STANDARD & POOR'S

RATINGSDIRECT®

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New Plymouth District Council

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Table Of Contents

New Plymouth District Council

Major Rating Factors

Issuer Credit Rating
Foreign Currency
AA+/Stable/A-1+
Local Currency
AAA/Stable/A-1+

Strengths:

- Negative net debt position
- Limited capital-expenditure pressure

Weaknesses:

- Small and relatively narrow economic structure

Rationale

The ratings on New Plymouth District Council (New Plymouth) reflect the council's negative net-debt position, high liquidity levels, limited capital-expenditure requirements, and the Taranaki regional economy's relatively small size and narrow structure.

The council's balance sheet remains very strong.
New Plymouth's negative net-debt position (borrowings less cash and liquid assets) is forecast to continue over the medium term, despite an expected increase in gross debt. Following the sale of its ownership interest in Powerco Ltd. in 2004, New Plymouth invested the proceeds (NZ$259 million) in an independently managed diversified portfolio, which included highly liquid cash, equities, fixed-interest securities, and SPARCS (subordinated prime adjusting reset convertible securities). Since then, New Plymouth has actively diversified its portfolio, and in the March quarter of 2007 converted the remaining SPARCS to cash. We believe that this portfolio strengthens the council's credit quality, as a well-diversified portfolio is less risky than holding shares in an individual business. Moves in the past fiscal year to further diversify the portfolio add additional strength to the rating.

The council faces limited capital-expenditure requirements.
New Plymouth has a limited need for infrastructure replacement, and faces no renewal pressures. Furthermore, it does not have the growth pressures experienced by other New Zealand councils, such as Auckland City Council and Tauranga City Council. Rather than addressing an infrastructure or maintenance backlog, the council's upcoming investment in water and sewerage infrastructure relates more to raising water-quality standards and ensuring that the council is well placed to manage any additional demand on its systems.

Diversity within the Taranaki regional economy has increased with the growth of the oil and gas, tourism, and service sectors.
However, the regional economy still has a strong reliance on the milk and milk-products industry. The size of the economy, relative to its New Zealand peers, is also a credit weakness.

Short-term credit factors

New Plymouth's liquidity position is strong. Cash and security holdings of about NZ$270 million and NZ$38 million in committed bank facilities at June 30, 2007, more than offset short-term debt obligations of NZ$26.471 million.

Outlook

The stable outlook on New Plymouth reflects our expectation that the council will maintain its responsible and prudent approach to finances, which include its independently managed Perpetual Investment Fund. In particular, the outlook reflects our expectation that the council will continue to meet its stated investment goals without persistent capital deterioration.

With around 70% of the Perpetual Investment Fund allocated to equities, the portfolio is considered fairly aggressive.

Downward pressure would be placed on the ratings in the event that the council's resources were used to support the Perpetual Investment Fund or if capital were drawn from the fund to meet the revenue requirements of the council. A poorly performing fund may reflect imprudent management or an increased risk appetite, both of which would negatively affect the council's credit quality. The likelihood that this would occur to an extent that would threaten the 'AAA' rating is, however, minimal.

Comparative Analysis

New Plymouth is the highest rated local government in New Zealand.

Its current strengths relative to its domestic and international peers include its after-capex overall cash balance and its negative net debt. New Plymouth also benefits from extremely strong liquidity. Offsetting these strengths, however, is the council's weak accrual operating position.

New Plymouth is rated higher than its closest domestic peers because of strong budgetary performance, its low capital-expenditure pressures, and its limited ownership of CCTOs. New Plymouth's strengths relative to its New Zealand peers include its strong after-capex overall cash position. Despite recording a deficit in fiscal 2004, the council's three-year average remains stronger than both Auckland City Council (AA+/Stable/A-1+) and Christchurch City Council (AA+/Negative/A-1+). Unlike Auckland, New Plymouth doesn't have a maintenance or infrastructure backlog, and, unlike Christchurch, it has limited ownership of council-controlled trading organizations (CCTOs). CCTOs expose the consolidated council's revenue base to higher-risk industries compared to the stable revenue stream of council-collected property rates. These strengths, as well as New Plymouth's extremely strong balance sheet, offset any weakness in its accrual position and ensure that its comparative performance remains solid. Somewhat offsetting these strengths is New Plymouth's relatively small and less diversified economy.

