

FitchRatings



Fitch Ratings

International Public Finance

Timaru District Council

December 2025



Fitch maintains ratings on 18 councils, all in the 'AA' category

Council	Rating	Last Action	Date
Ashburton District	AA+/Stable	Affirmed	Jan-25
Environment Canterbury	AA+/Stable	Affirmed	Jun-25
Invercargill City	AA+/Stable	Affirmed	Nov-25
Selwyn District	AA+/Stable	Affirmed	May-25
Waikato District	AA+/Negative	Affirmed	Mar-25
Central Otago District	AA/Stable	Assigned	Mar-25
Far North District	AA/Stable	Affirmed	Dec-24
Hawke's Bay Regional	AA/Stable	Affirmed	May-25
Manawatu District	AA/Stable	Assigned	Sep-25
Waimakariri District	AA/Stable	Assigned	Aug-25
Timaru District	AA-/Stable	Assigned	Jan-25
Clutha District	AA-/Stable	Affirmed	May-25
Hauraki District	AA-/Stable	Assigned	Oct-25
Whakatane District	AA-/Stable	Affirmed	Jun-25
Gore District	AA-/Stable	Affirmed	Jun-25
Waipa District	AA-/Stable	Affirmed	May-25
Rotorua Lakes	AA-/Stable	Affirmed	Feb-25
Queenstown Lakes District	AA-/Negative	Affirmed	Jun-25



International Local and Regional Governments Rating Criteria

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- International Local and Regional Governments Rating Criteria (LRG Criteria, August 2024)

<https://www.fitchratings.com/research/international-public-finance/international-local-regional-governments-rating-criteria-16-08-2024>

International Local and Regional Governments Rating Criteria

Master Criteria

Scope

This report outlines the criteria that apply to the rating of local and regional governments (LRGs) outside the US or to debt issued by them. Ratings under these criteria are typically assigned to entities (Issuer Default Ratings, IDRs) and their debt instruments (issue ratings). They do not incorporate recovery prospects given default. These criteria apply to both new ratings and the surveillance of existing ratings.

Key Rating Drivers

Fitch Ratings assesses the key rating drivers (KRDs) listed below in its analysis and does not explicitly weight the assessments of individual KRDs in a rating conclusion.

Risk Profile: The risk profile of the LRG is determined by the interplay between risk sources and corresponding risk mitigants. Fitch analyses the extent to which LRGs' resilience to risk can be derived from the ability to adjust revenues, curtail or recover expenses, and access back-up liquidity. Fitch defines six key risk factors (KRFs) to analyse three risk sources and their corresponding risk mitigants. These KRFs, combined according to their relative importance, collectively represent the risk profile of the LRG. The risk profile assessment considers the relative importance of each KRF on an entity-specific basis and in the context of an entity's operating environment (OE).

Financial Profile: Fitch applies several quantitative metrics to assess the ability of the LRG to withstand a reasonable downturn over the rating horizon. This is done through the application of an issuer-specific rating case scenario and results in the LRG's financial profile assessment. This approach establishes the range of performance where a rating would be expected to remain stable.

Standalone Credit Profile: Risk profile and financial profile assessments are combined to suggest a category-specific Standalone Credit Profile (SCP) outcome for the most common combinations of risk and financial profiles. A notch-specific SCP is determined based on the components of the risk profile, the position of the credit metrics in the financial profile score range, and the peer analysis that provides the overarching consistency. Some additional asymmetric risk considerations, such as data transparency and governance, could affect the SCP.

Extraordinary Support: Most risk factors are addressed and captured in the KRFs. However, some issuers may benefit from extraordinary support from an upper tier of government. This is assessed once the SCP has been established, and together with the SCP produce the IDR.

Influence of the Sovereign Rating: LRG ratings are typically capped by the sovereign rating in recognition of the high degree of control and potential intervention by the central government, even within the most decentralised frameworks. LRGs that have a high degree of financial autonomy and institutional recognition could have a Long-Term Local-Currency (LT LC) IDR above the LT LC IDR of the sovereign.

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This report updates and replaces International Local and Regional Governments Rating Criteria, dated 3 September 2021.

