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Research Update:

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

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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.