

Research Update:

# Tauranga City Council 'A+/A-1' Ratings Affirmed; Outlook Negative

March 20, 2025

## Overview

- On Feb. 24, 2025, we lowered our institutional framework assessment for New Zealand local councils because of the sector's rising revenue and expenditure imbalance and uncertainty around the evolution of policy settings.
- We believe Tauranga City Council (Tauranga) has a sound economy that is stronger than its regional New Zealand peers'. We think Tauranga's very strong population growth should ensure increased revenue, which will help fund its large deficits.
- We affirmed our 'A+' long-term and 'A-1' short-term issuer credit ratings on Tauranga.
- The outlook on the long-term rating remains negative, reflecting our view that the council's ongoing funding pressures could lead to a further widening of cash deficits and higher debt compared with our previous expectations.

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## Rating Action

On March 21, 2025, S&P Global Ratings affirmed its 'A+' long-term and 'A-1' short-term issuer credit ratings on Tauranga City Council, a New Zealand local government. The outlook on the long-term rating is negative.

## Outlook

The negative outlook reflects our view that Tauranga's fiscal outcomes could weaken compared with our expectations over the next two years as the council continues to increase spending on infrastructure.

## Downside scenario

We could lower our rating on Tauranga if its financial outcomes underperform our expectations. This could occur if its deficits after capital accounts are structurally more than 25% of total

revenue or if its debt rises materially above our forecasts.

## **Upside scenario**

We could revise the outlook to stable if we are confident that Tauranga's deficits after capital accounts will remain under 25% of total revenue structurally and debt will remain in line with that of similarly-rated peers.

## **Rationale**

We recently lowered our institutional framework assessment on New Zealand local councils to very predictable and well balanced from extremely predictable and supportive. This followed a growing mismatch in the sector's revenue and expenditure balance, leading to a sharp rise in sectorwide debt levels, and heightened uncertainty around policy settings.

In our view, improvements in Tauranga's economy offset downward rating pressure because of the lower institutional framework assessment. We believe the city has similar demographics and prospects for economic growth to its peers. Tauranga's rapid population growth should bolster the council's revenue, raising its capacity to help fund its pressing capital expenditure needs in the next five to 10 years.

However, downward pressure on our ratings on Tauranga persists because developments in the last six months could lead to much weaker fiscal outcomes than we currently expect. These developments include funding cuts from the New Zealand Transport Agency (NZTA) and new rules from the New Zealand Local Government Funding Agency (LGFA) that could allow Tauranga to increase its borrowing limit from 280% to 350% of net debt to total revenue. Such developments could lead the council to fund a larger proportion of its capex with debt. This could also push Tauranga's debt well above that of other rated New Zealand councils.

The council is developing its 2026 annual plan, which aims to raise revenue and cut expenses to address funding shortfalls. Tauranga is due to adopt this plan by June 2025.

## **Institutional settings have weakened; robust and wealthy economy support creditworthiness**

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

Tauranga's local economy has outperformed the national average over the last decade, with real GDP growing an average of 4.8% per year during this period, according to New Zealand economic consultancy Infometrics. Very strong population growth averaging 2.8% per year over the last decade has driven this outperformance. Its attractiveness as a location for retirement, with strong construction and professional services sectors, has supported population inflows. Tauranga is New Zealand's fifth largest city and had a population of 162,800 as of June 30, 2024.

We believe local economic outperformance will continue despite recently moderating population

growth. The council is investing heavily in essential infrastructure to support its growing population, resulting in substantial deficits and rising debt. We believe strong prospects for growth of the city support the council's long-term capacity to raise revenue as its numbers of ratepayers grow. While its large fiscal deficits are due in part to its investment in growth infrastructure, we expect it to partially recoup these immediate costs over time via higher fees for new housing developments and targeted rate increases.

In July 2024, nine councilors and a mayor were elected to lead the council for the first time since the government replaced it with unelected commissioners in December 2020. Like all councils, Tauranga prepares an annual plan yearly and a long-term plan every three years. The council has sound debt and liquidity management, in our view. For instance, the council has increased its credit facilities as its debt and annual debt maturities increase, and it pre-funds upcoming maturities.

### **Continued funding pressures could keep deficits larger for longer and increase debt; liquidity remains strong**

We forecast Tauranga's deficits after capital accounts will average 16% of total revenue over fiscal 2026 (ending June 30, 2026) and fiscal 2027, down from an average of 38% in the preceding two years. Large planned increases in revenue from property rates, along with a sharp slowdown in growth of operating expenses and capex, will lead to reduced cash deficits.

