Ref: [redacted]

Civic House, 110 Trafalgar Street
PO Box 645, Nelson 7040, New Zealand

P (03) 546 0200

E LGOIMA@ncc.govt.nz
nelson.govt.nz

14 March 2024

[redacted]

Dear [redacted]

OFFICIAL INFORMATION REQUEST FOR INFORMATION ON THE S&P CREDIT RATING REPORT FOR NCC

I refer to your official information request dated 21 February 2024 regarding:

"Can I please have a copy of the latest S&P credit rating report for NCC" and

"…I should probably elaborate on my request. What I am seeking is confirmation that S&P has revised Council's AA/A-1+ from a "stable" outlook to a "negative" outlook, and I'm looking for any correspondence from S&P that relates to that, be it a formal ratings report or advice…".

The information you requested is enclosed:

- RatingsDirect_VariousRatingActionsTakenOnNewZealandLocalCouncilsOnWeakeningInstitutionalFrameworkTrend_57402862_Feb-19-2024
- RatingsDirect_InstitutionalFrameworkAssessmentNewZealandCouncilsExtremelyPredictableAndSupportiveInstitutionalSettingsAreAtRisk_
- RatingsDirect_NewZealandsPolicyShiftToWeakenTheInstitutionalSettingOnLocalCouncils_57402952_Feb-19-2024

You have the right to seek an investigation and review by the Ombudsman of this response. Information about how to make a complaint is available at www.ombudsman.parliament.nz or Freephone 0800 802 602.

Yours sincerely

Nikki Harrison
Group Manager Corporate Services

Internal Document ID: [redacted]

S&P Global Ratings

RatingsDirect®

Various Rating Actions Taken On New Zealand Local Councils On Weakening Institutional Framework Trend

February 18, 2024

- Rising infrastructure budgets and responsibilities are increasingly weighing on the finances of New Zealand's local government sector. Further, policy uncertainty is elevated for the sector.
- We have revised the trend of our institutional framework assessment for New Zealand local councils to weakening from stable. The institutional framework remains at the highest possible assessment of extremely predictable and supportive.
- As a result, we have revised our outlooks on 15 councils and two council-controlled organizations to negative from stable. At the same time, we affirmed the ratings and stable outlooks on four councils and one council-controlled organization.
- The outlooks on a further six councils remain negative.

MELBOURNE (S&P Global Ratings) Feb. 19, 2024--S&P Global Ratings today revised its rating outlooks on 15 New Zealand local councils and two council-controlled organizations to negative from stable. At the same time, we affirmed our ratings on four councils and one council-controlled organization with stable outlooks.

The rating actions follow our revision of the trend of New Zealand local council sector's institutional framework to weakening from stable. The institutional framework assessment remains extremely predictable and supportive.

Rising infrastructure budgets and responsibilities are increasingly weighing on the finances of New Zealand local governments. Council revenues and central government grants are not rising enough to adequately cover this additional spending. This is leading to widening revenue and expenditure mismatches, with large cash deficits and rising debt levels compared with similar subnational government systems in other countries.

The New Zealand local council sector's debt levels have continued to rise since the start of the pandemic as councils grapple with greater infrastructure needs; persistent inflation in operating and capital budgets; rising environmental, water, and building standards; and sometimes political resistance to large rate hikes. Further, policy uncertainty is elevated given the weakening of financial outcomes and a shift in political support for key reforms (particularly related to water services and infrastructure) that were partly designed to alleviate financial pressures on the sector.

If the trend continues, it could undermine the strong credit quality of the sector.

PRIMARY CREDIT ANALYSTS

Anthony Walker
Melbourne
+ 61 3 9631 2019
anthony.walker@spglobal.com

Martin J Foo
Melbourne
+ 61 3 9631 2016
martin.foo@spglobal.com

Rebecca Hrvatin
Melbourne
+ 61 3 9631 2123
rebecca.hrvatin@spglobal.com

Deriek Pijls
Melbourne
+61 396312066
deriek.pijls@spglobal.com

Julian X Nikakis
Sydney
(61) 2-9255-9818
julian.nikakis@spglobal.com

SECONDARY CONTACT

Frank Dunne
Melbourne
+61 396312041
frank.dunne@spglobal.com

See complete contact list at end of article.

Our negative outlooks on the remaining six rated councils already reflect downside pressure on the ratings. For more information see "Credit FAQ: New Zealand's Policy Shift To Weaken The Institutional Setting On Local Councils," published Feb. 19, 2024.

Ratings And Outlooks On Entities Affected By The Revision Of Our Institutional Framework Trend

Entity	Issuer credit rating	Outlook (of Feb. 19, 2024)	Previous Outlook
Auckland Council	AA	Stable	Stable
Christchurch City Council	AA	Stable	Stable
Christchurch City Holdings Ltd.	AA	Stable	Stable
Dunedin City Council	AA	Negative	Stable
Dunedin City Treasury Ltd.	AA	Negative	Stable
Greater Wellington Regional Council	AA+	Negative	Stable
Hastings District Council	AA-	Negative	Stable
Horowhenua District Council	AA-	Negative	Stable
Nelson City Council	AA	Negative	Stable
New Plymouth District Council	AA+	Negative	Stable
Palmerston North City Council	AA	Negative	Stable
Porirua City Council	AA	Negative	Stable
South Taranaki District Council	AA	Negative	Stable
Tasman District Council	AA	Negative	Stable
Taupo District Council	AA+	Negative	Stable
Tauranga City Council	A+	Stable	Stable
Upper Hutt City Council	A+	Negative	Stable
Waimakariri District Council	AA	Negative	Stable
Western Bay of Plenty District Council	AA	Negative	Stable
Whanganui District Council	AA	Negative	Stable
Whangarei District Council	AA	Stable	Stable
WRC Holdings Ltd.	AA+	Negative	Stable

Auckland Council (AA/Stable/A-1+)

The stable outlook reflects our expectation that Auckland will successfully manage the city's growth pressures and large capital expenditure requirements while maintaining debt at a level consistent with the 'AA' rating.

Downside scenario

Downward rating pressure may arise if we consider Auckland's financial management to be weakening. This could occur if management allows the council's budgetary performance to deteriorate, driving debt higher than our forecasts.

Upside scenario

While unlikely, upward rating pressure may arise if Auckland's debt burden were to structurally improve while the council maintained exceptional liquidity.

Christchurch City Council (AA/Stable/A-1+)

The stable outlook reflects our expectation that Christchurch will post small after capital account deficits and keep its debt ratio relatively steady while delivering its capital expenditure program.

Downside scenario

We could lower our ratings on Christchurch if its after capital account deficits widen structurally. This could occur if the council increases its capital expenditure program or if revenue growth underperforms our expectations. This could be an indication that the council has less budgetary flexibility than peers. Wider deficits could also weigh on liquidity coverage.

Upside scenario

We could raise our ratings on Christchurch if we are confident the council's management team has stabilized and can deliver stronger financial outcomes than our base-case forecasts. This could be demonstrated by after capital account deficits narrowing below 5% structurally, or if the council exhibits stronger budgetary flexibility.

Christchurch City Holdings Ltd. (CCHL; AA/Stable/A-1+)

The stable outlook on CCHL reflects that on our rating on Christchurch City Council (CCC), as well as our expectation that CCHL's role will remain critical and its link integral to the council over the next two years.

Downside scenario

We would lower our rating on CCHL over the next two years if we took the same rating action on CCC. We could also downgrade CCHL if we consider its role or link with the council to be weakening, although this is highly unlikely.

Upside scenario

We would raise our rating on CCHL over the next two years if we take the same rating action on CCC, provided we believe CCHL's role and its link to the council remain the same.

Dunedin City Council (AA/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Dunedin if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on Dunedin if its operating margins or after capital account deficits underperform our forecasts. This scenario could drive its total tax-supported debt to more than 240% of operating revenues, interest expenses above 10% of operating revenues, or its debt-service-coverage ratio to fall below 80%.

