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, despite inflationary pressures.
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. After-capital-account deficits will widen as New Plymouth pushes ahead with growing capital expenditure (capex).
The council's strong management supports our ratings, and New Zealand's institutional framework settings for the local government sector remain excellent.	Liquidity remains a key credit strength, buttressed by the council's large Perpetual Investment Fund (PIF).

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 and rising debt levels,

New Plymouth will raise additional revenues to support its growing infrastructure needs. Large increases in property rates and additional capital grants from the New Zealand central (Crown) government will partially support budgetary outcomes.

Our base case excludes potential effects of the Crown government's proposed "affordable water" reforms. The reform program, as currently envisaged, could take away responsibility for drinking water, wastewater, and stormwater assets from councils and amalgamate delivery under new regional water service entities. We do not expect the reforms to materially affect New Plymouth's creditworthiness.

Outlook

The stable rating outlook reflects our expectation that New Plymouth will continue to prudently manage its budgetary performance and debt burden amid higher spending on 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 affordable water reforms adversely affect the council's credit profile.

We would also lower our ratings on New Plymouth if we were to downgrade New Zealand.

Upside scenario

We could raise our ratings on New Plymouth if we were to upgrade 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 indicate this. This might occur either through changes to the council's own financial strategy or in conjunction with the Crown government's proposed affordable water 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 is facing strong headwinds from persistent inflation and slowing global growth going into 2023. We recently revised downward our real GDP growth projection for the country to 0.8% for calendar 2023, following 2.2% growth in calendar 2022 (see "Economic Research: Economic Outlook Asia-Pacific Q2 2023: China Rebound Supports Growth", published March 26, 2023).

The Reserve Bank of New Zealand began a sharp tightening of monetary policy in the second half of 2021 in response to rising inflation, delivering eleven consecutive rate rises to bring the official cash rate to 5.25% in March 2023. This should have a manageable impact on local government sector finances because revenues are generally not very sensitive to economic activity, and interest costs on borrowings are partially hedged against movements in rates.

New Plymouth is one of the wealthiest districts across New Zealand in terms of GDP per capita due to its large oil and gas sector. Real GDP across the district rose by 4.6% in the year ended March 31, 2022 (according to Infometrics, a New Zealand economic consultancy firm), though growth lagged the New Zealand average for most of the last decade. New Plymouth has a population of about 87,700.

The region's economy is relatively concentrated, with primary industries making up 22% of total output over 2022. This reliance contributes to the wealth of the district, but also results in higher volatility compared with most domestic peers.

An elected mayor and 14 elected councilors govern New Plymouth, with Mayor Mr. Neil Holdom re-elected for a third three-year term in October 2022. Day-to-day management falls on a full-time chief executive. The council appointed a new permanent chief executive, Mr. Gareth Green, to start in March 2023, after he served as chief executive of Taupo District Council since 2016.

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 and mitigates interest-rate risk by hedging.

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. 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.)

Increased pipeline of capital spending will result in moderate deficits; this is counterbalanced by New Plymouth's exceptional liquidity.

We expect the council to post moderate after-capital-account deficits of 11% of revenue on average during the next three fiscal years. New Plymouth is addressing a large backlog of renewals for infrastructure assets nearing the end of their operating lives. The council's draft 2024 annual plan sets out NZ$24 million of spending on a wastewater treatment plant upgrade and NZ$7 million on a coastal walkway to Waitara, a project costed at NZ$39 million over multiple years. These projects are largely funded by grants from the Crown.

Annual capex could rise to over NZ$120 million by fiscal 2024 (ending June 30, 2024), a considerable step-up from the NZ$60 million spent in fiscal 2022. It is common for New Zealand councils to under-deliver on their capital budgets because of optimistic planning, and capacity constraints across the country. Our base case assumes a delivery rate of 85%-90%. We assess New Plymouth on a group basis and consolidate subsidiaries such as New Plymouth Airport (Papa Rererangi i Puketapu Ltd.), whose recent expansion was funded by the council.

