

Research Update:

Ratings On New Plymouth District Council Affirmed At AA+/Stable/A-1+

Primary Credit Analyst:

Kyran Curry, Melbourne (61) 3-9631-2082;kyran_curry@standardandpoors.com

Secondary Credit Analyst:

Anna Hughes, Melbourne (61) 3- 9631-2010;anna_hughes@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Research Update:

Ratings On New Plymouth District Council Affirmed At AA+/Stable/A-1+

Overview

- Our annual review of New Plymouth District Council shows a low debt position, limited capital-expenditure pressure, and sound liquidity levels.
- A comparatively narrow economic structure is a minor weakness.
- We are affirming the issuer credit ratings on the council.

Rating Action

On March 18, 2010, Standard & Poor's Ratings Services affirmed its 'AA+/A-1+' issuer credit rating on New Zealand's New Plymouth District Council. The outlook on the council is stable.

Rationale

The ratings on New Plymouth District Council (New Plymouth) reflect the council's low debt position, sound liquidity levels, limited capital-expenditure requirements, and limited ownership of council-controlled trading enterprises that offset the Taranaki regional economy's relatively narrow structure.

The council's balance sheet remains strong compared to its peers'. New Plymouth's cash and liquid assets exceed its debt levels, reflecting the key role the council's Perpetual Investment Fund (PIF) plays in bolstering its liquidity and fiscal flexibility. As forecast gross debt levels rise and the PIF reallocates its portfolio increasingly to alternative assets from cash and liquid assets, the council is expected to move from being a net creditor to a modest net-debt position. Its debt levels, after allowing for liquid assets, are expected to remain the lowest of the New Zealand councils over the medium term.

The council has limited capital-expenditure requirements. This stems from its low level of new and replacement infrastructure needs. New Plymouth's population expansion is sound by New Zealand standards, and does not create the growth pressures encountered by other peer councils, such as the merged Auckland and Tauranga City councils. Importantly, rather than facing new infrastructure or maintenance backlogs, the council's water and sewerage infrastructure spending priorities focus on raising water-quality standards and on building capacity in advance of future system demand.

Diversity within the Taranaki regional economy has increased with the emergence of the oil and gas, tourism, and service sectors. The regional

economy nonetheless remains strongly dependant on milk and milk-products production. In spite of the relative narrowness of its economy, the Taranaki region has outperformed the national average in the past year.

New Plymouth's liquidity position is strong. At June 30, 2009, liquid assets of about NZ\$49.6 million and NZ\$45 million in undrawn committed bank facilities more than offset short-term debt obligations of NZ\$58.8 million.

Outlook

The stable outlook on New Plymouth reflects our expectation that the council will maintain its prudent approach to managing its finances. This includes maintaining expenditure control and adequate liquidity management in a weak economic and overall operating environment.

The ratings may be downgraded if the council's resources were used to support the PIF or there were a sustained run down of the PIF's capital base to bridge the council's operating revenue shortfalls. New Plymouth's credit quality would also be weakened if net-debt levels deteriorate as a result of heavier PIF investment alternative assets, or if diminished independence and management capability led to weaker PIF performance. There is no upside to the ratings while the foreign currency ratings on the New Zealand sovereign are 'AA+', reflecting our view that there is a high correlation in economic and financial performance between the New Zealand sovereign and New Plymouth. Furthermore, we believe that New Plymouth does not have sufficient operational and financial flexibility to deal with potential stresses better than the sovereign, and its credit characteristics are likely to deteriorate together with those of the sovereign in severe macroeconomic or geopolitical stress scenarios.

Related Criteria And Research

- Methodology: Assessing Financial Management In Non-U.S. Local And Regional Governments, Mar. 2, 2010
- Methodology: Rating A Regional Or Local Government Higher Than Its Sovereign, Sept. 9, 2009
- Methodology And Assumptions: Rating International Local And Regional Governments, Jan. 5, 2009

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Standard & Poor's (Australia) Pty. Ltd. holds Australian financial services licence number 337565 under the Corporations Act 2001. Standard & Poor's credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

Copyright (c) 2010 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.