Internationally, New Plymouth's low net debt levels are comparable with its 'AAA' rated peers, including the Canadian Municipality of Saskatoon, the Australian City of Melbourne, and the Swiss Canton of Basel-Country. New Plymouth's capital-expenditure program as a percentage of total expenditure is larger than its peers', reflecting its role as a New Zealand local council. New Plymouth's strong credit quality is supported by its high degree of financial flexibility. Similar to Melbourne, New Plymouth has taxes that are low relative to those of neighboring local governments.

Table 1

New Plymouth (District Council) 2006

Peer Comparison

	New Plymouth (District Council)	Auckland City Council	Basel-Country (Canton Of)	Christchurch (City Council)	Melbourne (City Of)	Saskatoon (City Of)
Issuer credit rating (LC)	AAA/Stable/A-1+	AA+/Stable/A-1+	AAA/Stable/A-1+	AA+/Negative/A-1+	AAA/Stable/A-1+	AAA/Stable/--
Issuer credit rating (FC)	AA+/Stable/A-1+	AA+/Stable/A-1+	AAA/Stable/A-1+	AA+/Negative/A-1+	AAA/Stable/A-1+	AAA/Stable/--
Population	69,200.0*	425,400.0*	264,854.0¶	356,030.0*	65,000.0*	207,200.0
Three-year averages, using actual results only						
Accrual operating balance (% of operating revenue)	1.0	6.1	N.A.	11.1	5.3	N.A.
Operating balance (% of operating revenues)	24.1	30.4	7.1	30.2	13.2	15.7
Balance after capital expenditures (% of total revenues)	18.0	1.0	1.4	4.5	(6.4)	(11.6)
Capital expenditures (% of total expenditures)	33.8	37.8	8.3	28.4	22.6	28.0
2006 (mil. NZ$)						
Total revenues	96.6	555.5	3,217.8	392.1	337.8	471.3
Direct debt (at year-end)	69.4	190.9	1,238.3	112.3	0.0*	54.6
Direct debt (% of operating revenues)	75.7	38.1	40.0	30.2	0.0*	12.5
Net financial liabilities (% of tot rev)	(145.7)	(6.3)	18.7	(49.3)	(37.7)	(53.3)
Interest (% of operating revenues)	4.9	2.7	1.5	1.6	0.0*	1.2

*Figures for 2005. ¶Figures for 2004. §Figures for 2002. N.A.--Not available.

System Support and Predictability

The New Zealand local-government system promotes strong management culture and fiscal discipline among New Zealand councils, therefore providing a source of credit strength. The Local Government Act (2002) as the empowering legislation:

- Promotes tight financial-management provisions
- Requires funding and financial policies that are reviewed at least every three years
- Promotes transparency around decision making
- Requires community consultation

LTCCPs are required every three years, and must provide financial forecasts that span 10 years. These forecasts are integrated with the council's annual plan. The production of LTCCPs promotes a full review of the council's priorities and includes a review of funding and financial policies. The 10-year forecasts are audited by Audit New Zealand.

Other strengths of the New Zealand system that support the rating include:

- Strict financial and non-financial reporting requirements
- Balanced budgets that include meeting the cost of depreciation or providing the rationale for not doing so
- Clear revenue and expenditure responsibilities between local and national governments, with an adequate level of taxation powers
- Crown willingness to provide emergency support

Economy

In the short term, the structure of a council's local economy is not an important factor in regard to credit quality. However, over the longer term a council's economic structure will influence its credit quality, as it affects the revenue and expense pressures placed on the council, as well as its ability to attract future ratepayers. New Plymouth's local economy provides little support to its credit quality.