Upside scenario

We could revise our rating outlook on Dunedin to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook on Dunedin to stable if its after capital account deficits substantially tightened, resulting in a declining debt burden or stronger liquidity coverage. This could occur due to changes to the council's financial strategy which may signal stronger financial management.

Dunedin City Treasury Ltd. (DCTL; AA/Negative/A-1+)

The negative rating outlook on DCTL reflects that on the ratings of Dunedin City Council as well as our expectation that DCTL's role will remain critical and its link integral to the council over the next two years.

Downside scenario

We would lower our ratings if we were to downgrade Dunedin City Council, or if we believed DCTL's role or link to the council was weakening.

Upside scenario

We could revise the outlook to stable if we were to take the same action on Dunedin City Council and we believed DCTL's role and link to the council remain the same.

Greater Wellington Regional Council (AA+/Negative/A-1+)

The negative rating outlook reflects downward pressure on the institutional settings for New Zealand's local government sector. It also reflects our view that Greater Wellington's budgetary metrics may underperform our expectations over the next two years.

Downside scenario

We could lower our ratings on Greater Wellington if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on Greater Wellington if we see a further weakening in the council's budgetary metrics. This could occur if the council backed away from planned increases in rates revenue, or increased its expenditures more than we forecast. This may also lead us to reassess our view of the council's financial management.

Upside scenario

We could revise our rating outlook on Greater Wellington to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook on Greater Wellington to stable if the council's budgetary outcomes significantly improve. Higher operating margins and smaller after-capital account deficits could indicate this.

WRC Holdings Ltd. (WRCH; AA+/Negative/A-1+)

The negative outlook on WRCH reflects that on Greater Wellington, as well as our expectation that WRCH's role will remain critical and its link integral to the council over the next two years.

Downside scenario

We would lower our ratings if we downgrade Greater Wellington, or if we believe WRCH's role or link to the council is weakening.

Upside scenario

We could revise the rating outlook to stable if we take the same action on Greater Wellington, and we believe WRCH's role and link to the council remain the same.

Hastings District Council (AA-/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Hastings if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on Hastings if we believe the deficits are likely to structurally exceed 25% of total revenues. This could occur if Hastings adds to, or accelerates, its capital spending beyond our expectations. Downward pressure could also occur if Hastings' liquidity coverage weakens on an ongoing basis.

Upside scenario

We could revise our rating outlook on Hastings to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our rating outlook on Hastings to stable if new funding arrangements with the New Zealand central (Crown) government leave a minimal burden on the council's financial metrics. Such funding arrangements could result in deficits, debt levels, and liquidity coverage substantially outperforming our forecasts.

Horowhenua District Council (AA-/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Horowhenua if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings if the council's capital expenditure rose more steeply than we expect, further widening after-capital account deficits. This could push total tax-supported debt to more than 240% of operating revenue or interest expenses to more than 10% of operating revenue. It may also weaken liquidity coverage.

Upside scenario

We could revise our rating outlook on Horowhenua to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook to stable if Horowhenua reduces its after-capital account deficits. For that, debt would need to be lower than that of most 'AA' category rated peers, given Horowhenua's weaker economic profile.

Nelson City Council (AA/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Nelson if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on Nelson if operating margins narrow across our forecasts because of lower rate increases than we expect. This could weaken our view of the council's budgetary performance, debt, or liquidity.

Upside scenario

We could revise our rating outlook on Nelson to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook on Nelson if the council's budgetary performance improves, driving its debt lower than we currently forecast. Such developments might enhance our view of the council's financial management.

New Plymouth District Council (AA+/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on New Plymouth if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on New Plymouth if the council's after capital account deficits are larger or more prolonged than we currently expect, resulting in a persistent rise in the debt burden. This scenario could occur, for example, if New Plymouth further adds to its infrastructure spending pipeline without concomitant revenue increases.

Upside scenario

We could revise our rating outlook on New Plymouth to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook to stable if New Plymouth's stand-alone credit metrics improve substantially. A sustained upturn in budgetary performance, leading to a declining debt burden, could indicate this.

Palmerston North City Council (AA/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Palmerston North if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as evidenced by large sector wide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on Palmerston North if the council's after-capital account deficits are larger or more prolonged than we expect, leading to much higher debt levels or weaker internal liquidity. This could eventuate if, for example, Palmerston North allows a large uptick in infrastructure spending without a concomitant increase in revenues. Such a scenario could also cause us to reassess our view of the council's strong financial management.

Upside scenario

We could revise our rating outlook on Palmerston North to stable if the New Zealand local government sector's overall commitment to strong finances improves.

Porirua City Council (AA/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Porirua if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on Porirua if rising interest costs and widening after-capital account deficits result in debt levels rising above our forecasts. If this were to occur, it could undermine the council's liquidity coverage.

Upside scenario

We could revise our rating outlook on Porirua to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook Porirua to stable if the council's financial position strengthens, with small deficits and a declining debt burden.

South Taranaki District Council (AA/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on South Taranaki if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on South Taranaki if the council's after-capital account deficits are larger or more prolonged than we expect. This might occur, for instance, if South Taranaki substantially increases its capital works program without offsetting revenue growth. This may, in turn, drive a much sharper rise in debt and interest expenses than we forecast. Such developments could also cause us to negatively re-evaluate our view of the council's financial management.

Upside scenario

We could revise our rating outlook on South Taranaki to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook to stable if the council's financial management or budgetary metrics improve, as indicated by a structurally stronger after capital account balance and declining debt burden.

Tasman District Council (AA/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Tasman if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on Tasman if the council maintains larger and more prolonged after-capital account deficits than we expect, markedly increasing debt levels. We may also lower our ratings if the council's liquidity coverage deteriorates.

Upside scenario

We could revise our rating outlook on Tasman to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook on Tasman if the council significantly reduces its after capital account deficits, leading to a declining debt burden while liquidity coverage remains strong.

Taupo District Council (AA+/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Taupo if the New Zealand local government sector's overall commitment to strong finances continues to improve, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on Taupo if the council's financial management weakens. This could occur if the council keeps capital spending elevated without offsetting increases in revenues, driving the budget into persistently large after-capital account deficits. This could, in turn, push debt and interest expenses higher.

Upside scenario

We could revise our rating outlook on Taupo to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook to stable if Taupo's own creditworthiness substantially improves, with sustained surpluses that result in debt falling considerably below our current forecasts.

Tauranga City Council (A+/Stable/A-1)

The stable outlook on Tauranga incorporates our expectation that the council will follow through with planned rate increases, and that the budgetary performance will remain weak, given considerable capital expenditure requirements.

Downside scenario

We could lower our ratings on Tauranga if the council's capital expenditure is more than we forecast, or if revenue growth, such as rates or capital grants, fails to meet our expectations. This could weaken Tauranga's liquidity position or result in after-capital account deficits averaging more than 25% of total revenues.

Upside scenario

We could upgrade Tauranga if, after council elections, the council delivers financial outcomes that are broadly in line with our forecasts. This could improve our view of Tauranga's financial management.

Alternatively, we could raise our ratings if the council's budgetary performance was structurally stronger, resulting in a lower ratio of debt to operating revenue.

Upper Hutt City Council (A+/Negative/A-1)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Upper Hutt if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on Upper Hutt if the council's financial management weakens. Liquidity coverage declining on a structural basis or a deteriorating operating balance could indicate such deterioration.

Upside scenario

We could revise our rating outlook on Upper Hutt to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise the outlook to stable if Upper Hutt's budgetary performance is materially better than we presently expect. This could ease downward pressure on the council's liquidity metrics and lower its debt trajectory.

Waimakariri District Council (AA/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Waimakariri if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our ratings on Waimakariri if the council's after capital account deficits are larger or more prolonged than we expect, resulting in a persistent rise in the debt burden. This scenario could occur, for example, if Waimakariri further adds to its infrastructure spending pipeline without concomitant revenue increases.

