Kapiti Coast District Council

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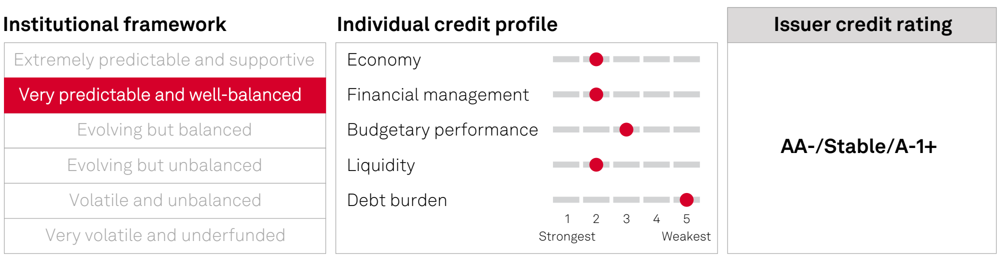
This report does not constitute a rating action.

Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
New Zealand's institutional framework settings are strong, albeit weaker than in the past.	After capital account deficits will gradually reduce as the council's revenue base grows and capital expenditure (capex) plateaus.
Kapiti's robust economic profile and experienced management team continue to support our ratings on the council.	Prefunding strategy underpins strong liquidity coverage.
	Debt levels will increase to fund infrastructure and prefund upcoming debt maturities.

Kapiti Coast District Council's after capital account deficits will narrow over the next three years, slowing its debt accumulation. The council will increasingly cash fund its infrastructure spending with strong operating surpluses from rising property rates and internal cost savings.

Combined with an infrastructure budget which should plateau at about NZ$78 million per year, we forecast after capital account deficits will narrow to 11% of total revenues in fiscal 2027 (year ending 30 June). After capital account deficits peaked at 33% in fiscal 2024.

Effective liquidity policies and robust management practices will mitigate risks from elevated debt at about 300% of operating revenues. Kapiti's strategy of prefunding upcoming debt maturities minimizes refinancing risk over the next one to two years, in our view. This strategy also partly explains the council's very high debt levels compared to similarly rated peers.

Kapiti plans to keep its water services within council after completing a public consultation process. In May 2025, the council opted to proceed with an in-house model for delivering water services under the Crown's Local Water Done Well reform program. It will compile a water services delivery plan by September 2025, for approval by the Department of Internal Affairs.

Outlook

The stable outlook reflects our view that Kapiti's budgetary outcomes will improve over the next two years, with support from large increases in rates revenue and slowing growth in expenses.

Downside scenario

We could lower our ratings on Kapiti if its budgetary forecasts perform below our base case. This could occur if the council drops planned increases in rates or increases capex.

Upside scenario

We could raise our ratings on Kapiti if its deficits after capital accounts narrow. This could lead to a structurally lower ratio of debt to operating revenue and stronger liquidity coverage.

Rationale

New Zealand's institutional framework has weakened; a robust local economy and strong financial management support creditworthiness.

The institutional framework within which New Zealand councils operate is a key factor supporting Kapiti's credit profile. We believe the sector's revenue and expenditure imbalance has widened, and the predictability of its policy settings has weakened compared to the past. In our view, this framework remains strong relative to global peers, ranking the second highest on our six-point scale (see "New Zealand Local Governments Face Rising Fiscal Imbalances And Less Certain Policy Settings," published March 17, 2025).

Restrictive monetary and fiscal policy and a downturn in household and business spending weighed on growth in New Zealand. We forecast growth will pick up to 1.3% in calendar 2025 after a small contraction in 2024 (see "Global Macro Update: Seismic Shift In U.S. Trade Policy Will Slow World Growth," published May 1, 2025). Kapiti's local economy continues to benefit from the shift to hybrid working arrangements across New Zealand, especially after the opening of the Transmission Gully Motorway in 2022. Many of its residents ordinarily commute to Wellington's central business district for work.

The district had GDP per capita of around NZ$50,000 in the year to March 2024, compared to the national average of NZ$79,000, according to economic consultancy firm Infometrics. In our view, this is understated because some of the output of Kapiti's workers is captured in the statistics for the national capital of Wellington.

The Kapiti Coast district had about 57,700 residents as of June 30, 2024. The district also has an older population compared to the nationwide average. It had about 26.9% of residents aged over 65, compared with the national average of 16.5%. Average household incomes in Kapiti are about 10% lower than the national average.

We consider Kapiti's management to be strong. The council prepares long-term plans every three years, annual plans in the intervening years, and audited end-of-year annual reports, in line with national requirements. This forward-looking approach to prudent financial management sets an important baseline for the council's operating and capex requirements, and funding strategy.

In our view, Kapiti has prudent liquidity policies, which typically involve prefunding debt maturities at least 12 months in advance to minimize refinancing risks. The council does not use debt to fund operating expenses, does not issue foreign-currency debt, and mostly hedges its interest exposure.

High levels of capex delivery will keep after capital account deficits elevated, putting continued pressure on liquidity coverage.

We estimate Kapiti will gradually narrow its after capital account deficits to 11% in fiscal 2027 from 33% in fiscal 2024. Driving the improvement will be increases in the council's rates revenue and contained growth in operating and capital expenses.