The Taranaki region, of which New Plymouth is the primary economic center, has recorded positive net migration since 2001, contributing to a larger rates base. However, the strong growth levels seen in fiscal 2002 and fiscal 2003 have not been repeated since, and the council is expecting modest growth rates up until fiscal 2011. New Plymouth continues to attract professionals, technicians, and trades people who arrive mainly from Europe and Australia, with their families. Despite the projected number of births outweighing projected deaths over the next 10 years, New Plymouth's population will continue to age as the population lives longer.

The Taranaki region's economy has limited diversity, relying heavily on the agriculture sector (particularly milk and milk products). This means that a large proportion of the region's economy is vulnerable to the New Zealand dollar exchange rate and adverse shifts in commodity prices. However, the economy is becoming more diversified, with strong growth in mining and exploration, tourism, and the service sectors. Growth has been consistently strong since 2000, and in general the Taranaki region is one of the better performing New Zealand regions. Economic activity increased by 1.7% year-on-year to June 2007 compared with 0.7% for New Zealand as a whole. There is an expectation that the New Zealand economy will slow in response to the cumulative effect of recent rate rises.

Unemployment remains low, with the availability of suitably skilled labor seen as the most significant constraint on economic development in the region. As in other New Zealand regions, strong employment and high participation rates are beginning to constrain capacity. This will not only affect the growth of the local economy but also the council's ability to fulfill its capital-expenditure requirements.

Management Capacity and Credibility

New Plymouth's rating is supported by its sound management capacity and commitment to fiscal discipline. The Crown's legislative environment, which promotes a culture of planning, transparency, and consultation, ensures a very strong management culture.

Management prepares practical long-term plans that include realistic budgets.
As a consequence, New Plymouth does not tend to significantly lag in its capital-expenditure program, and spending on specific projects is generally conservative and comes in under budget each year. Further, capital spending on projects that have not been budgeted for is minimal.

Taranaki Investment Management Ltd. (TIML), the organization established to manage the council's Perpetual Investment Fund, also exhibits a strong governance structure. The TIML board provides independent commercial management and includes a small number of expert directors who second a full-time investment manager from NPDC to actively manage the fund. Its management structure, including the separation between TIML and the council, ensures that the council cannot unduly influence the board. Furthermore, appropriate governance structures are in place to enable fraudulent activities to be better detected. TIML itself is governed by a contract setting out the founding principles for the fund, together with a statement of policies, standards, and procedures for management of the fund. PricewaterhouseCoopers has audited these policies and procedures concluded that they are appropriate.

There was some change in the makeup of the council after the October 2007 elections but our expectation is that there will not be a dramatic change in the direction of the council in the short-to-medium term. While the Mayor was returned, the Deputy-Mayor did not retain his position. The turnover of councillors was moderate, with seven of a possible 14 councillors changing. The majority of the councillors were involved in the development of the 2006-2016 LTCCP, the document that outlines the strategic direction of the council.

Financial Flexibility

A key factor supporting New Plymouth's credit quality is the council's high degree of control over revenues and expenditure.

Council rates can be easily modified to accommodate the increased need for expenditure (thereby increasing the council's revenue flexibility). The availability of targeted rates to raise monies for specific projects is a further bonus. New Plymouth is a low-to-moderate taxing council relative to other New Zealand governments, ranking 14th lowest on a per-capita basis.

As a general rule, New Plymouth does not receive operating grants and subsidies from the Crown.
It does, however, receive subsidy funding for road expenditure. Although grants, subsidies, and financial contributions from other levels of government can diversify a council's revenue base, it can also restrict a council's financial flexibility, as grants usually are for specific purposes.

New Plymouth's core services are limited to those areas generally provided by local government.
These include road maintenance, street cleaning, water supply, wastewater, stormwater, refuse collection and disposal, and sport and recreational facilities. The council does not perform any significant welfare functions, which can be linked to economic cycles or are highly volatile, nor is New Plymouth responsible for the high-growth and politically-sensitive health, education, and justice sectors. The limited scope of the council's activities therefore offers some support to the rating.

Further supporting the rating on New Plymouth is the absence of a significant infrastructure or maintenance gap.
Some of the council's domestic peers, such as Auckland City Council, are facing increasing financial pressures to maintain and renew infrastructure.