Upside scenario

We could revise our rating outlook on Waimakariri to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook on Waimakariri to stable if our assessment of Waimakariri's stand-alone credit metrics improves substantially. A sustained upturn in budgetary performance, leading to a declining debt burden, would indicate such an improvement.

Western Bay of Plenty District Council (AA/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Western Bay if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

Downward pressure on the ratings could also emerge if Western Bay's liquidity coverage deteriorates structurally to less than 120% of upcoming debt service.

Alternatively, we could lower the ratings if Western Bay's fiscal metrics weaken because the council displays less ability to raise revenue or reduce expenditure than we believe it can.

Upside scenario

We could revise our rating outlook on Western Bay to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook if the council's budgetary performance is significantly better than our forecasts, reducing debt and interest expenses relative to operating revenue. This could cause us to reassess our view of the council's financial management.

Whanganui District Council (AA/Negative/A-1+)

The negative outlook primarily reflects downward pressure on the institutional settings for New Zealand's local government sector.

Downside scenario

We could lower our ratings on Whanganui if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sectorwide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure, or changes in central government policy that undermine the financial outcomes of the sector.

We could also lower our rating on Whanganui if management deviates from its current financial strategy, resulting in larger and persistent after-capital account deficits. This could weaken liquidity coverage.

Upside scenario

We could revise our rating outlook on Whanganui to stable if the New Zealand local government sector's overall commitment to strong finances improves.

We could also revise our outlook to stable on Whanganui if the council achieves consistently strong financial outcomes that lower its debt trajectory and interest costs.

Whangarei District Council (AA/Stable/A-1+)

The stable outlook reflects our view that Whangarei's strong financial management will help the council maintain moderate after-capital account deficits and ensure liquidity coverage remains above 120% of debt service, especially while capital spending remains elevated.

Downside scenario

We could lower our ratings on Whangarei if we believe financial management was weakening. This could occur if the council backed away from planned rate increases that result in after-capital account deficits widening beyond our expectation, and liquidity coverage falling below 120% structurally.

Upside scenario

We could raise our ratings on Whangarei if the council's after-capital account deficits were materially less, and its economic profile improved.

WEBINAR

S&P Global Ratings will host a webinar and Q&A at 3:00pm Auckland time on Thursday, Feb. 22, 2023, to discuss today's ratings actions and our view on the New Zealand local council's institutional settings. Details on the webcast will shortly be available on the following weblink: https://event.on24.com/wcc/r/4495226/95000F9833F9E6422C1732ED1F158FDE?partnerref=MR

New Zealand Councils -- Ratings Score Snapshot

Entity	Institutional framework	Economy	Financial management	Budgetary performance	Liquidity	Debt Burden	Stand-alone credit profile	Issuer credit rating	Outlook
Auckland Council	1	1	1	3	1	5	aa	AA	Stable

New Zealand Councils -- Ratings Score Snapshot (cont.)

Entity	Institutional framework	Economy	Financial management	Budgetary performance	Liquidity	Debt Burden	Stand-alone credit profile	Issuer credit rating	Outlook
Bay Of Plenty Regional Council	1	3	1	4	1	5	aa	AA	Negative
Christchurch City Council	1	1	3	3	2	4	aa	AA	Stable
Dunedin City Council	1	2	2	4	2	4	aa	AA	Stable
Greater Wellington Regional Council	1	1	1	4	1	4	aa+	AA+	Negative
Hamilton City Council	1	1	2	4	2	5	aa-	AA-	Negative
Hastings District Council	1	2	2	4	2	5	aa-	AA-	Negative
Horowhenua District Council	1	3	2	4	1	4	aa-	AA-	Negative
Hutt City Council	1	2	2	3	2	4	aa	AA	Negative
Kapiti Coast District Council	1	2	2	3	2	5	aa	AA	Negative
Marlborough District Council	1	2	1	4	3	4	aa	AA	Negative
Nelson City Council	1	2	2	4	1	4	aa	AA	Negative
New Plymouth District Council	1	2	2	2	1	4	aa+	AA+	Negative
Palmerston North City Council	1	2	2	3	2	4	aa	AA	Negative
Porirua City Council	1	2	2	3	1	4	aa	AA	Negative
South Taranaki District Council	1	3	2	3	1	4	aa	AA	Negative
Tasman District Council	1	3	2	2	1	5	aa	AA	Negative

New Zealand Councils -- Ratings Score Snapshot (cont.)

Entity	Institutional framework	Economy	Financial management	Budgetary performance	Liquidity	Debt Burden	Stand-alone credit profile	Issuer credit rating	Outlook
Taupo District Council	1	2	1	2	1	4	aa+	AA+	Negative
Tauranga City Council	1	2	3	4	2	5	a+	A+	Stable
Upper Hutt City Council	1	2	2	4	2	5	a+	A+	Negative
Waimakariri District Council	1	2	2	3	2	4	aa	AA	Negative
Wellington City Council	1	1	1	3	1	4	aa+	AA+	Negative
Western Bay of Plenty District Council	1	3	2	3	1	4	aa	AA	Negative
Whanganui District Council	1	3	2	2	1	4	aa	AA	Negative
Whangarei District Council	1	3	1	3	1	4	aa	AA	Stable

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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- New Zealand Councils' Extremely Predictable and Supportive Institutional Settings Are At Risk, Feb. 19, 2024
- Credit FAQ: New Zealand's Policy Shift To Weaken The Institutional Setting On Local Councils, Feb. 19, 2024
- Waimakariri District Council, Jan. 23, 2024

- Research Update: Dunedin City Council 'AA/A-1+' Ratings Affirmed; Outlook Stable, Dec. 15, 2023
- Research Update: Dunedin City Treasury Ltd. 'AA/A-1+' Ratings Affirmed; Outlook Stable, Dec. 15, 2023
- Research Update: Christchurch City Council 'AA/A-1+' Ratings Affirmed, Outlook Stable, Dec. 8, 2023
- Research Update: Christchurch City Holdings Ltd. 'AA/A-1+' Ratings Affirmed; Outlook Stable, Dec. 8, 2023
- Nelson City Council 'AA/A-1+' Ratings Affirmed; Outlook Stable, Nov. 20, 2023
- New Zealand Local Government Outlook 2024: Bridge Over Troubled Waters, Nov. 19, 2023
- Upper Hutt City Council, Nov. 13, 2023
- Tasman District Council, Nov. 6, 2023
- Tauranga City Council, Oct. 23, 2023
- Auckland Council, Oct. 5, 2023
- Western Bay Of Plenty District Council 'AA/A-1+' Ratings Affirmed; Outlook Stable, Sept. 28, 2023
- Whangarei District Council Rating Lowered To 'AA' On Weakening Budgetary Metrics; Outlook Stable, Aug. 18, 2023
- Porirua City Council, Aug. 8, 2023
- Hastings District Council Rating Lowered To 'AA-', Following Financial Hit From Cyclone Gabrielle; Outlook Stable, July 21, 2023
- Taupo District Council, July 6, 2023
- Whanganui District Council 'AA/A-1+' Ratings Affirmed; Outlook Stable, June 15, 2023
- Horowhenua District Council 'AA-/A-1+' Ratings Affirmed; Outlook Stable, June 1, 2023
- South Taranaki District Council, May 30, 2023
- Palmerston North City Council, May 4, 2023
- New Plymouth District Council, May 2, 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
- Credit FAQ: Lifting The Lid On New Zealand's "Three Waters" Reforms, Oct. 12, 2022

