

New Plymouth District Council

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New Plymouth District Council

This report does not constitute a rating action.

Key Rating Factors

Issuer Credit Rating
AA+/Stable/A-1+

Credit context and assumptions	Base-case expectations
<ul style="list-style-type: none">• New Zealand is rebounding from a COVID-19-induced recession in 2020 and occasional domestic outbreaks of the coronavirus remain contained.• The New Plymouth district is wealthy compared with peers, though exposure to the oil and gas and dairy industries leads to some volatility.• New Zealand's excellent institutional settings and New Plymouth's strong management support our rating on the council.	<ul style="list-style-type: none">• After-capital-account deficits will widen as New Plymouth ramps up its infrastructure investment, but the accompanying rise in debt will be manageable.• Operating surpluses will remain very strong, supported by above-average growth in property rates income.• Liquidity remains a key credit strength and is buttressed by the council's large Perpetual Investment Fund.

Outlook

The stable outlook reflects our expectation that New Plymouth District Council will continue to prudently manage its budgetary performance and debt burden as it delivers higher capital expenditure. Although debt will rise, the council's relatively large Perpetual Investment Fund (PIF) helps it 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. 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 standalone credit metrics. The latter could be evidenced by a sustained upturn in budgetary performance, leading to a declining debt burden.

Rationale

We expect New Plymouth to post moderate after-capital-account deficits during the next few years. The council will significantly ramp up its infrastructure investment, though this will be partly offset by above-average increases in property rates, which are the largest source of revenue. We have updated and extended our forecasts through fiscal year 2024 (i.e., the year ending June 30, 2024) following the release of the council's triennial 10-year long-term plan in June 2021.

New Plymouth's liquidity, which is buttressed by its NZ\$346 million PIF, remains excellent. In addition, our ratings on New Plymouth are supported by its wealthy but volatile economy and the country's excellent institutional settings.

Our base case excludes the potential effect of the Crown government's proposed "three waters" reforms. The reform program, as currently envisaged, could see responsibility for drinking water, wastewater, and stormwater assets taken away from councils and amalgamated into four new regional water service entities from mid-2024. The reforms are still in the consultation phase.

Economy recovering strongly from COVID-19 downturn; financial management and institutional settings support creditworthiness

The New Plymouth district, like most of New Zealand, has emerged from a brief lockdown in August 2021. Since mid-2020, New Zealand has been relatively successful in suppressing the coronavirus across most parts of the country, allowing its economy to reopen sooner than many other advanced nations. We recently revised up our GDP growth projections for New Zealand to 5.4% for calendar-2021 (see "Economic Outlook Asia-Pacific Q4 2021: Growth Slows On COVID-19 And Rising China Uncertainty," published Sept. 27, 2021).

The district has relatively large oil and gas and dairy sectors, resulting in a local economy that is wealthy but volatile. In April 2018, the Crown government announced a moratorium on new offshore oil and gas exploration, though existing permits are unaffected. While we do not believe this will have a significant impact in the short term, there will be longer-term ramifications from lower new business investment. New Plymouth has a population of about 86,100 and its GDP per capita was about US\$50,200 in fiscal 2020, substantially higher than the New Zealand average of US\$42,000. However, median household income is slightly below the national average.

New Plymouth is governed by an elected mayor and 14 elected councilors, who together delegate day-to-day management to a full-time chief executive. The council prepares 10-year long-term plans every three years and annual plans in the intervening years, in line with statutory requirements. Like most of its peers, New Plymouth borrows only in local currency, and mitigates its interest-rate risk exposure through hedging. The next local elections are scheduled for October 2022.

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.

Increase in capital spending on renewals will lead to moderate deficits; liquidity remains exceptional

We expect New Plymouth to post moderate after-capital-account deficits, averaging about 8% of total revenues, during the next three years as it rolls out a program of infrastructure improvements. The council is addressing a large backlog

of renewals for assets that it assesses have reached the end of their operating lives. Annual capital expenditure will rise to over NZ\$100 million by fiscal 2024, a considerable step-up from the NZ\$60 million delivered in fiscal 2021, according to preliminary, unaudited financial statements. It is common for New Zealand councils to underdeliver on their capital budgets because of capacity constraints across the country, and our base-case forecasts assume an execution rate of about 85%.

Residential rates will be hiked by a higher-than-usual 12% this fiscal year and 7% in the subsequent two years, underpinning strong operating surpluses. New Plymouth will also receive a NZ\$37 million capital grant from the Crown government to fund the replacement of a thermal dryer at its wastewater treatment plant. We assess New Plymouth on a group basis and consolidate subsidiaries such as New Plymouth Airport (Papa Rererangi i Puketapu Ltd.).

