New Plymouth District Council

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This report does not constitute a rating action.

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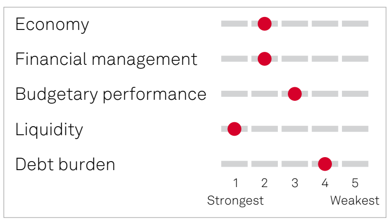
Ratings Score Snapshot

Institutional framework

- Extremely predictable and supportive
- **Very predictable and well-balanced**
- Evolving but balanced
- Evolving but unbalanced
- Volatile and unbalanced
- Very volatile and underfunded

Individual credit profile



Issuer credit rating

AA/Stable/A-1+

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Sound and diversified economy, though hampered by a slightly weaker demographic profile than peers.	Large after capital account deficits to narrow as council receives capital funding for a thermal dryer project and boosts cash operating margins with historically large rates increases.
Solid financial management.	Debt burden to stabilize as council increases operating revenues.
New Zealand's institutional framework settings are strong, albeit weaker than in the past.	Liquidity will remain a key credit strength, buttressed by the council's large Perpetual Investment Fund.

Our long-term issuer credit rating on New Plymouth District Council, a New Zealand local government, is 'AA'. The rating balances the council's exceptional liquidity, strong financial management, and wealthy economy against its large deficits and rising debt levels. We have updated our analysis through to fiscal 2027 following the release of the council's 2024 annual report and draft 2026 annual plan.

New Plymouth will likely strengthen its cash operating margins from fiscal 2025 (ending June 30). A larger increase in rates and user charges than in the past outlined in its 2026 annual plan, in tandem with easing inflationary pressures and cost savings from an organizational restructure will support this.

We expect wider operating margins to help reduce New Plymouth's large after capital account deficits. The council will also receive sizable capital grants related to the thermal dryer project in fiscal 2025. We expect after capital account deficits to reduce to about 12% of total revenues across fiscals 2025-2027.

Debt is rising to midrange levels for domestic peers, but remains elevated on a global scale. The principal driver of the rise is higher infrastructure spending. Nevertheless, revenue increases should keep pace with new debt accumulation and help to stabilize the debt burden. We project total tax-supported debt at 165% of operating revenue by fiscal 2027, similar to the level in fiscal 2024.

Under our base-case assumptions, New Plymouth will continue to deliver all water-related services. In December 2024, the New Zealand central government (the Crown) passed the second of two planned pieces of legislation to implement its "Local Water Done Well" reforms. The reforms give councils the option to shift drinking water, wastewater, and stormwater assets into new water utilities, which may be owned by one or more councils or consumer trusts. The reforms could change the composition of New Plymouth's revenues, expenses, and debt, depending on their final form.

Outlook

The stable outlook reflects our expectation that New Plymouth will prudently manage its budgetary performance and debt burden as it increases its capital expenditure (capex). Although debt will rise, the council's large investment fund helps sustain a very high level of liquidity.

Downside scenario

We could lower our ratings on New Plymouth if deficits after capital accounts rise. This could occur if the council doesn't implement large property rate increases it has proposed or planned operational savings, or if its capex exceeds our expectations.

Upside scenario

We could raise our ratings on New Plymouth if we see a sustained upturn in its budgetary performance, leading to a declining debt burden.

Rationale

New Zealand's institutional settings have weakened; a resilient local economy and solid financial management support the ratings

The institutional framework in which New Zealand councils operate is a key credit strength supporting New Plymouth's creditworthiness despite having weakened this year. We believe the sector's revenue and expenditure imbalance has widened and the predictability of its policy settings, while high on a global scale, has weakened compared with in the past. In our view, this framework is strong compared with those of global peers, ranking the second-highest assessment on our six-point scale (see "New Zealand Local Governments Face Rising Fiscal Imbalances And Less Certain Policy Settings," published March 17, 2025).