Related Criteria

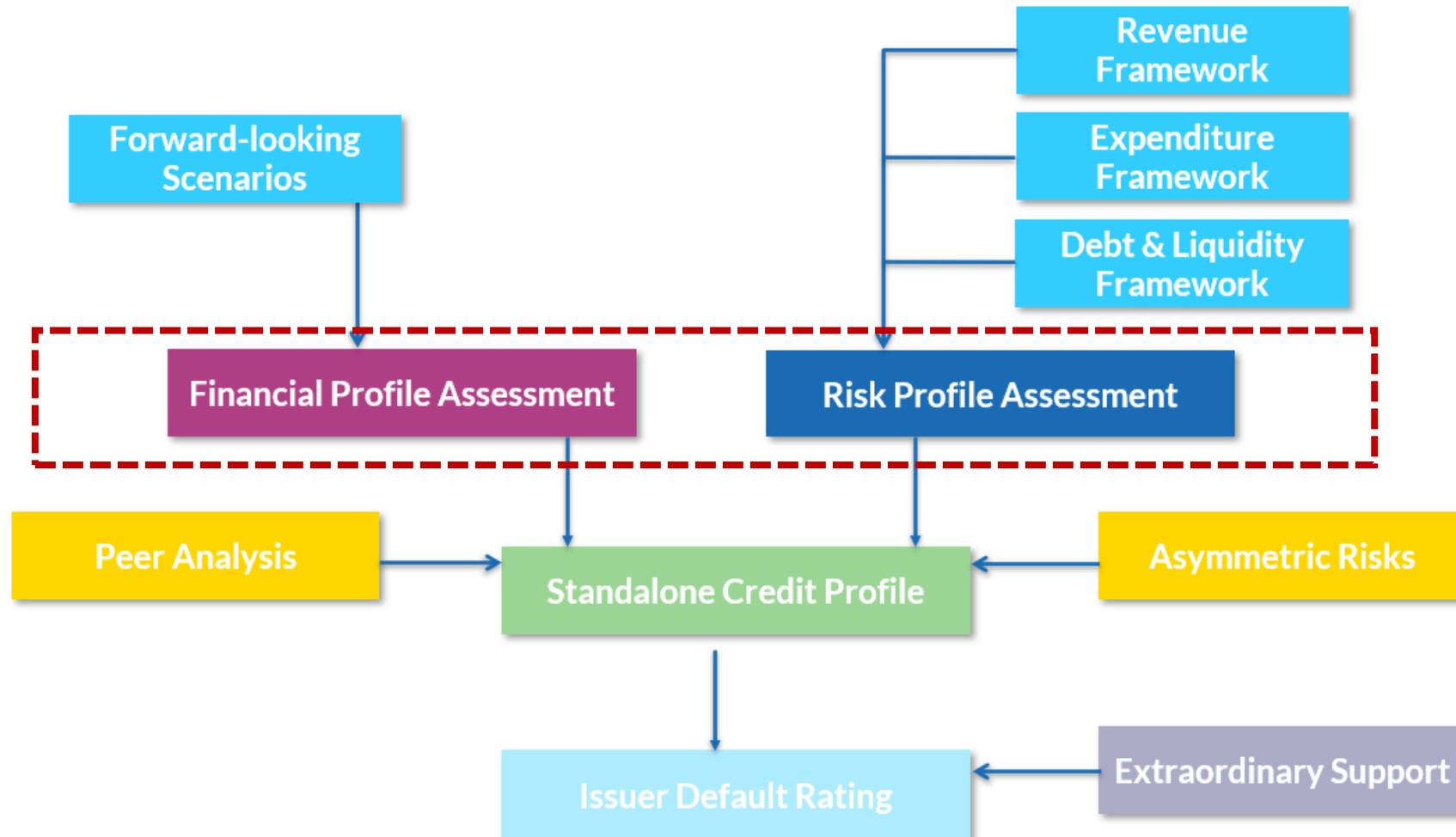
National Scale Rating Criteria (December 2020)
Government-Related Entities Rating Criteria (July 2024)
Country Collapsing Criteria (July 2023)
Emerging Market Countries' Local and Regional Governments' Specific Securities Rating Criteria (September 2022)
Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria (May 2024)
Sovereign Rating Criteria (April 2023)
Sukuik Rating Criteria (June 2022)