Ratings List

***************** Auckland Council *****************

Ratings Affirmed	
Auckland Council	
ssuer Credit Rating	AA/Stable/A-1+

Auckland Council		
Senior Secured	AA	
Commercial Paper	A-1+	
*** * * * * * * * * * * * Christchurch City Council * * * * * * * * * * * ***		
Ratings Affirmed		
Christchurch City Council		
Christchurch City Holdings Ltd.		
ssuer Credit Rating	AA/Stable/A-1+	
Christchurch City Holdings Ltd.		
Senior Unsecured	AA	
Commercial Paper	A-1+	
*** * * * * * * * * * * * * * Dunedin City Council * * * * * * * * * * * * ***		
Ratings Affirmed		
Dunedin City Treasury Ltd.		
Senior Secured	AA	
Senior Unsecured	AA	
Commercial Paper	A-1+	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Dunedin City Council		
Dunedin City Treasury Ltd.		
ssuer Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+
*** * * * * * * * * * Greater Wellington Regional Council * * * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Greater Wellington Regional Council		
ssuer Credit Rating	AA+/Negative/A-1+	AA+/Stable/A-1+
WRC Holdings Ltd.		
ssuer Credit Rating		
Local Currency	AA+/Negative/A-1+	AA+/Stable/A-1+
*** * * * * * * * * * * * Hastings District Council * * * * * * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Hastings District Council		
ssuer Credit Rating	AA-/Negative/A-1+	AA-/Stable/A-1+

*** * * * * * * * * * * * Horowhenua District Council * * * * * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Horowhenua District Council		
ssuer Credit Rating	AA-/Negative/A-1+	AA-/Stable/A-1+
*** * * * * * * * * * * * * * Nelson City Council * * * * * * * * * * * * ***		
Ratings Affirmed		
Nelson City Council		
Commercial Paper	A-1+	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Nelson City Council		
ssuer Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+
*** * * * * * * * * * * New Plymouth District Council * * * * * * * * * * ***		
Ratings Affirmed		
New Plymouth District Council		
Commercial Paper	A-1+	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
New Plymouth District Council		
ssuer Credit Rating	AA+/Negative/A-1+	AA+/Stable/A-1+
*** * * * * * * * * * * Palmerston North City Council * * * * * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Palmerston North City Council		
ssuer Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+
*** * * * * * * * * * * * * * Porirua City Council * * * * * * * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Porirua City Council		
ssuer Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+
*** * * * * * * * * * * South Taranaki District Council * * * * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
South Taranaki District Council		
ssuer Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+

* * * * * * * * * * * * * Tasman District Council * * * * * * * * * * * *		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Tasman District Council		
ssuer Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+
* * * * * * * * * * * * * Taupo District Council * * * * * * * * * * * * *		
Ratings Affirmed		
Taupo District Council		
Commercial Paper	A-1+	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Taupo District Council		
ssuer Credit Rating	AA+/Negative/A-1+	AA+/Stable/A-1+
* * * * * * * * * * * * * Tauranga City Council * * * * * * * * * * * * *		
Ratings Affirmed		
Tauranga City Council		
ssuer Credit Rating	A+/Stable/A-1	
Tauranga City Council		
Commercial Paper	A-1	
* * * * * * * * * * * * * Upper Hutt City Council * * * * * * * * * * * *		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Upper Hutt City Council		
ssuer Credit Rating	A+/Negative/A-1	A+/Stable/A-1
* * * * * * * * * * * * Waimakariri District Council * * * * * * * * * * *		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Waimakariri District Council		
ssuer Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+
* * * * * * * * * Western Bay of Plenty District Council * * * * * * * * *		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Western Bay of Plenty District Council		
ssuer Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+

************ Whanganui District Council ************		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Whanganui District Council		
ssuer Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+
************ **Whangarei District Council** ************		
Ratings Affirmed		
Whangarei District Council		
ssuer Credit Rating	AA/Stable/A-1+	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Contact List

PRIMARY CREDIT ANALYST

Anthony Walker
Melbourne
+ 61 3 9631 2019
anthony.walker@spglobal.com

PRIMARY CREDIT ANALYST

Martin J Foo
Melbourne
+ 61 3 9631 2016
martin.foo@spglobal.com

PRIMARY CREDIT ANALYST

Rebecca Hrvatin
Melbourne
+ 61 3 9631 2123
rebecca.hrvatin@spglobal.com

PRIMARY CREDIT ANALYST

Deriek Pijls
Melbourne
+61 396312066
deriek.pijls@spglobal.com

PRIMARY CREDIT ANALYST

Julian X Nikakis
Sydney
(61) 2-9255-9818
julian.nikakis@spglobal.com

SECONDARY CONTACT

Frank Dunne
Melbourne
+61 396312041
frank.dunne@spglobal.com

SECONDARY CONTACT

Sharad Jain
Melbourne
+ 61 3 9631 2077
sharad.jain@spglobal.com

MEDIA CONTACT

Richard J Noonan
Melbourne
+ 61 3 9631 2152
richard.noonan@spglobal.com

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Ratings

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Institutional Framework Assessment:

New Zealand Councils' Extremely Predictable And Supportive Institutional Settings Are At Risk

February 18, 2024

This report does not constitute a rating action.

PRIMARY CREDIT ANALYST

Rebecca Hrvatin
Melbourne
+ 61 3 9631 2123
rebecca.hrvatin
@spglobal.com

SECONDARY CONTACTS

Martin J Foo
Melbourne
+ 61 3 9631 2016
martin.foo
@spglobal.com

Anthony Walker
Melbourne
+ 61 3 9631 2019
anthony.walker
@spglobal.com

Institutional Framework Assessment:

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

Trend:

- Improving
- Stable
- **Weakening**

Major Factors

Key strengths	Key risks
Extremely predictable system with changes flagged well in advance.	Large infrastructure responsibilities increase the sector's borrowings and weigh on the revenue and expenditure balance compared to similar systems.
Highly transparent and accountable system, with strong disclosure and reporting standards.	Uncertainty around the implementation and potential impact of the central government policies such as water reforms.
High operating balances with strong security of rates revenue.	

Rising infrastructure budgets and responsibilities are putting growing pressure on the New Zealand local government sector's finances. The councils' own-sourced revenues and grants from the New Zealand government (Crown) are not rising enough to adequately cover this additional spending. This is widening revenue and expenditure mismatches, as seen with large deficits and rising debt levels compared with similar systems.

We believe these imbalances will persist for longer than we expected. This is because of rising inflation and infrastructure budgets, and given the new National Party-led coalition government's promise to repeal existing water reform legislation by Feb. 23, 2024. These reforms were aimed at removing water-related operating and infrastructure responsibilities from councils.

The new government plans to institute its own version of water reform, dubbed "Local Water Done Well". While specifics around this plan are yet to be publicly disclosed, the Crown has outlined its key principles and indicated that it aims to pass its own legislation by mid-2025. Key principles include the restoration of ownership and control of water assets to councils, and the setting of stricter rules and regulation of water infrastructure for local authorities. The new program could see councils opt for alternative delivery models, such as jointly council-controlled organizations that aim to notionally separate water activities from council finances, but without the complex "co-governance" aspects promoted by Labour. The net effect of the program on the sector will depend on further developments.

Our view of New Zealand's institutional framework is also based on a predictable system with a high level of transparency and accountability.

Trend: Weakening

We have revised the trend for New Zealand's local government institutional framework to weakening from stable. The sector's debt has continued to rise since the start of the pandemic as councils grapple with large infrastructure needs and persistent inflation in operating and capital budgets. Sectorwide deficits and debt levels are much higher than we forecast last year, weighing on our assessment of New Zealand's revenue and expenditure balance.

The final design of the new National Party-led government's reform will be vital to address the rising revenue and expenditure mismatches across the sector. Reforms will also be important to curtail the upward trajectory of the sector's debt levels as a proportion of operating revenues.

In addition, uncertainty is elevated given the shift in political support for key sector reforms, including water reform and the Resource Management Act (RMA). The former government's water legislation was developed after many years of reviews and working groups, and the sudden reversal makes it difficult for councils to prepare their upcoming ten-year long-term plans. Policy uncertainty could weigh on our view of the system's predictability compared to other highly rated systems internationally.

We could revise our assessment of New Zealand's institutional framework to stable if we observed greater policy stability that could narrow the sector's revenue and expenditure mismatches, leading to a sustainable reduction in sectorwide debt. This could occur if proposed local government reforms or upcoming budget planning markedly improves councils' financial positions.