New Plymouth has one of the wealthier economies across New Zealand, due in part to the district's large oil and gas sector. According to economics consultancy Infometrics, the district had a GDP per capita of about NZ$87,500 as of March 2024. New Plymouth's demographic profile is slightly weaker than the New Zealand average, with 19.6% of its population aged 65 and above, compared with 16.6% nationally. Mean household income was about NZ$117,000 as of March 2024, about NZ$15,000 lower than the national average. The district had a population of about 90,000 people as of June 2024.

We consider New Plymouth's fiscal processes to be credible and well established. The council prepares long-term plans every three years, annual plans in the intervening years, and audited end-of-year annual reports, in line with New Zealand requirements. It has internal policies that set prudent limits on external borrowing, liquidity, and interest-rate risk. New Plymouth borrows only in the local currency, in accordance with legislation. The council is currently consulting with the public on its draft 2025-2026 annual plan.

Like all New Zealand councils, New Plymouth is governed by an elected group of councilors. Day-to-day management is delegated to a full-time chief executive. The council completed a comprehensive organizational restructure, which resulted in the disestablishment of three tier-two executive roles and about 20 tier-three management positions. The overall headcount at the council reduced by about 10% following the restructure. Reductions in headcount and consolidation of business units account for most of the council's NZ$10 million annual operational savings.

New Plymouth's prudent management of the Perpetual Investment Fund (PIF) supports our strong financial management assessment. Assets are diversified across listed equities, fixed income, alternative assets, private equity, and cash. The council has outsourced management to Mercer (N.Z.) Ltd., and an independent "board of guardians" monitors the PIF. The New Plymouth District Council (Perpetual Investment Fund) Act 2023 was passed in the New Zealand Parliament in July 2023. The Act aims to ringfence the benefits from the PIF to current New Plymouth residents. The bill also outlines general principles for sustainable management of the fund.

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

New Plymouth's cash operating margins are healthy, but weaker than we previously forecast. In 2024, operating margins were about 10% of operating revenues--nearly half our previous forecasts. This was due to a combination of lower ancillary revenues against a weaker economic backdrop nationally, additional maintenance works from weather events, and delays in realizing operational savings from the organizational restructure.

We expect cash operating margins to return to historic very strong levels from fiscal 2025. We forecast operating surpluses will average about 24% of operating revenue across fiscals 2025-2027. Our assessment is based on large rates increases, including a 9.9% increase in fiscal 2026, and lower operating expenditure following the organizational restructure.

New Plymouth's PIF also bolsters its operating revenues. The fund had a balance of NZ$399 million as of January 2025, which would be enough in itself to finance about two years of the council's operating expenses. PIF targets a total return on its portfolio over the medium term of 3.3% a year plus inflation. This allows it to pay an annual "release" to the council to subsidize the latter's budgets. The cash release will be about NZ$12.2 million in fiscal 2026, in our estimation.

We forecast New Plymouth's after capital deficits will narrow to about 12% of total revenues over the next three fiscal years. This is because we expect cash operating margins to improve, capex growth to moderate, and the council to recoup significant capital funding for the thermal dryer project in fiscal 2025.

We project annual capex to reach NZ$130 million by fiscal 2027, compared with NZ$86 million spent in fiscal 2023. Our forecasts incorporate a 10%-15% haircut compared with the council's estimates, reflecting historical underspending compared with the budget. We assess New Plymouth on a group basis and consolidate Papa Rererangi i Puketapu Ltd. (PRIP; New Plymouth Airport).

New Plymouth's 2024-2034 long-term plan outlines a large budget for upgrades to the district's water network, including the construction of a new thermal dryer for wastewater treatment and the last stages of a water meter rollout for residents. The thermal dryer project was originally budgeted for NZ$45 million in 2021 with NZ$38 million funded from the Crown.

Rescoping of the project design and rising construction costs mean the project will now cost about NZ$75 million in total, with the shortfall to be covered by the council. The council will recoup significant capital funding for the project in fiscal 2025, which will support budgetary outcomes.