Analysts

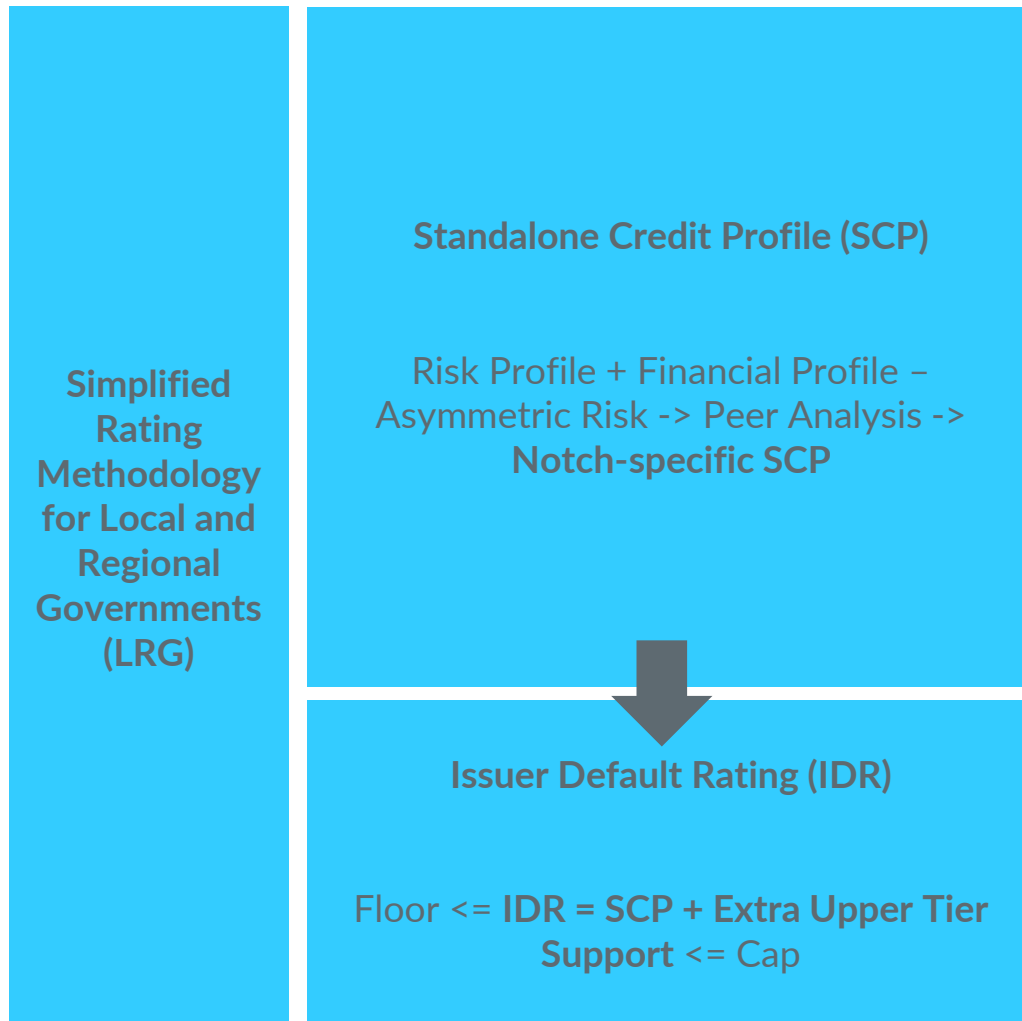
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LRG Criteria Steps



Source: Fitch



Risk Profile: Based on individual assessments of Revenue Robustness, Revenue Adjustability, Expenditure Sustainability, Expenditure Adjustability, Liabilities and Liquidity Robustness and Liabilities and Liquidity Flexibility.