New Plymouth has a high degree of fiscal flexibility compared with its domestic and international peers. The council's largest single source of revenue is property rates, which can be readily adjusted and are relatively stable through economic cycles, as was demonstrated through last year's recession. Unlike international peers, New Zealand councils typically receive little by way of intergovernmental transfers. In New Zealand, most health and social welfare responsibilities fall on the Crown government rather than on local councils.

To finance its capital program, we expect New Plymouth's debt burden to gradually rise to about 132% of operating revenues by the end of fiscal 2024, up from 115% at the end of fiscal 2020. We also expect interest expenses to remain low, averaging about 4.0% of operating revenues. The council had negligible contingent liabilities as of June 30, 2021.

New Plymouth's liquidity remains exceptional. Buttressing its internal liquidity is the council's PIF, which has a balance of NZ\$346 million as of June 30, 2021. The council has outsourced management of PIF to Mercer (NZ) Ltd. An independent "board of guardians" monitors PIF, and its assets are diversified across listed equities, fixed income, alternative assets, private equity, and cash. PIF aims to pay an annual "release" to the council of 3.3% of assets under management, equivalent to about NZ\$9 million last year. We treat these releases as operating revenues because they are effectively used to subsidize rates.

After applying our standard haircuts to noncash assets, we estimate that New Plymouth's total free cash position--excluding NZ\$24 million of undrawn standby facilities with commercial banks Westpac New Zealand Ltd. and TSB Bank Ltd.--is sufficient to cover over 560% of debt service during the next 12 months. We expect debt-servicing needs to comprise NZ\$11 million in term debt maturing in April 2022, NZ\$19 million in short-dated commercial paper, and about NZ\$7 million in interest payments.

The New Zealand Local Government Funding Agency (LGFA) provides New Plymouth, alongside 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, and it has helped councils to both lengthen their maturity profiles and reduce borrowing costs.

Key Statistics

Table 1

Key Statistics					
--Year ended June 30--					
(mil. NZ\$)	2020	2021e	2022bc	2023bc	2024bc
Selected indicators					
Operating revenues	151	160	165	182	191
Operating expenditures	130	137	138	141	145
Operating balance	21	23	27	41	46
Operating balance (% of operating revenues)	13.6	14.5	16.2	22.4	24.0
Capital revenues	30	40	33	28	37
Capital expenditures	65	60	70	86	104
Balance after capital accounts	(15)	3	(10)	(17)	(22)
Balance after capital accounts (% of total revenues)	(8.2)	1.4	(5.0)	(8.3)	(9.5)
Debt repaid	22	15	11	15	35
Gross borrowings	53	45	21	32	57
Balance after borrowings	16	33	0	0	(0)
Tax-supported debt (outstanding at year-end)	174	204	213	231	252
Tax-supported debt (% of consolidated operating revenues)	115.0	127.1	129.6	127.1	132.5
Interest (% of operating revenues)	3.8	3.9	4.0	4.0	4.3
National GDP per capita (single units)	62,596	65,858	68,430	71,353	74,383

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/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

Ratings Score Snapshot	
Key rating factors	
Institutional framework	1
Economy	2
Financial management	2
Budgetary performance	2
Liquidity	1
Debt burden	4
Standalone credit profile	aa+
Issuer credit rating	AA+

Note: 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, July 13, 2021. An interactive version is 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 Q4 2021: Growth Slows On COVID-19 And Rising China Uncertainty, Sept. 27, 2021
- Default, Transition, and Recovery: 2020 Annual International Public Finance Default And Rating Transition Study, Sept. 15, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 8, 2021
- Comparative Statistics: Asia-Pacific Local And Regional Government Risk Indicators, Sept. 1, 2021
- Non-U.S. Local Governments: To What Extent Did Sovereign Support Offset The Pandemic Downturn? July 19, 2021
- Local And Regional Governments Midyear Outlook 2021: Sovereign Support And Market Access Anchor Credit Quality, July 15, 2021
- Global Ratings List: International Public Finance Entities 2021, July 1, 2021
- New Zealand Councils' Infrastructure Spending Could Erode Rating Headroom, April 12, 2021
- Local Government Debt 2021: Infrastructure Needs Will Boost Borrowing In Developed Markets, March 25, 2021
- Local Government Debt 2021: Global Borrowing To Hit \$2.25 Trillion, March 25, 2021
- Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments, Oct. 28, 2020
- Ratings History List: Asia-Pacific Local And Regional Government Ratings Since 1975, May 29, 2020

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Ratings Detail (As Of October 4, 2021)*

New Plymouth District Council

Issuer Credit Rating	AA+/Stable/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1+

Issuer Credit Ratings History

22-Feb-2021	<i>Foreign Currency</i>	AA+/Stable/A-1+
31-Jan-2019		AA/Positive/A-1+
29-Sep-2011		AA/Stable/A-1+
22-Feb-2021	<i>Local Currency</i>	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.

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