Predictability Of The Framework: Uncertainty Elevated In Areas Of Key Reforms

Major reforms are rare, but may be vital to the sector The New Zealand local government system is mature, governed by legislation that is predictable and supportive of local councils across the country. It is also reflective of the historically stable policy environment in New Zealand. Reforms and policy changes usually evolve over long timeframes and undergo rigorous consultation and development processes to ensure their suitability.

However, the recent change in central government has created uncertainty with delays in key water reforms. The new government has pledged to repeal these reforms by Feb. 23, 2024, and to restore control of water assets to councils before implementing its own version, Local Water Done Well, at some point in the future.

Between 2020 and 2023, the former government passed a suite of bills to enact major water reforms. The legislation created a new water regulatory framework and new water service entities (aggregated utilities), which were due to take control and operation of councils' water assets between July 1, 2024 and July 1, 2026.

The former government's water reforms were flagged well in advance and involved substantial consultation and development. In 2016, the Crown evaluated making local governments more flexible by allowing them to share services and costs across jurisdictions. The following year, the Crown established the Three Waters Review to develop recommendations for systemwide performance improvements for water services. The review recommended the establishment of aggregated water utilities, separate from local government, that would take some of the funding pressure off local government.

The RMA, a national strategy governing how land and natural resources are used, had undergone several changes under the former government following an independent review. The new central government, however, recently repealed these changes.

In June 2023, the former government handed down the Future for Local Government report. The report, which was in development for two years, examined the suitability of the local government system to emerging challenges, especially given that no major reforms have taken place since 1989. The new government did not address the recommendations prior to the October 2023 elections, and it is unclear if any of the suggested changes will be implemented.

The Crown has launched several rounds of minor reforms since 2012. The objectives of these reforms, such as improving financial accountability and long-term planning, and the way they were introduced have reinforced our view of New Zealand's extremely predictable and supportive institutional framework.

New Zealand local councils have limited ability to influence Crown policy New Zealand local governments are established under the Crown's Local Government Act, and not the constitution, like some of its international peers. This means the sector has less ability to withstand unwanted changes than many of its peers.

Local governments have some power to soften the negative consequences of reform but can't prevent them. Councils can individually and through Local Government New Zealand, an advocacy group, impact the debate surrounding changes. The Crown regularly consults with the association and individual local governments, but local governments have no power to reject reforms or demand additional funding to cover new mandates.

The water reform process demonstrated local councils' ability to influence Crown policy. Key principles of the new government's Local Water Done Well model appear to be driven by suggestions from many local authorities, including criticisms raised by many councils around the former government's legislation. These include issues such as water quality and regulation, ownership and control of water assets, co-governance of water services, and the implementation timeline. The Local Water Done Well model could restore more control to local governments, potentially allowing councils and ratepayers to adopt their own model to manage water assets.

In contrast, the former government pushed ahead with controversial elements of its water reforms such as co-governance despite strong council opposition. Most of the opposition to Affordable Waters reform related to ideological differences, rather than to the significant debt relief that the reforms could have provided.

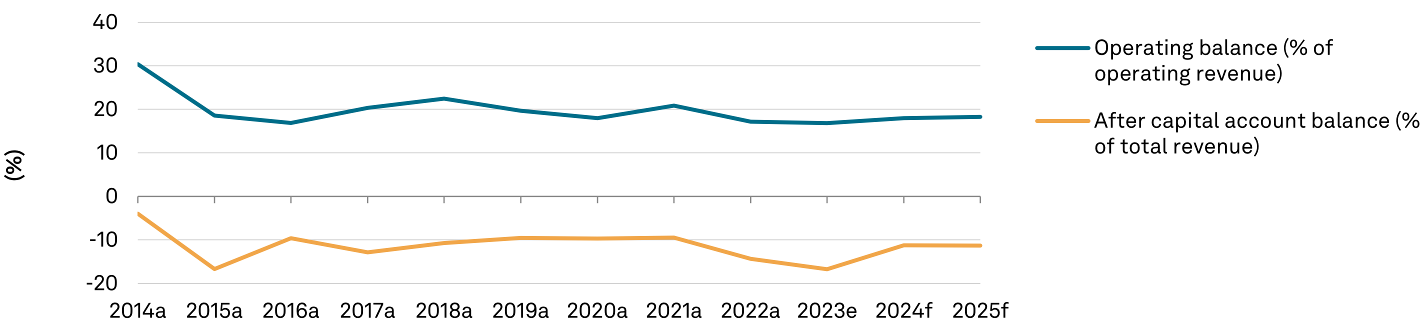
Revenue/Expenditure Balance: Revenue Growth May Not Adequately Fund Rising Infrastructure Spending

Strong revenue growth but not enough to cover rising expenditure needs The New Zealand central and local government appears to be a unwilling to address the growing imbalance between revenue growth and rising expenditure for the local government sector. Despite local governments having strong revenue and expenditure autonomy, they have much larger deficits and higher debt than we forecast.

Many councils are reluctant to substantially raise general property rates more than inflation to fund rising expenditure. This is despite rates being set by individual local governments and not being limited by Crown policies. Large rate increases in recent years have been cannibalized by high inflation, and rising interest expenses and infrastructure spending. Because of this, deficits have widened across the sector. We estimate the after-capital account deficit across the sector grew to be 16% of total revenues in 2023, and total debt rose to 184% of operating revenues.

Chart 1

Operating balance remains strong, after-capital account very weak



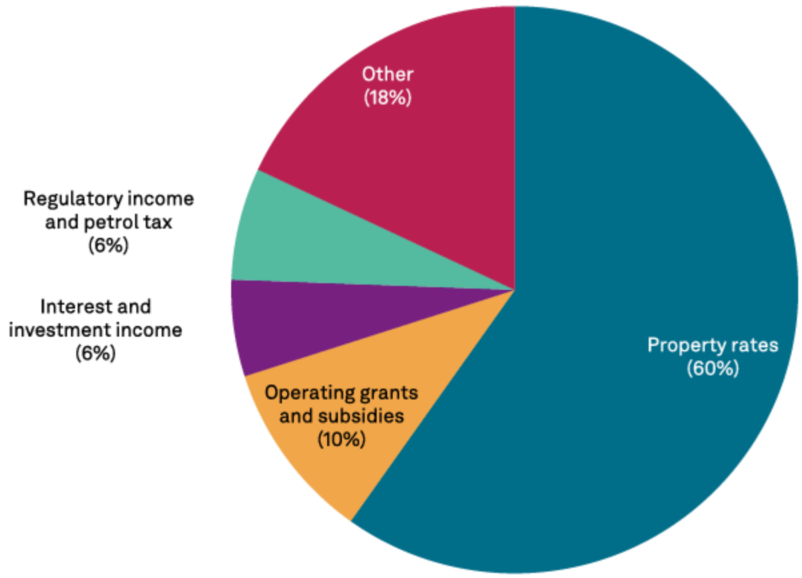
New Zealand fiscal year ends June 30. a--Actual. e--Estimate. f--Forecast. Source: S&P Global Ratings.

The New Zealand Productivity Commission estimates that local government property rates are roughly the same proportion of GDP today as they were more than 100 years ago. In contrast, the Crown's taxation has more than tripled over this period. Many councils prefer to accumulate debt to fund most of their infrastructure rather than fund it via cash flows, and they have limited ability to raise revenues outside of property rates.

