This might occur either through changes to the council's own financial strategy or in conjunction with the Crown government's proposed three waters reforms.

Rationale

The local economic base is wealthy, albeit concentrated; New Plymouth's financial management and institutional settings support its creditworthiness.

The New Zealand economy has recovered strongly from a COVID-19-induced downturn in 2020, although there are rising economic headwinds. We recently revised downward our real GDP growth projection for the country to 2.3% for calendar 2022 (see "Economic Research: Economic Outlook Asia-Pacific Q4 2022: Dealing With Higher Rates," published Sept. 26, 2022).

New Zealand is phasing out its remaining public health restrictions. The country has achieved high vaccination rates, which suggests future lockdowns are unlikely. This is despite a surge in cases of the omicron variant in the first half of 2022. The Reserve Bank of New Zealand began a sharp tightening of monetary policy in the second half of 2021 in response to rising inflation. This should have a manageable impact on local government sector finances because revenues are generally not very sensitive to economic activity.

The Taranaki region, which encompasses the New Plymouth district and neighboring councils, was one of the hardest hit by the COVID-19 pandemic. Regional GDP per capita fell 5.8% to about NZ$70,600 in the year to March 2021, although it remained well above the national average of about NZ$67,000. New Plymouth has a population of about 87,300.

The region's economy is relatively concentrated. The mining, oil and gas, and utility sectors made up a combined 27% of its GDP in 2021. Reliance on primary industries both contributes to the wealth of the district and higher volatility than domestic peers. Nevertheless, rising commodity prices from the end of 2021 through 2022 have supported a strong recovery. The region's unemployment rate fell to 2.4% in March 2022, the lowest in New Zealand.

In April 2018, the Crown government announced a moratorium on new offshore oil and gas exploration without affecting existing permits. While this is unlikely to make a significant economic impact in the short term, there will be longer-term ramifications from lower new business investment.

An elected mayor and 14 elected councilors govern New Plymouth. Day-to-day management falls on a full-time chief executive. The council appointed an interim chief executive, Miriam Taris, in September 2022. This followed the sudden resignation of the previous chief executive two months earlier. The new chief executive brings experience from running two other district councils.

New Plymouth prepares 10-year plans every three years and annual plans in the intervening years. This is in line with statutory requirements. Like most of its domestic peers, the council borrows only in local currency. It mitigates interest-rate risk by hedging. Triennial local elections held in October 2022 returned the incumbent mayor to office for a third term.

The institutional framework within which New Zealand councils operate is a key strength supporting New Plymouth's credit profile. The framework promotes a robust management culture, fiscal discipline, and high levels of disclosure. Due to a shortage of auditors, the Crown has temporarily extended councils' statutory reporting deadlines to six months from year-end, instead of four months.

Increased capital spending on asset renewals will lead to moderate deficits; this is counterbalanced by New Plymouth's exceptional liquidity.

We expect the council to post moderate after-capital-account deficits of 8.7% of revenue on average during the next three fiscal years. New Plymouth is addressing a large backlog of renewals for infrastructure assets that appear to be reaching the end of their operating lives. The council has also brought forward a NZ$43 million wastewater treatment plant upgrade. "Shovel ready" grants from the Crown will largely fund this.

Annual capex could rise to over NZ$100 million by fiscal 2024 (year-end June). This would represent a considerable step-up from the NZ$68 million spent in fiscal 2022 (according to preliminary unaudited financial statements). It is common for New Zealand councils to under-deliver on their capital budgets because of capacity constraints across the country. Our base case assumes a delivery rate of about 85%. We assess New Plymouth on a group basis and consolidate subsidiaries such as New Plymouth Airport (Papa Rererangi i Puketapu Ltd.).

Revenue growth will support strong operating surpluses over our forecast horizon. New Plymouth can readily adjust its largest single source of revenue, property rates. The council plans to raise rates by 7%-9% each year over our forecast horizon. This follows a 12% increase in fiscal 2022. In our view, New Plymouth has a high degree of fiscal flexibility compared with its domestic and international peers. Unlike international peers, councils in New Zealand typically receive little by way of intergovernmental transfers (see "Local And Regional Governments Outlook 2022: Life Without Central Government Crutches," published July 13, 2022). Most health and social welfare responsibilities fall on the Crown government rather than on local authorities. Rates income also tends to be relatively immune to economic cycles, as demonstrated through the COVID-19 downturn.

New Plymouth's gross debt ratio should be roughly flat at about 125% of operating revenue by the end of fiscal 2025. This debt burden is at the lower end of the range for domestic peers. (Overall, New Zealand's council sector is more highly leveraged than international peers; see "Institutional Framework Assessment: New Zealand Local Governments," published April 28, 2022.) Interest expenses should average about 4.1% of operating revenue over fiscals 2022-2024. This is despite rising interest rates. New Plymouth had negligible contingent liabilities as of June 30, 2021.

New Plymouth's PIF buttresses its exceptional liquidity. The PIF had a balance of NZ$339 million as of June 30, 2022. The council has outsourced management of its PIF to Mercer (NZ) Ltd. An independent "board of guardians" monitors the PIF. Assets are diversified across listed equities, fixed income, alternative assets, private equity, and cash.