We expect capex to average NZ$78 million over fiscal 2025-2027, more than double the council's average outlay in the five years prior to fiscal 2023. We anticipate capex spending will remain elevated, despite the council deferring projects to manage its debt levels.

Despite experiencing weak fiscal outcomes, we believe Kapiti possesses greater budgetary flexibility than its international peers, given the council can adjust its own-source revenues to address spending needs. Typically, general property rates, fees, and user charges account for more than 90% of its annual operating revenues.

In 2026, Kapiti raised general rates by 6.9% to combat rising costs. The council plans to raise its rates revenue by 7% each year until 2034 under its long-term strategy to pay down debt, although the benefits may not materialize until the end of this decade.

Kapiti's substantial capital program and prefunding strategy are contributing to an increase in its debt. We expect the council's total tax-supported debt to reach 300% of operating revenues by fiscal 2027. This is very high on a global scale even after considering the council's prefunding strategy which accounts for about one fifth of its debt stock. Additionally, we forecast interest costs will average around 12% of operating revenues over fiscal 2024-2026.

Kapiti's liquidity coverage will likely remain strong, serving as a key strength in our ratings compared to peers. Supporting this strength is the council's prefunding strategy and credit lines. Kapiti typically prefunds its debt maturities at least 12 months in advance to ensure high coverage. However, large spending needs as evident by after capital account deficits weigh on our assessment of its debt service coverage.

We estimate that cash, liquid assets, and bank facilities will be adequate to cover approximately 99% of upcoming debt maturities and interest costs over the next 12 months, after accounting for budgetary needs.

Upcoming debt service requirements over the next 12 months include NZ$70 million of term debt maturities and NZ$15 million of interest costs. The council has prefunded all upcoming maturities for the next 12 months.

Access to the New Zealand Local Government Funding Agency (LGFA) provides Kapiti and other local New Zealand councils with additional sources of external liquidity, particularly during periods of stress in financial markets. In our view, LGFA benefits from an extremely high likelihood of central government support and has helped Kapiti lengthen its maturity profile and reduce its interest costs.

We consider Kapiti's contingent liabilities to be small, mainly reflecting its exposure to natural disasters such as floods and earthquakes. The council is part of the Outer Wellington shared services syndicate with four other councils in the region and is jointly insured for above and below-ground assets.

Kapiti Coast District Council--Selected indicators

Mil. NZ$	2023	2024	2025bc	2026bc	2027bc
Operating revenue	108	108	124	134	144
Operating expenditure	84	85	98	101	102
Operating balance	23	24	26	33	41
Operating balance (% of operating revenue)	21.7	21.9	20.8	24.6	28.6
Capital revenue	19	16	16	17	19
Capital expenditure	64	82	77	79	78
Balance after capital accounts	(21)	(42)	(35)	(29)	(18)
Balance after capital accounts (% of total revenue)	(16.8)	(33.4)	(25.2)	(19.5)	(11.0)
Debt repaid	45	55	60	70	80
Gross borrowings	65	100	105	115	100
Balance after borrowings	(1)	3	10	16	2
Tax-supported debt (outstanding at year-end)	276	321	366	411	431
Tax-supported debt (% of consolidated operating revenue)	257.2	295.6	295.8	306.7	300.0
Interest (% of operating revenue)	8.6	11.9	11.8	11.5	10.5
National GDP per capita ($)	52,637	48,760	48,911	49,069	50,856

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.M.--Not meaningful. NZ$--New Zealand dollar. $--U.S. dollar.

Rating Component Scores

Key rating factors	Scores
Institutional framework	2
Economy	2
Financial management	2
Budgetary performance	3
Liquidity	2
Debt burden	5
Stand-alone credit profile	aa-
Issuer credit rating	AA-

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 the "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. 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

- Economic Outlook Asia-Pacific Q2 2025: U.S. Tariffs Will Squeeze, Not Choke, Growth, March 26, 2025
- Various Rating Actions Taken On New Zealand Councils On Lower Institutional Framework Assessment, March 18, 2025
- A Closer Look At Our Downgrades Of 18 New Zealand Councils, March 18, 2025
- New Zealand Local Governments Face Rising Fiscal Imbalances And Less Certain Policy Settings, March 17, 2025
- New Zealand Local Government Funding Agency Ltd. Ratings Affirmed; Outlook Stable, March 17, 2025
- Subnational Government Outlook 2025: Developed Markets' Regional Differences Intensify, Jan. 16, 2025
- 2023 Annual International Public Finance Default And Rating Transition Study, Aug. 20, 2024
- Global Ratings List: International Public Finance Entities July 2024, July 30, 2024
- Global LRGs Rating History List, June 17, 2024

Ratings Detail (as of June 12, 2025)*	
Kapiti Coast District Council	
Issuer Credit Rating	AA-/Stable/A-1+
Issuer Credit Ratings History	
18-Mar-2025	AA-/Stable/A-1+
20-Jul-2023	AA/Negative/A-1+
24-Jul-2022	AA/Stable/A-1+
27-Jul-2021	AA/Negative/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or

Ratings Detail (as of June 12, 2025)*
obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.