Chart 2

Property rates make up the majority of revenue

Operating revenue breakdown of New Zealand councils for fiscal year 2022

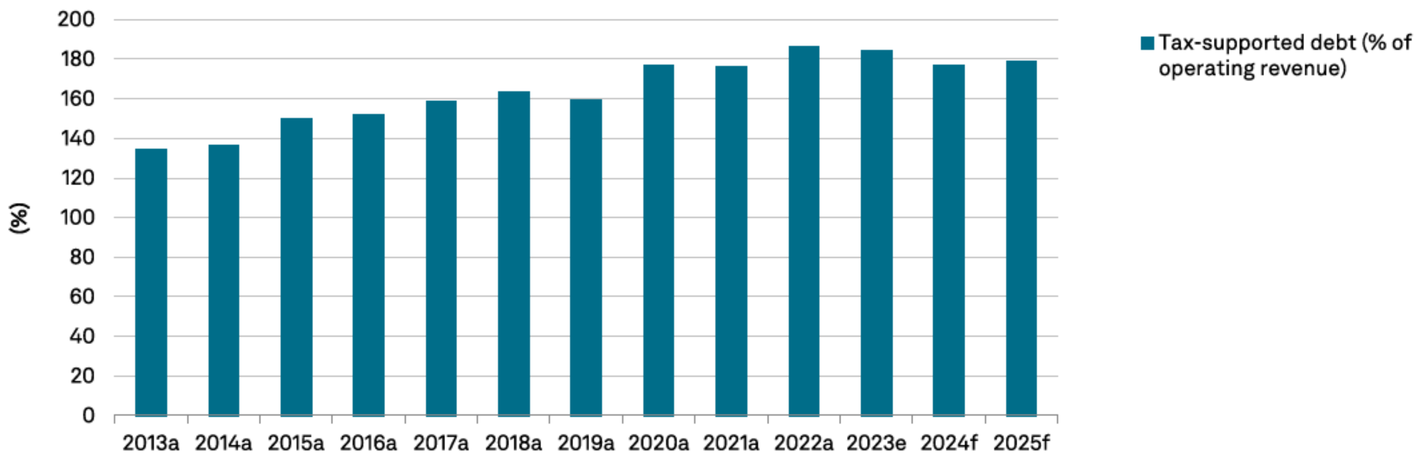


New Zealand fiscal year ends June 30. Sources: Stats NZ local authority financial statistics, fiscal 2022.

The debt of New Zealand councils is very high on a global scale and is rising more than our previous expectations. The size of the debt stock reflects the large infrastructure component of the responsibilities of these governments and the timing of capital expenditure, rather than an operating revenue and expenditure mismatch.

Chart 3

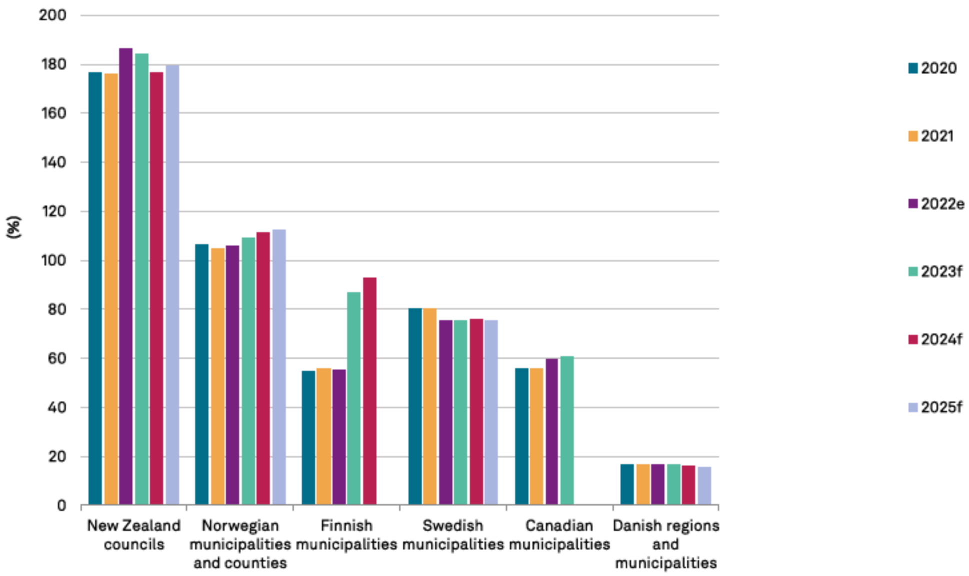
Sectorwide debt is very high



New Zealand fiscal year ends June 30. a--Actual. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Chart 4

Debt of New Zealand councils is very high
Ratio of gross debt to operating revenue, selected jurisdictions



Figures based on our most recent reviews of institutional framework assessments over 2021-2023. f--Forecast. Source: S&P Global Ratings.

The Crown has steadily withdrawn financial assistance to local councils while increasing the sector's responsibilities. Local governments are responsible for a substantial proportion of infrastructure in New Zealand, such as road development and transportation and water infrastructure. Increased investment in water assets by local councils is a result of higher water standards imposed by the Crown, as well as emerging evidence of a nationwide infrastructure deficit due to historic underinvestment in renewals.

In addition, changes to national standards around earthquake strengthening and environmental protection have lifted investment too. These higher standards typically do not come with any new transfers or funding tools, which forces councils to rely even more on unpopular rate hikes to generate revenue. Other drivers of infrastructure spending growth include increasing community expectations, strong population growth, and reconstruction costs following recent natural disasters in areas such as Nelson, Marlborough, and Hawke's Bay. We also see some evidence of questionable project selection, with some councils prioritizing new sports and community facilities ahead of renewing less visible but critical underground water infrastructure.

The Crown provides partial capital funding for large infrastructure projects and ongoing grants for road renewal and maintenance. This amounts to about 5% of total revenues for the council sector, while general financial assistance, including for road maintenance, accounts for about 15-18% of the sector's operating revenue.

Local governments have extraordinarily strong rate-collection abilities because they can recover unpaid rates ahead of residents' mortgages (i.e., local governments outrank banks and finance companies) and can seek court approval to sell properties to claim unpaid rates. These are key strengths underpinning New Zealand local councils' creditworthiness.

There is no system of fiscal equalization in New Zealand.

Fiscal policy framework focuses on operating outcomes The fiscal policy framework in New Zealand supports the sector's operating revenue and expenditure match by requiring local governments to balance their budgets on an accrual basis and ensure that debt is not used to fund operating expenditure or financial investments (termed the "golden rule" of fiscal policy). The framework limits debt to capital investments and requires depreciation of capital to be expensed in the accrual financial statements. However, the system, doesn't limit overall deficits or indebtedness of the sector.

The Crown requires a local government to provide a sound rationale if the council is forecasting an accrual operating deficit. Despite this, some local governments have signaled that they will run small accrual operating deficits. We expect almost all rated local governments to deliver strong operating surpluses on a cash basis.

Debt limits and liquidity covenants apply to local governments borrowing from the New Zealand Local Government Funding Agency (LGFA). The debt covenants are relatively relaxed, in our view, and were loosened in 2020 to give councils even more debt headroom to respond to the pandemic. As of December 2023, LGFA membership totals 77 of the sector's 78 local governments and the funding agency accounts for 90% of New Zealand local government sector debt. Auckland Council--the largest and most sophisticated local government--is the only council allowed to borrow in foreign currency. This limits the sector's exposure to foreign currency risks. No local government can use derivatives for speculative purposes. Further, councils must disclose liquidity targets and their interest rate exposure.

Local governments' financial policies and targets are outlined in their long-term plans. All local governments have internal debt limits that are published in the long-term plans, annual plans, and annual reports that are audited by Audit New Zealand to ensure financial sustainability.

We expect the Crown to intervene before situations become critical In our view, Crown support would be forthcoming to a local council long before a default scenario materializes. This is as a result of the Crown's close oversight of local governments, the system's transparency, and the mechanisms available to the Crown to intervene in a local council's operations.

There is no explicit guarantee for New Zealand's local governments and no history of extraordinary support provided to a local government in distress. There has been no known local government default in New Zealand. The Crown has set out several ways that it could intervene in the operation of local governments to prevent them from being close to default. It has the power to call an election and dismiss a local government based on the local government's inability to properly govern, poor financial management, or corruption. Other measures include requesting information from a local government, as well as appointing a Crown review team, a Crown observer, a Crown manager, or a commission.