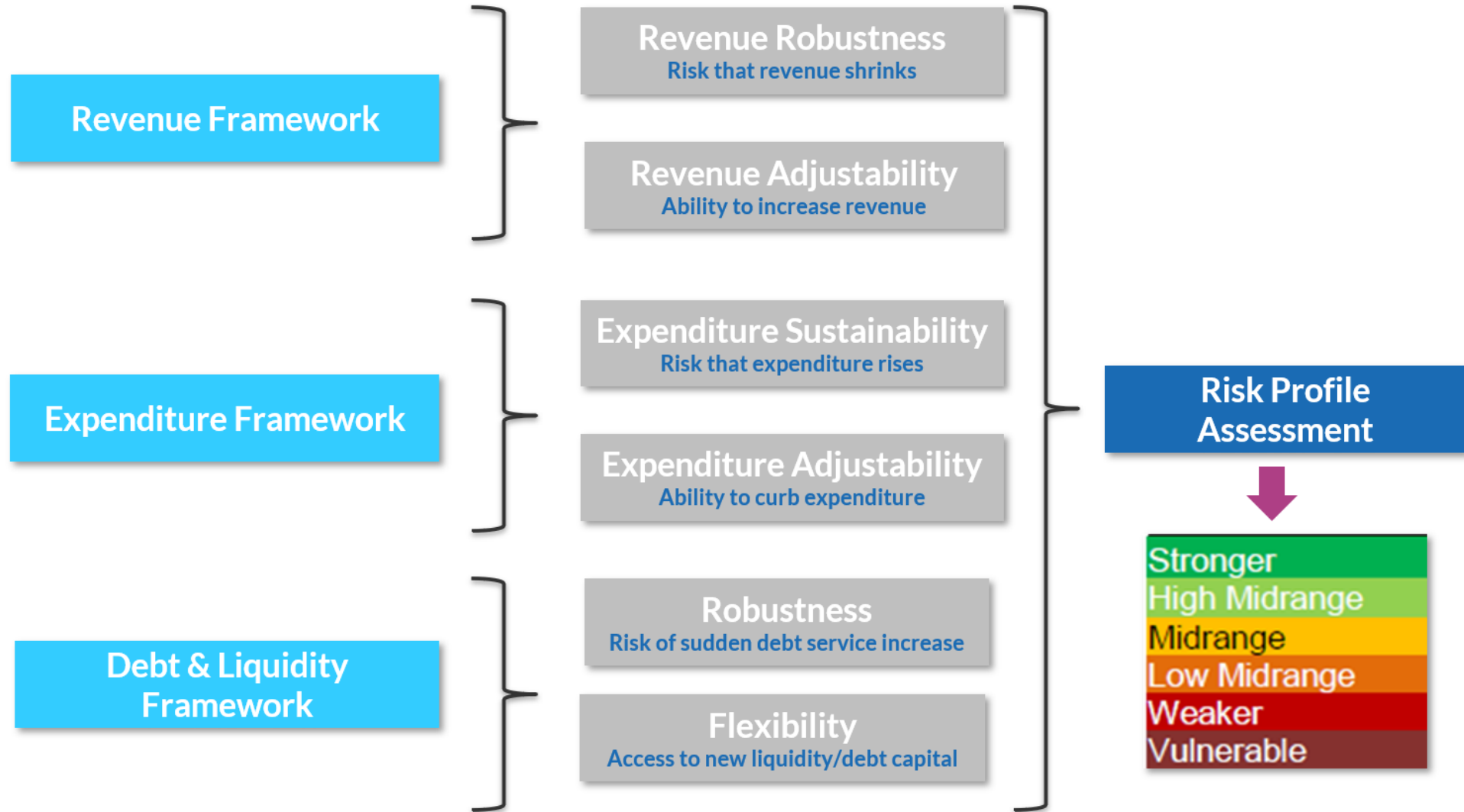
Financial Profile: Assessed through an issuer-specific rating case scenario that incorporates revenue, cost or financial risk stresses. The Primary Metric – the Payback Ratio: Net Adjusted Debt / Operating Balance (for “Type B” LRGs only)

Peer Analysis: Positioning the issuer within the peer group.

Asymmetric Risk: The analysis will consider whether certain additional risk factors may affect the SCP conclusion. These risk factors include accounting policies, reporting and transparency, management and governance and pension liabilities, having either a neutral or negative effect on the SCP only.

Extraordinary Support: In some cases, LRGs can benefit from external support, including potential for bail-out from an upper tier of government. This may take the form of intergovernmental debt with concessionary terms or ad hoc flexibility measures such as additional revenues or exemption of expenditure obligations.

Risk Profile



Risk Profile – NZ Councils

Council	Revenue		Expenditure		Liabilities & Liquidity		Risk Profile
	Robustness	Adjustability	Sustainability	Adjustability	Robustness	Flexibility	
Ashburton District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Environment Canterbury	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Invercargill City	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Selwyn District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Waikato District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Central Otago District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Far North District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Hawke's Bay Regional	Stronger	Stronger	Midrange	Midrange	Stronger	Midrange	High Midrange
Manawatu District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Waimakariri District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Gore District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Clutha District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Hauraki District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Whakatane District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Timaru District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Waipa District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Rotorua Lakes	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange
Queenstown Lakes District	Stronger	Stronger	Midrange	Stronger	Stronger	Midrange	High Midrange



Financial Profile and Scenarios

- Fitch applies several quantitative metrics to assess the ability of the LRG to withstand a reasonable downturn over the rating horizon. This is done through applying an issuer-specific rating case scenario.
- Sensitisations/stresses applied in a rating case scenario reflect the assessment of the six Key Risk Factors. This approach establishes the range of performance where a rating would be expected to remain stable.