We believe New Plymouth has strong flexibility to adjust its budget compared with global peers. The council's largest source of revenue is rates, which can be readily adjusted and are relatively immune to economic downturns. Furthermore, the PIF provides the council with an additional source of income and contingency funding in the case of a major natural disaster or other crisis.

The council's gross debt ratio should remain steady, reaching 165% of operating revenues by fiscal 2027. This debt burden is high in a global context, despite being at the mid-range of domestic peers. Our measure of total tax-supported debt includes NZ$33 million borrowed by the council and on-lent to PRIP. We estimate interest expenses will average about 5.8% of operating revenue over fiscals 2024-2026. New Plymouth had negligible contingent liabilities as of June 30, 2024.

New Plymouth's PIF underpins its exceptional liquidity coverage. The council's total free cash position--after applying our standard haircuts to noncash assets, and after budget needs--should be sufficient to cover about 220% of debt service during the next 12 months. Upcoming debt-servicing needs include NZ$21 million in term debt maturing in April 2025, which has been prefunded, NZ$29 million in short-dated commercial paper, and about NZ$13 million in annual interest payments. In addition, New Plymouth has access to undrawn committed standby facilities totaling NZ$20 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 Ltd. Ratings Affirmed; Outlook Stable," published March 17, 2025). The agency has helped councils to both lengthen their maturity profiles and reduce borrowing costs.

New Plymouth District Council Selected Indicators

Mil. NZ$	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenue	159	181	191	229	248	260
Operating expenditure	147	164	172	177	191	195

New Plymouth District Council Selected Indicators						
Operating balance	12	16	20	53	58	66
Operating balance (% of operating revenue)	7.7	9.1	10.3	22.9	23.2	25.2
Capital revenue	23	23	26	41	27	35
Capital expenditure	61	87	115	126	120	130
Balance after capital accounts	(25)	(48)	(70)	(33)	(36)	(30)
Balance after capital accounts (% of total revenue)	(14.0)	(23.5)	(32.3)	(12.1)	(13.0)	(10.0)
Debt repaid	11	40	16	22	62	66
Gross borrowings	11	100	81	54	97	95
Balance after borrowings	(26)	12	(5)	(1)	(1)	(1)
Tax-supported debt (outstanding at year-end)	204	264	332	364	400	430
Tax-supported debt (% of consolidated operating revenue)	128.0	146.3	173.5	158.8	161.1	165.0
Interest (% of operating revenue)	3.9	4.9	6.2	5.7	5.7	5.9
National GDP per capita ($)	N/A	52,637.2	48,760.1	48,911.2	49,069.1	50,856.3

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. NZ$--New Zealand dollar. $--U.S. dollar.

Rating Component Scores

Key rating factors	Scores
Institutional framework	2
Economy	2
Financial management	2
Budgetary performance	3
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. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- New Zealand Local Government Funding Agency Ltd. Ratings Affirmed; Outlook Stable, March 17, 2025
- Various Rating Actions Taken On New Zealand Councils On Lower Institutional Framework Assessment, March 18, 2025
- New Zealand Local Governments Face Rising Fiscal Imbalances And Less Certain Policy Settings, March 17, 2025
- A Closer Look At Our Downgrades Of 18 New Zealand Councils, March 18, 2025
- Subnational Government Outlook 2025: Developed Markets' Regional Differences Intensify, Jan. 16, 2025
- Economic Outlook Asia-Pacific Q1 2025: U.S. Trade Shift Blurs The Horizon, Nov. 24, 2024
- 2023 Annual International Public Finance Default And Rating Transition Study, Aug. 20, 2024
- Global Ratings List: International Public Finance Entities July 2024, July 30, 2024
- Global LRGs Rating History List, June 18, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings Detail (as of April 13, 2025)*	
New Plymouth District Council	
Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Issuer Credit Ratings History	
18-Mar-2025	AA/Stable/A-1+
18-Feb-2024	AA+/Negative/A-1+
22-Feb-2021	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.