The Crown has shown that it is willing to use these powers when needed. It has intervened in several local councils in recent years, such as:

- Appointing a commission to act in place of elected representatives at Tauranga City Council in February 2021. This followed an independent review which identified significant governance problems and infrastructure and funding challenges. Crown commissioners will oversee the development of the council's 2024-2034 long term plan before the return of elected officials.

Local government elections are scheduled in Tauranga for July 2024.

- Appointing a Crown observer to Christchurch City Council in January 2012 to assist the council after several major earthquakes. It also appointed a Crown manager in July 2013 to ensure the council regained its building consent accreditation, which was withdrawn by International Accreditation New Zealand (the council regained accreditation in 2015).
- Appointing commissioners to Kaipara District Council in August 2012 to replace elected councilors and appointing a Crown manager in 2016 and 2017 after a range of legal issues.
- Replacing councilors from Environment Canterbury, a regional council, with commissioners in May 2010.

Another example is the Crown's cost-sharing arrangements for natural disasters, such as the repair and replacement of Christchurch City Council's essential infrastructure after several severe earthquakes. The Crown pledged to fund 60% of the rebuild cost. The Crown offered a NZ$275 million emergency financial support package to councils affected by Cyclone Gabrielle in May 2023, covering a considerable proportion of emergency costs for affected councils. In addition, longer-term cost sharing deals will need to be negotiated with the hardest-hit councils to fund restoration costs. For example, Marlborough District Council secured funding from the Crown for 95% to help repair its storm-damaged roads after two heavy rain events in July 2021 and August 2022.

The Crown and individual councils each fund 25% of the repair cost of properties that suffer from "weathertightness" issues or building moisture damage. We also expect that the Crown could provide support to the LGFA, which raises debt on behalf of local councils, through, for example, its NZ$1.5 billion committed liquidity facility with the New Zealand Debt Management office.

Transparency And Accountability: Strong Oversight And Disclosure Requirements

The New Zealand local government system is highly transparent when compared with international peers Governing laws set out in the Local Government Act 2002 impose comprehensive requirements for public consultation and financial planning and reporting. There is also a clear separation between the responsibilities and roles of elected officials and their administration.

Strict financial and nonfinancial reporting requirements enhance the transparency and accountability of New Zealand local governments. The requirements include public reporting of audited consolidated accounts, in accrual and cash terms, within specified time limits. Crown reforms have increased disclosure and transparency by introducing funding impact statements and disclosure of risk-management strategies.

The Local Government Act requires local governments to develop long-term plans that span 10 years and are updated every three years. Long-term plans supplement the annual planning process with which they are integrated and reflect longer-term asset-management intentions. The system also requires local governments to consult the public on these documents and annual plans. All local governments also must develop and publish 30-year infrastructure strategies to identify future infrastructure needs and identify options, including asset management plans, to address them. These extensive plans, even for the smallest local governments, are an indication of the sector's long-term capital planning and budgeting capabilities.

Policy uncertainty has caused reporting delays. The Crown government has announced an extension to the June 30, 2024, statutory deadline for the adoption of upcoming long-term plans. This followed a direction for all councils to include water activities in all future budgets. However, current legislation requires local governments to remove all water-related activities from financial statements starting from the 2026 fiscal year. We expect the Crown to repeal this legislation by Feb. 23, 2024. Nevertheless, this has caused a period of heightened uncertainty for councils.

The ongoing shortage of auditors has affected many organizations' ability to prepare audited financial statements. Consequently, legislation was passed in 2020 extending statutory reporting timeframes by two months for Crown entities, local authorities, and council-controlled organizations with June 30 balance dates. Auditor shortages, challenging immigration settings, staff turnover, and higher sick leave (in audit firms and in public organizations related to COVID-19) led to 35 councils adopting 2022 annual reports more than four months after of the end of fiscal year, breaching the statutory deadline. We anticipate the timing of reporting will improve as councils are increasingly permitted to access the private sector for audit opinions and as staff shortages ease.

As part of the amended Local Government Act, local governments are required to prepare pre-election reports. The reports, which provide information about the issues a local government faces, promote public discussion and help voters make more informed choices. The reports provide details on a local government's financial performance for the three years before the election; financial plans and projects for the next three years; and statements comparing rates, rate increases, borrowing, and returns on investments, with the limits and targets set in the financial strategy.

Local governments also publish financial prudence benchmarking in their annual reports. This shows a local government's financial performance in relation to various benchmarks to assess whether it is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings. The benchmarks compare actual performance to budgets, including a local government's performance against self-imposed financial ratios that are flagged in long-term plans and annual plans.

High level of disclosure, with councils adhering to international accounting standards The minimum level of disclosure in the New Zealand local government sector is high by international comparison. Local governments' financial statements, on accrual and cash formats; long-term plans, including treasury and liability management policies; 30-year infrastructure plans; and annual plans are all publicly disclosed and must meet detailed requirements as set out in legislation. Monthly or quarterly reports are also available via local government websites, as are the agenda and minutes of most local government meetings.

Standardized audit procedures provide for reliable information. Long-term plans are audited by Audit New Zealand, a business unit of the Crown, or its appointed agents. Annual plans are published before the start of the fiscal year, and any changes to annual plans are also reviewed by Audit New Zealand and publicly disclosed. Audits are done according to the Auditor General's Auditing Standards, which incorporate New Zealand's public benefit entity accounting standards.

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Related Research

- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., Dec. 16, 2023
- New Zealand Local Government Outlook 2024: Bridge Over Troubled Waters, Nov. 20, 2023
- New Zealand 'AA+/A-1+' Foreign Currency Ratings Affirmed; Outlook Stable, Sept. 08, 2023
- New Zealand Local Government Funding Agency, March 2, 2023
- New Zealand Local Government Funding Agency Ltd. Ratings Can Tolerate Higher Council Leverage Limits, May 6, 2020

Credit FAQ:

New Zealand's Policy Shift To Weaken The Institutional Setting On Local Councils

February 18, 2024

Primary contacts

Anthony Walker
Melbourne
61-3-9631-2019
anthony.walker
@spglobal.com

Martin J Foo
Melbourne
61-3-9631-2016
martin.foo
@spglobal.com

Rebecca Hrvatin
Melbourne
61-3-9631-2123
rebecca.hrvatin
@spglobal.com

Deriek Pijls
Melbourne
61-396312066
deriek.pijls
@spglobal.com

See complete contact list at end of article.

This report does not constitute a rating action.

Credit risk for New Zealand's local councils is rising. On Feb. 19, 2024, S&P Global Ratings revised the trend of our New Zealand local council institutional framework to weakening from stable. Sector debt has risen rapidly since the start of the pandemic as councils grapple with large infrastructure needs and persistent inflation in operating and capital budgets.

On Feb. 19, 2024, we revised the outlooks on our long-term ratings on 15 New Zealand local councils and two council-controlled organizations to negative from stable to reflect this risk (see "New Zealand Councils' Extremely Predictable And Supportive Institutional Settings Are At Risk," Feb. 18, 2024.

Frequently Asked Questions

Why did we take this action and what's changed this year?

Rising infrastructure budgets and responsibilities are exerting pressure on the finances of New Zealand's local governments. Revenues and central government (Crown) grants are not rising enough to cover this additional spending. This is leading to widening revenue and expenditure mismatches, as seen in large deficits and rising debt compared with similar systems. If the trend continues, we could assess that the institutional framework for local councils in New Zealand has weakened.

We now forecast much higher sector deficits and debt than we previously expected. This weighs on our assessment of New Zealand's revenue and expenditure balance. The local government sector's after capital account deficit reached 16% of total revenues in fiscal 2023. The deficit may remain at more than 10% over the next two years, versus our previous estimation that it could narrow to half the amount.

Meanwhile, gross total tax-supported debt was 184% of operating revenues in 2023, up from less than 160% in 2019. Gross debt was steady at 150%-160% from 2015 to 2019.