The 100% council-owned Taranaki Investment Management Ltd. (TIML) was established by the council to manage the funds it received from the sale of its share in Powerco Ltd. The council converted the proceeds from the sale into the Perpetual Investment Fund. The sale of these shares has allowed the council to diversify its revenue streams. We believe that the reallocation of funds away from a concentrated investment in Powerco Ltd. to a balanced and diversified investment portfolio will result in a less-risky revenue stream. This revenue stream does, nevertheless, carry a higher risk than council-rates revenue.

Adding to New Plymouth's flexibility is it limited ownership of CCTOs.
Unlike some other rated New Zealand councils, New Plymouth does not have substantial ownership in CCTOs. Revenues from CCTOs carry greater risk than the stable revenue stream provide by property rates; therefore a council's CCTO ownership diminishes its credit quality.

Budgetary Performance

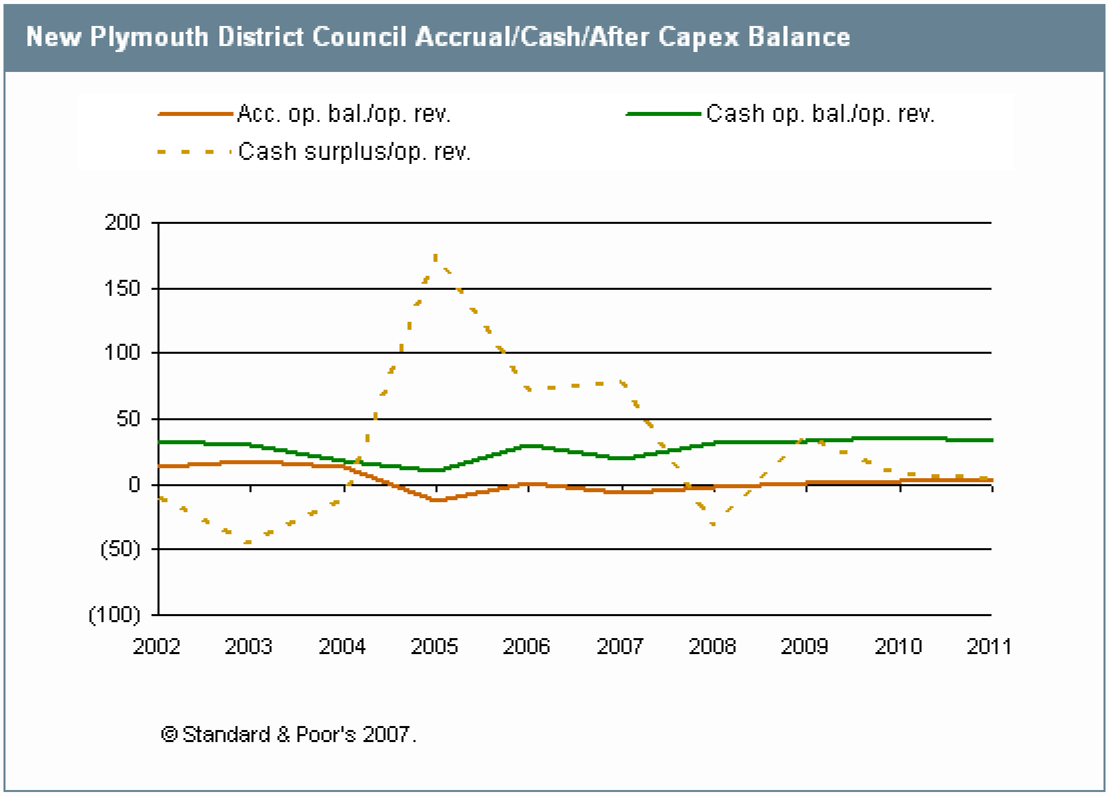
To ensure our analysis is consistent with that of other rated local governments, we have made some accounting adjustments to New Plymouth's reported finances. Specifically, the major adjustment made relates to the exclusion of capital and operating grants from operating revenues, primarily because they generally are tied to specific capital projects and cannot be used to service debt if required. Similarly, vested assets that are included in operating revenue are left out, as they too cannot be used to service debt.