Revenue growth will support strong operating surpluses over our forecast horizon. New Plymouth can readily adjust property rates--its largest single source of revenue. The council plans to raise rates by a sizable 12.5% in 2024 in response to persistent inflationary pressures and rising costs of delivering services. 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. 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. Further, New Plymouth's PIF provides it with an additional source of income. The PIF's value exceeded 180% of the council's operating revenues in 2022.

New Plymouth's gross debt ratio should rise slightly to 131% of operating revenue by the end of fiscal 2025. This debt burden is high in a global context, despite being at the lower end of the range for domestic peers. We estimate interest expenses will average about 4.2% of operating revenue over fiscals 2022-2024, although we expect this to rise modestly over the next few years. New Plymouth had negligible contingent liabilities as of June 30, 2022.

New Plymouth's PIF buttresses its exceptional liquidity. The PIF had a balance of NZ$343 million as of Jan. 31, 2023. 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, which the council expects to be NZ$11.5 million in 2024. 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 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 250% of debt service during the next 12 months. Imminent debt-servicing needs are NZ$5 million in term debt maturing in August 2023, NZ$30 million in term debt maturing in April 2024, NZ$29 million in short-dated commercial paper, and about NZ$7 million in annual interest payments. In addition, New Plymouth has access to undrawn committed standby facilities totaling NZ$15 million

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**", published March 1, 2023). 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 affordable water reforms. Preliminary modeling by the Department of Internal Affairs suggests the reforms could result in lower debt-to-revenue ratios for many councils. The Crown has announced that it will amend relevant legislation and continue to progress Bills before parliament in the coming months, which would provide further clarity on implementation (see "**Pipedream or Panacea: New Zealand's "Three Waters" Reforms Pt.1**", published Feb. 27, 2023, and "**Pipedream or Panacea: New Zealand's "Three Waters" Reforms Pt2**", published Feb. 27, 2023).

New Plymouth District Council Selected Indicators

Mil. NZ$	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	151	157	164	181	204	216
Operating expenditure	130	137	144	148	160	166
Operating balance	21	20	20	33	44	50
Operating balance (% of operating revenue)	13.7	12.6	12.1	18.2	21.4	23.3
Capital revenue	30	40	23	28	61	31
Capital expenditure	65	62	61	91	129	106
Balance after capital accounts	(15)	(2)	(18)	(30)	(25)	(24)
Balance after capital accounts (% of total revenue)	(8.2)	(0.9)	(9.6)	(14.4)	(9.6)	(9.9)
Debt repaid	22	15	11	15	35	21
Gross borrowings	53	45	11	45	60	45
Balance after borrowings	16	28	(18)	0	0	0
Direct debt (outstanding at year-end)	174	204	204	234	259	283
Direct debt (% of operating revenue)	115.0	130.3	124.4	128.9	127.1	131.0
Tax-supported debt (outstanding at year-end)	174	204	213	234	259	283
Tax-supported debt (% of consolidated operating revenue)	115.0	130.3	129.6	128.9	127.1	131.0
Interest (% of operating revenue)	3.8	4.0	3.8	3.8	5.0	5.4
Local GDP per capita ($)	50,197.7	--	--	--	--	--
National GDP per capita ($)	N/A	42,727.9	49,281.3	51,795.4	47,603.0	N.M.

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 the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.M.--Not meaningful. NZ$--New Zealand dollar. $--U.S. dollar.

Ratings Score Snapshot

Key ratings 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

- Economic Outlook Asia-Pacific Q2 2023: China Rebound Supports Growth, March 26, 2023
- New Zealand Local Government Funding Agency, March 1, 2023
- Pipedream Or Panacea: New Zealand's "Three Waters" Reforms Pt.1, Feb. 27, 2023
- Pipedream Or Panacea: New Zealand's "Three Waters" Reforms Pt.2, Feb. 27, 2023
- Local And Regional Governments Outlook 2023: Rougher Seas Ahead, Nov. 29, 2022
- 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

- Comparative Statistics: Local And Regional Government Risk Indicators: Asia-Pacific LRGs' Post-Pandemic Appetite For Capital Spending Is Strong, Sept. 22, 2022
- Global Ratings List: International Public Finance Entities 2022, June 3, 2022
- Institutional Framework Assessment: New Zealand Local Governments, April 28, 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 April 27, 2023)*

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.