Furthermore, the final timing and structure of Crown water reforms and the impact on local government finances remain uncertain after more than five years. A new National Party-led government, elected in October 2023, promised to repeal existing legislation by Feb. 23, 2024. It also plans to legislate its version of reforms--Local Water Done Well--by mid-2025. The former Labour government passed its final water reform legislation prior to the election. Labour's reforms, if implemented, could have alleviated a significant portion of sector debt.

The final design of Local Water Done Well will be vital for addressing the rising revenue and expenditure mismatches in the sector. Reforms may also be important for curtailing sector debt as a proportion of operating revenues.

Were all local councils affected by the change in the institutional framework trend?

No. We revised the outlooks on our long-term ratings on 15 councils to negative from stable. We affirmed our ratings on another four councils with stable outlooks. Our ratings on the remaining six councils in our rated portfolio were already under pressure and retain negative outlooks.

Why did we revise the rating outlooks on some councils to negative?

The outlook revisions suggest we are likely lower the ratings on these entities if we were to form a view that the institutional framework has weakened. These 15 councils have limited headroom within the current ratings to accommodate a weakening of the institutional settings or other credit metrics.

Why did we keep the rating outlooks on some councils stable while revising others to negative?

We decided that four councils still have enough headroom within the current ratings to accommodate a potential weakening in the institutional framework. This could be, for example:

- If the councils' individual credit profiles are at the stronger end of the current rating categories; and
- If there are other countervailing improvements that potentially offset the weakening institutional framework, such as improving economic prospects and diversification, or improving fiscal outcomes with smaller deficits and declining debt and interest costs.

Our rating on Auckland Council, for example, is unaffected by today's announcement. Auckland's individual credit profile is at the stronger end of an 'AA' rating. We forecast its after capital account deficit will narrow and be smaller than the sector average over the next two years.

Furthermore, Auckland's total tax-supported debt could continue to drop compared with operating revenues. The council's interest expenses also sit just above a key threshold in our methodology. If interest expenses relative to operating expenses decline slightly, our view on the council's debt burden could improve. Because of these factors, we believe the council has sufficient headroom at the current rating.

Did we consider last week's Local Water Done Well announcement in our latest rating decision?

The rating actions are not the result of the Crown's Feb. 12, 2024 announcement. The Crown outlined its plan to repeal the water reform legislation of the former government and introduce its own reforms. Pressure has been building on local governments for a few years and we believed the previous Affordable Water reforms may have addressed the sector's growing revenue and expenditure mismatches. In saying this, policy uncertainty is elevated until there is a clear way forward.

Would successful implementation of Local Water Done Well support the sector and institutional framework?

The new Crown government will repeal the previous government's Affordable Water reforms by Feb. 23, 2024. It will eventually replace these with Local Water Done Well. At the time of writing, the repeal bill had already passed New Zealand’s parliament and will soon be signed into law.

There is little information on how Local Water Done Well will operate or the timeline for its implementation. We only know that the Crown expects to pass relevant legislation by mid-2025. Implementation could drag the process on for another couple of years, given the complexity of the issue and the public consultation processes. During this period, fiscal conditions for the local councils could continue to deteriorate, and policy uncertainty may continue. This would increase credit risks.

Recent announcements on Local Water Done Well signal that councils may have to devise plans to meet the new, stricter, water standards, under the supervision of a new water infrastructure regulator. The councils would also have the option to form regional council-controlled organizations (CCOs) for water delivery. These CCOs would presumably differ from Labour's proposed water services entities. They could be voluntary and more tightly controlled by councils because of the removal of the co-governance requirement with local mana whenua.

As we previously highlighted, we would likely view a CCO (with either a high degree of political control or concentrated ownership, alongside a high level of indebtedness) as part of its parent council's tax-supported debt or at least a contingent liability of the council (see "New Zealand Local Government Outlook 2024: Bridge Over Troubled Waters," published Nov. 19, 2023).

Additionally, we see heightened policy uncertainty for the local councils. For instance, the Crown has extended the statutory deadlines for 2024-2034 long-term plans, given the upcoming repeal of water legislation. If policy uncertainty continues, even if Local Water Done Well is implemented, the institutional framework may face downward pressure. Unlike some peers, central government legislation and not a constitution governs New Zealand's local councils. This means the sector is less able than peers to influence structural changes.

What would cause us to revise downward our institutional framework assessment (IFA)?

We could revise downward our IFA for New Zealand's local councils if there is no material improvement in the revenue and expenditure balance of the sector, such as a substantial reduction in after capital account deficits and a structural lowering of tax-supported debt to operating revenues.

Additionally, we could revise downward our IFA if policy uncertainty continues, particularly in areas with large effects on the sector's financial outcomes, such as water reforms.

What would cause us to revise the IFA trend assessment to stable and how would this affect the ratings on local councils?

We could revise the IFA trend back to stable if we observed greater policy stability that helps to narrow the sector's revenue and expenditure mismatches, leading to a sustainable reduction in sectorwide debt. This could occur if the proposed local government reforms or upcoming budget planning markedly improves the financial positions of councils.

Revising the trend of the institutional framework back to stable could result in our revision of the outlooks on the affected councils to stable, all else being constant. This is if there is no underlying weakening of the individual credit profiles of the councils.

Does this mean New Zealand's local councils won't be highly rated anymore?

New Zealand's local councils remain highly rated. We have not lowered the ratings on any local council today. We have flagged a potential weakening in ratings and revised several outlooks to negative. Even if we revised downward the institutional framework and lowered the ratings, New Zealand councils remain highly rated in a global context at between "AA" and "A" categories.

What is the effect of today's actions on the sovereign rating on New Zealand and the rating on the New Zealand Local Government Funding Agency Ltd. (LGFA)?

There is no direct bearing on either rating.

Our assessment of the sovereign's fiscal performance and debt burden looks at the general government sector (i.e., it consolidates the central and local governments). In theory, a further widening of local government deficits and debt could weigh on this assessment.

However, the local government sector in New Zealand is a small component of the general government. It accounts for just 11% of gross general government debt on our measures. As such, activity at the central government level will continue to drive sovereign fiscal metrics.

We also assess that a slight weakening in the average credit quality of the local councils--say, a one-notch drop--would be unlikely to affect the rating on LGFA. There are at least two avenues through which local government credit quality affects the LGFA:

- It affects the quality of LGFA's loan book. However, generally improving loan book quality over the past decade counterbalances the negative rating actions announced today. The councils still have very strong capacity to service their debt obligations to LGFA, in our view.
- It affects the average credit quality of the councils that are parties to the joint and several guarantee over the LGFA's obligations. This guarantee has expanded to 72 guarantors and remains a key rating strength for the LGFA.

If the ratings on local councils fall, those councils may pay higher credit margins to the LGFA under current arrangements. This could slightly boost the profitability of the LGFA.

Related Research

- New Zealand Councils' Extremely Predictable And Supportive Institutional Settings Are At Risk, Feb. 18, 2024
- Various Rating Actions Taken On New Zealand Local Councils On Weakening Institutional Framework Trend, Feb. 18, 2024
- New Zealand Local Government Outlook 2024: Bridge Over Troubled Waters, Nov. 19, 2023

Contact List

Primary contact

Anthony Walker
Melbourne
61-3-9631-2019
anthony.walker
@spglobal.com

Primary contact

Martin J Foo
Melbourne
61-3-9631-2016
martin.foo
@spglobal.com

Primary contact

Rebecca Hrvatin
Melbourne
61-3-9631-2123
rebecca.hrvatin
@spglobal.com

Primary contact

Deriek Pijls
Melbourne
61-396312066
deriek.pijls
@spglobal.com

Secondary contact

Frank Dunne
Melbourne
61-396312041
frank.dunne
@spglobal.com

Secondary contact

Julian X Nikakis
Sydney
61-2-9255-9818
julian.nikakis
@spglobal.com