PIF targets a total return on its portfolio over the medium term of 3.3% per annum plus inflation. This allows it to pay an annual "release" to the council, equivalent to about NZ$10 million last year. We treat these releases as operating revenue because they are effectively used to subsidize rates. At this stage, we do not anticipate rating implications from the proposed New Plymouth District Council (Perpetual Investment Fund) Bill. The draft legislation purports to ensure that PIF will be used only for the benefit of local residents (ostensibly to guard against the possibility of future local body amalgamations) while still giving the council flexibility to draw on the fund's capital base, if necessary.

New Plymouth's total free cash position--after applying our standard haircuts to noncash assets, and after budget needs--should be sufficient to cover about 394% of debt service during the next 12 months. Imminent debt-servicing needs comprise NZ$15 million in term debt maturing in April 2023, NZ$29 million in short-dated commercial paper, and about NZ$7 million in annual interest payments.

The New Zealand Local Government Funding Agency (LGFA) provides New Plymouth, and most of its domestic peers, with strong access to a well-established source of external liquidity. In our view, LGFA benefits from an "extremely high" likelihood of extraordinary central government support (see "New Zealand Local Government Funding Agency Ltd.," published March 2, 2022). It has helped councils to both lengthen their maturity profiles and reduce borrowing costs.

Our base case excludes the potential effects of New Zealand's proposed three waters reforms. Preliminary modeling by the Department of Internal Affairs suggests the reforms could result in lower debt-to-revenue ratios for many councils. Legislation could be introduced in parliament in the coming months, which would provide further clarity on implementation (see "Credit FAQ: Lifting The Lid On New Zealand's "Three Waters" Reforms," published Oct. 12, 2022).

New Plymouth District Council Selected Indicators

Mil. NZ$	2021	2022e	2023bc	2024bc	2025bc
Operating revenue	157	162	185	192	210
Operating expenditure	137	140	142	152	157
Operating balance	20	22	42	40	54
Operating balance (% of operating revenue)	12.6	13.8	23.0	20.7	25.5
Capital revenue	40	21	28	37	29
Capital expenditure	52	68	85	107	97
Balance after capital accounts	8	(24)	(14)	(31)	(14)
Balance after capital accounts (% of total revenue)	4.1	(13.2)	(6.8)	(13.4)	(6.0)
Debt repaid	15	11	15	35	21
Gross borrowings	45	35	29	66	35
Balance after borrowings	38	0	0	0	0
Tax-supported debt (outstanding at year-end)	204	204	218	249	263
Tax-supported debt (% of consolidated operating revenue)	130.3	125.3	118.1	129.6	125.1
Interest (% of operating revenue)	4.0	3.8	4.0	4.5	4.4
National GDP per capita (NZ$)	67,000	70,196	75,468	78,785	82,214

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are financial statements and budgets provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. e--Estimate. NZ$--New Zealand dollar.

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	2
Financial management	2
Budgetary performance	2
Liquidity	1
Debt burden	4
Stand-alone credit profile	aa+
Issuer credit rating	AA+

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "**Methodology For Rating Local And Regional Governments Outside Of The U.S.**," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

Sovereign Risk Indicators, Oct. 11, 2022. Interactive version available at http://www.spratings.com/sri.

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Governments | International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign, Dec. 15, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit FAQ: Lifting The Lid On New Zealand's "Three Waters" Reforms, Oct. 12, 2022
- Default, Transition, and Recovery: 2021 Annual International Public Finance Default And Rating Transition Study, Oct. 4, 2022
- Economic Research: Economic Outlook Asia-Pacific Q4 2022: Dealing With Higher Rates, Sept. 25, 2022
- Comparative Statistics: Local And Regional Government Risk Indicators: Asia-Pacific LRGs' Post-Pandemic Appetite For Capital Spending Is Strong, Sept. 22, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- Local And Regional Governments Outlook 2022: Life Without Central Government Crutches, July 13, 2022
- Global Ratings List: International Public Finance Entities 2022, June 3, 2022
- Institutional Framework Assessment: New Zealand Local Governments, April 28, 2022
- Local Government Debt 2022: Rising Risks Keep Global Borrowing High, April 12, 2022
- New Zealand Local Government Funding Agency Ltd., March 2, 2022
- 25 Ratings In 25 Years: New Zealand Councils Prove Their Staying Power, Feb. 1, 2022
- Ratings History List: Asia-Pacific Local And Regional Government Ratings Since 1975, May 29, 2020

Ratings Detail (as of October 17, 2022)*

New Plymouth District Council		
Issuer Credit Rating		AA+/Stable/A-1+
Commercial Paper		
Local Currency		A-1+
Issuer Credit Ratings History		
22-Feb-2021	*Foreign Currency*	AA+/Stable/A-1+
31-Jan-2019		AA/Positive/A-1+
29-Sep-2011		AA/Stable/A-1+
22-Feb-2021	*Local Currency*	AA+/Stable/A-1+
31-Jan-2019		AA/Positive/A-1+
29-Sep-2011		AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.