Historically, New Plymouth's budgetary performance has provided support to its ratings.
Forecasts suggest that the council's budgetary performance generally will remain strong (given the small contribution that New Plymouth's CCTOs make to the council's finances, we consider the council's budgetary performance at the core council level).

Operating expenses continued to grow strongly in fiscal 2007 and have grown on average by 10% each year for the past three years. These increases in addition to lower interest returns saw New Plymouth record a small deficit in fiscal 2007. This was due to a 6.2% increase in expenditure--largely a result of increasing cost of services. Revenues also decreased slightly due to a reduction in interest income. Compared with 2006, expenses increased by 12.3% (depreciation related), but this was outweighed by the 28.1% increase in operating revenue when the receipt of the first PIF release was received from TIML ensuring that New Plymouth did record an accrual operating surplus. New Plymouth is forecasting its accrual operating position to improve in 2008, return to surplus in fiscal 2009, and remain in surplus at least until 2011 (see chart 1). However, the ongoing growth in operating expenses is placing downward pressure on New Plymouth's budgetary performance forecasts, so these surpluses may not eventuate.

New Plymouth's cash operating position as a percentage of operating revenue dropped slightly in fiscal 2007; however, it is forecast to remain strong over the life of the LTCCP (see chart 1). Strong growth in equity investments and capital receipts, along with capex underspends, has seen New Plymouth's overall cash position after capital expenditure remain in surplus. A weakening of New Plymouth's overall cash position is forecast; however the size and timing of these deficits will be dependant on New Plymouth's ability to meet its capital-expenditure forecasts. In any event, expected cash deficits should be absorbed by the council's balance sheet at the current rating level.

Chart 1

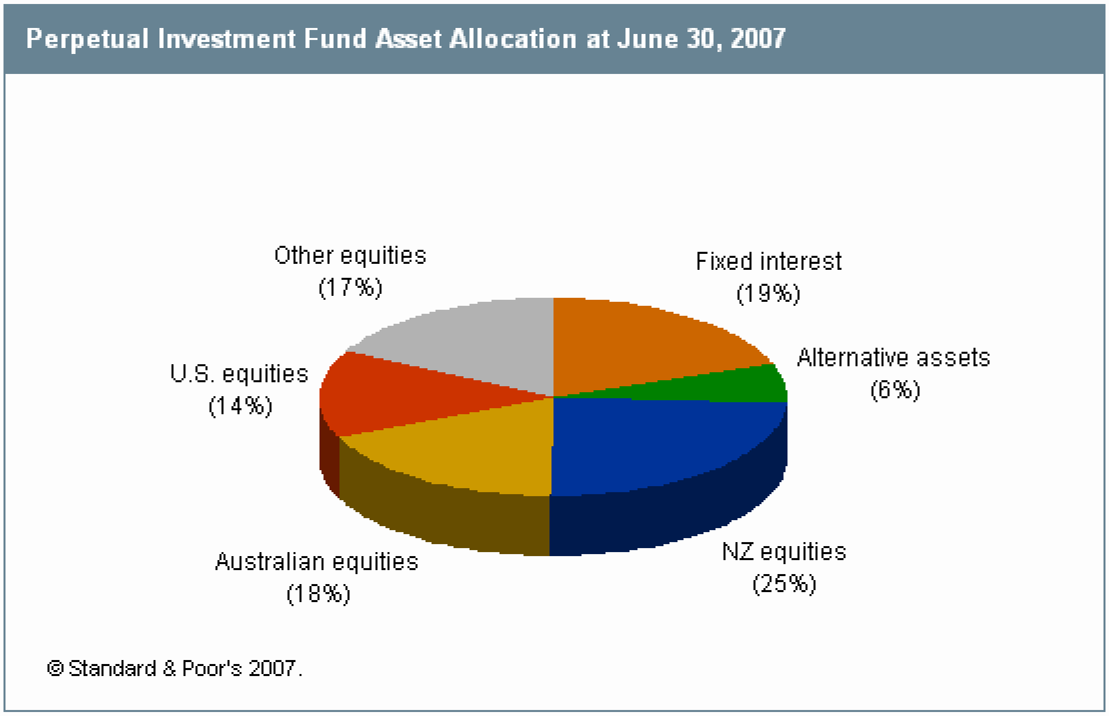


Debt and liquidity management

Fiscal 2007 saw the completion of the second full year of the Perpetual Investment Fund.