However, lower subsidies from NZTA are likely to weigh down these improvements, leaving the council to fund a greater share of capex with debt. In addition, the council announced it will fund its civic precinct redevelopment project with borrowings from the LGFA rather than an infrastructure funding and financing model. This could drive debt higher than we previously expected. The council seeks to defer or cancel a significant portion of its capital program as part of its 2026 annual plan. Any changes will be subject to a public consultation process before the plan's adoption.

We expect Tauranga's total gross tax-supported debt to be 309% of operating revenue in fiscal 2027, up from 265% in fiscal 2023. The council is considering applying for a bespoke covenant from the LGFA, which could see the binding limit on its net debt to revenue rise to 350% from 280%. While the LGFA covenant differs from our definition of borrowing we believe using this additional capacity would drive debt much higher.

The council sources all its debt from the LGFA and the central government's interest-free Housing Infrastructure Fund. Our measure of debt also includes the council's lease liability relating to a new office. We forecast interest expenses will average 12% of operating revenue per year for fiscals 2024-2026. This is about 50% more than in fiscal 2022, reflecting higher interest rates and the council's rising debt levels.

We believe Tauranga has limited contingent liabilities, reflecting the likelihood of damage from natural disasters, insurance policies, and litigation. The council is well insured for material damage for above-ground assets, excluding roads and pipes, and is 40% covered for underground assets, with the Crown covering the remainder. Outstanding contingent liabilities from past litigation have been settled.

The council's liquidity position is strong and in line with those of most of its peers. We forecast its debt service coverage ratio is 114% over the next 12 months, supported by NZ\$200 million in undrawn bank lines and NZ\$84 million in cash and term deposits. However, prefunding of maturities up to 12 months in advance should support this. The council has no commercial paper outstanding.

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Supporting the council's liquidity is its access to the LGFA. This provides Tauranga, along with most of its New Zealand peers, with strong access to a well-established source of external liquidity. In our view, the LGFA benefits from an extremely high likelihood of extraordinary Crown support, which has helped Tauranga to lengthen its maturity profile and reduce its interest expenses.

## Key Statistics

Table 1

### Tauranga City Council--Selected indicators

(Mil. NZ\$)	--Fiscal year ended June 30--				
	2023	2024e	2025bc	2026bc	2027bc
Operating revenues	391	427	463	513	561
Operating expenditures	321	389	399	408	438
Operating balance	70	39	63	105	123
Operating balance (% of operating revenues)	17.9	9.1	13.7	20.4	21.9
Capital revenues	129	116	136	174	217
Capital expenditures	323	376	414	424	427
Balance after capital accounts	(124)	(221)	(214)	(145)	(87)
Balance after capital accounts (% of total revenues)	(23.9)	(40.7)	(35.8)	(21.0)	(11.1)
Debt repaid	66	55	116	156	145
Gross borrowings	248	282	340	305	250
Balance after borrowings	58	6	10	4	19
Tax-supported debt (outstanding at year-end)	1,035	1,255	1,479	1,628	1,734
Tax-supported debt (% of consolidated operating revenues)	264.6	293.6	319.7	317.5	308.9
Interest (% of operating revenues)	8.0	11.4	12.8	12.9	12.3
National GDP per capita (single units)	76,142	77,759	80,110	82,589	85,187

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

## Ratings Score Snapshot

Table 2

### Tauranga City Council--Ratings score snapshot

Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	3

Table 2

### Tauranga City Council--Ratings score snapshot (cont.)

Key rating factors	Scores
Budgetary performance	4
Liquidity	2
Debt burden	5
Stand-alone credit profile	a+
Issuer credit rating	A+

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In our "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

### Key Sovereign Statistics

- Sovereign Risk Indicators, Dec. 9, 2024. An interactive version is available at <http://www.spratings.com/sri>

### Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

### Related Research

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

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- Global Ratings List: International Public Finance Entities July 2024, July 30, 2024
- Global LRGs Rating History List, June 18, 2024

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

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

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

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

## Ratings List

### Ratings Affirmed

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#### Tauranga City Council

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Issuer Credit Rating A+/Negative/A-1

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#### Tauranga City Council

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Commercial Paper A-1

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