The fund's economic return was NZ$32.9 million (with NZ$21.5million released back to the council). The size of the fund continues to grow, and at Sept. 30, 2007 it was worth about NZ$302 million. As noted, TIML converted the remaining SPARCS to cash (see chart 2). Diversification is set to continue into fiscal 2008 as the company focuses on investing high-growth assets. Standard & Poor's considers the 70/30 spilt between cash and fixed assets and equities as an aggressive strategy not dissimilar to what is seen in other long-term-investment portfolios. Further, Standard & Poor's is not concerned by New Plymouth's strategy of investing highly volatile alternative assets provided that it remains a modest part of a diversified portfolio.

Chart 2



While setting a specific portfolio return may raise the portfolio risk, Standard & Poor's take some comfort in that the portfolio return will be reviewed tri-annually. If the fund does not meet its required income levels, discretionary capital expenditure by the council is likely to be deferred or reduced to compensate for the reduction. Further, the council may also elect to record a deficit if the reduction in the release is set to be temporary. A possible sale of part or the entire investment portfolio would be considered if the severity of the downturn warranted it.

New Plymouth's liquidity is strong.

Although Standard & Poor's doesn't give credit to the council's holdings of alternative assets for liquidity calculations, New Plymouth still has close to NZ$290 million in liquid investments--more than offsetting the NZ$26.471 million of debt due in the 12 months to June 2007 (see table 2). In an emergency, the council would be able to access these funds quickly as a council resolution is not required.

Table 2

Debt-Maturity Profile

Year	(Mil NZ$)
Current	26.471
1-2 years	4.214
3-5 years	10.104
5-10 years	39.827

The council easily meets its debt targets, although these targets are not considered onerous.

Indeed, if the council's financial strength deteriorated to a point that threatened these ratios, then it is likely that the council would be downgraded. The targets are as follows:

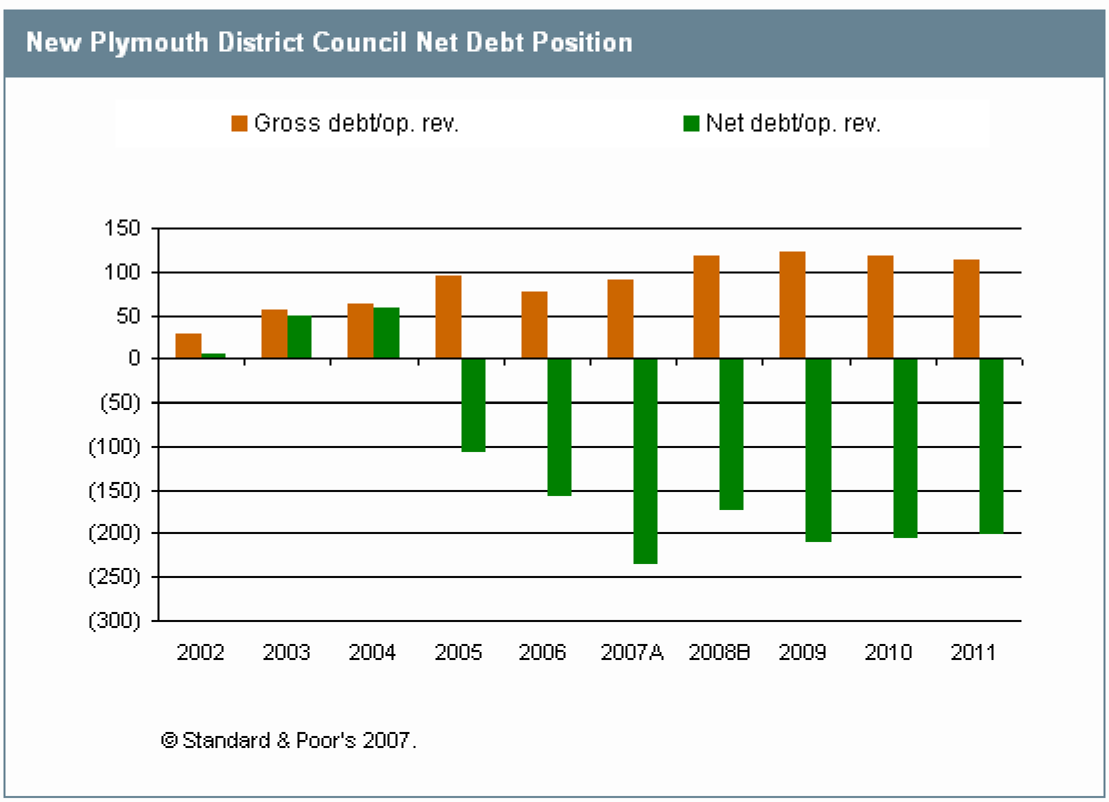
- Net debt is not to exceed 20% of total assets (4.9% as at June 30, 2007)
- Net debt is not to exceed 135% of total revenues, including rates (As at 30 June 2007, 71.5%)
- Funds from operations (FFO) is to exceed net interest expense by at least 2.5x (3.1x at June 30, 2007).

Debt Burden

When assessing New Plymouth's debt burden, Standard & Poor's gives credit to any bonds, shares, or other liquid investments that are available to the council. We would not, however, credit any derivatives or investments in private equity should the Perpetual Investment Fund allocate investments to them. While a degree of market risk exists (the risk that the market value of the investment may change), we see that the price volatility of the equity holdings are within acceptable limits given the portfolio's diversification and the credit quality of the instruments in it. With the conversion of the last of the SPARCS component of the Perpetual Investment Fund to equity shares, the whole value of the Perpetual Investment Fund is now used to calculate New Plymouth net debt.

The development of the 2006 action plan has changed the focus away from cash funding to using debt to fund some capital expenditure, particularly if the project will have intergenerational benefits for the community. Historically, the council has relied on its strong cash flows to fund most of its capital-expenditure program. A large increase in gross debt is expected in the next few years as the council borrows to fund sewerage and city-development projects. Debt levels are expected to peak around fiscal 2012 and reduce over the remaining life of the current LTCCP. Despite a forecast increase in gross debt, New Plymouth's substantial liquid assets will keep the council in a net-creditor position (see chart 3).

Chart 3



Contingent Liabilities

New Plymouth has low contingent liabilities, with a limited number of legal disputes and no significant guarantees.

Legal proceedings related to the Waitara Endowment Land are still outstanding, with the exact liability unquantifiable. The loans to sporting or other bodies guaranteed by council are valued at NZ$902,000. The council also owns a 50% share (with the Crown) in the local airport, and its holding is included in the council's consolidated accounts. The airport is a small regional airport with low risks and no debt.

New Plymouth District Council Financials

	--Year ended June 30--				
	2007A	**2006**	**2005**	**2004**	**2003**
Operating results (Mil. NZ$)					
Rates	42.0	39.2	37.1	34.7	33.7
Fees, fines, and user charges	0.0	0.0	0.0	0.0	0.0
Interest received	9.9	14.1	13.0	0.4	0.8
Other operating revenue	36.3	36.6	20.0	45.2	41.1
Total operating revenue	88.2	89.8	70.1	80.3	75.6
Interest expense	5.4	4.9	4.1	3.2	2.0
Depreciation	21.2	21.3	15.9	14.3	12.5
Other operating expenditure	67.1	62.1	58.7	52.1	48.2
Total operating expenditure	93.7	88.3	78.6	69.6	62.6
Operating balance (accrual)	(5.5)	1.6	(8.5)	10.7	13.0
+ Depreciation	21.2	21.3	15.9	14.3	12.5
+ Other adjustments	1.0	3.9	(0.5)	(11.0)	(3.0)
= Cash operating balance	16.7	26.9	7.0	14.0	22.4
+ Asset sales	1.3	0.9	1.2	0.2	0.4
+ Other capital receipts (payments)	86.5	64.5	144.3	3.3	4.5
- Capital expenditure	36.8	27.4	29.7	27.7	40.4
- Net equity investment (policy)	0.0	0.0	0.0	(1.0)	20.9
Overall balance	67.7	64.8	122.8	(9.3)	(34.1)
Financial Performance Indicators					
Operating revenue growth (%)	(1.8)	28.1	(12.6)	6.1	11.7
Operating expenditure growth (%)	6.2	12.3	12.9	11.1	7.6
Accrual operating balance/operating revenue (%)	(6.2)	1.8	(12.1)	13.3	17.2
Cash operating balance/operating revenue (%)	18.9	29.9	9.9	17.4	29.6
Overall balance/operating revenue (%)	76.8	72.1	175.1	(11.6)	(45.1)
Gross interest expense/operating revenue (%)	6.1	5.4	5.8	4.0	2.6
Adjusted net interest expense/operating revenue (%)*	(5.0)	(10.3)	(12.8)	3.5	1.6
Adjusted cash operating balance net interest cover (x)*	(2.8)	(1.9)	0.2	5.9	19.4
Capital expenditure/total budgetary expenditure (%)	28.2	23.7	27.4	28.4	39.2
Balance Sheet (Mil. NZ$)					
Cash and liquid investments	289.0	210.0	142.7	2.9	4.9

New Plymouth District Council Financials(cont.)					
Other non-current assets	10.4	9.8	9.5	174.2	5.9
Non-current assets	1,337.8	1,385.5	1,420.4	887.6	1,039.1
Total assets	1,637.2	1,605.4	1,572.6	1,064.6	1,049.9
Current loans	26.5	12.2	38.5	14.2	16.8
Current employee and other provisions	0.0	0.0	0.0	0.0	0.0
Other current liabilities	16.8	14.5	12.8	15.4	16.5
Non-current loans	54.1	57.2	28.3	35.6	25.8
Non-current employee and other provisions	1.8	2.0	2.1	2.0	1.8
Other noncurrent liabilities	(0.0)	0.0	0.0	(0.0)	0.0
Net worth	1,538.0	1,519.6	1,490.9	997.5	989.0
Total net worth & liabilities	1,637.2	1,605.4	1,572.6	1,064.6	1,049.9
Memorandum Items					
Gross debt	80.6	69.4	66.8	49.8	42.5
Net debt	(208.4)	(140.7)	(75.9)	46.9	37.7
Present value of operating lease obligations	0.1	0.1	0.2	0.2	0.2
Financial Position Indicators					
Debt obligations					
Gross debt/operating revenue (%)	91.4	77.2	95.2	62.0	56.3
Net debt/operating revenue (%)	(236.3)	(156.6)	(108.2)	58.5	49.8
Adjusted net debt/operating revenue (%)*	(236.2)	(156.4)	(107.9)	58.7	50.1
Gross debt/cash surplus payback (years)	4.8	2.6	9.6	3.6	1.9
Adjusted net debt/cash surplus payback (years)*	(12.5)	(5.2)	(10.9)	3.4	1.7
Non-debt obligations					
Employee and other provisions/operating revenue (%)	2.0	2.2	3.0	2.4	2.4
Contingent liabilities/operating revenue (%)	0.0	0.0	0.0	0.0	0.8
Net worth indicators					
Net worth/total assets (%)	93.9	94.7	94.8	93.7	94.2
Change in net worth (%)	1.2	1.9	49.5	0.9	(2.3)

Ratings Detail (As Of November 29, 2007)*		
New Plymouth District Council		
Issuer Credit Rating		
Foreign Currency		AA+/Stable/A-1+
Local Currency		AAA/Stable/A-1+
Issuer Credit Ratings History		
22-Jul-2002	*Foreign Currency*	AA+/Stable/A-1+
21-Nov-2004	*Local Currency*	AAA/Stable/A-1+
22-Jul-2002		AA+/Stable/A-1+

Ratings Detail (As Of November 29, 2007)***(cont.)**
*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.