Rating Scenarios:

- **Base Case** – Fitch will evaluate a five-year cash flow scenario that serves as our expected (base) case in the current macroeconomic environment. This base case is the starting point of our sensitivity analysis and will typically be based on:
 1. Historical financial performance (patterns and trends) – last five years
 2. Council budgets – Annual Plans and Long-Term Plans
 3. Other public sources + Fitch’s assumptions – e.g. opex/capex assumptions, debt trajectory modelling, forecast interest rates, etc
- **Rating Case** - will consist of a “**through-the-cycle**” scenario that incorporates a combination of revenue, cost and/or financial risk stresses, which are usually formed by reference to historical events, peer analysis, and Fitch’s expectations for the future.

Financial Profile and Scenarios

Operating Balance:

- Fitch will adjust the council's income statement for financial items (e.g. interest revenue or expense), capital items (e.g. capital subsidies, sale of assets), and non-cash items (e.g. depreciation, vested assets) in its assessment of the operating balance.
- The **Operating Balance** is the key input to Fitch's debt metrics

Net Adjusted Debt:

Financial metric assessments used in ratings will be based on **Fitch-Adjusted Net Debt**. In addition to direct debt, Fitch may reclassify other liabilities or contingent liabilities under "Other Fitch-classified debt", such as:

- **Direct debt (e.g. LGFA borrowings)**
- **Finance leases**
- Intergovernmental debt
- **Debt of majority-owned entities (i.e. CCOs or CCTOs)**
- Guarantees
- Other contingent liabilities



Typically included in adjusted debt



Not typically included in adjusted debt if low likelihood of raising a direct liability to the LRG (eg. creditworthy CCO)

➤ **Net Adjusted Debt** = Direct Debt + Other Fitch-classified Debt - Unrestricted Cash and Cash-equivalents

Primary & Secondary Metrics for Councils:

- The primary metric is the **Payback Ratio** [[Net Adjusted Debt / Operating Balance](#)]
- This measures the ability of an entity to pay down its debt from its own recurring resources.

Fitch will also consider the following secondary metrics:

- **Debt Service Coverage** [[Operating Balance / Debt service](#)]: Coverage of debt service is measured by a synthetic debt service indicator (mortgage-style amortisation over 15 years) or actual debt service requirement.
- **Fiscal Debt Burden** [[Net Adjusted Debt / Operating Revenue](#)] is an indication of the size of debt in proportion to the fiscal capacity in the form of recurring resources. It compares entities with similar scopes of responsibility.

Financial Profile and Standalone Credit Profile

- **Note:** The metrics considered are taken from the Fitch Rating Case forward-looking scenario (i.e. latter year(s) of the five-year scenario).
- (The Economic Liability Burden is not applicable to NZ councils).

Financial Profile Score

	Primary metrics		Secondary metrics	
	Economic liability burden (%)	Payback ratio (x)	Coverage (x)	Fiscal debt burden (%)
aaa	$X \leq 40$	$X \leq 5$	$X \geq 4$	$X \leq 50$
aa	$40 < X \leq 70$	$5 < X \leq 9$	$2 \leq X < 4$	$50 < X \leq 100$
a	$70 < X \leq 100$	$9 < X \leq 13$	$1.5 \leq X < 2$	$100 < X \leq 150$
bbb	$100 < X \leq 140$	$13 < X \leq 18$	$1.2 \leq X < 1.5$	$150 < X \leq 200$
bb	$140 < X \leq 180$	$18 < X \leq 25$	$1 \leq X < 1.2$	$200 < X \leq 250$
b	$X > 180$	$X > 25$	$X < 1$	$X > 250$

Source: Fitch Ratings

- **SCP Positioning** - This table provides the typical Standalone Credit Profile Category based on risk profile and financial profile combinations (the “suggested analytical outcome”).
- Notch-specific SCP derivation (e.g. “aa+”, “aa” or “aa-”) is primarily based on **peer analysis**, which includes analysis of the relative positioning of an entity’s primary and secondary debt metrics.

Analytical Outcome Guidance

Risk profile	Financial profile score					
Stronger	aaa or aa	a	bbb	bb	b	
High midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome	aaa	aa	a	bbb	bb	b

Source: Fitch Ratings

Timaru District Council - Current Assessment

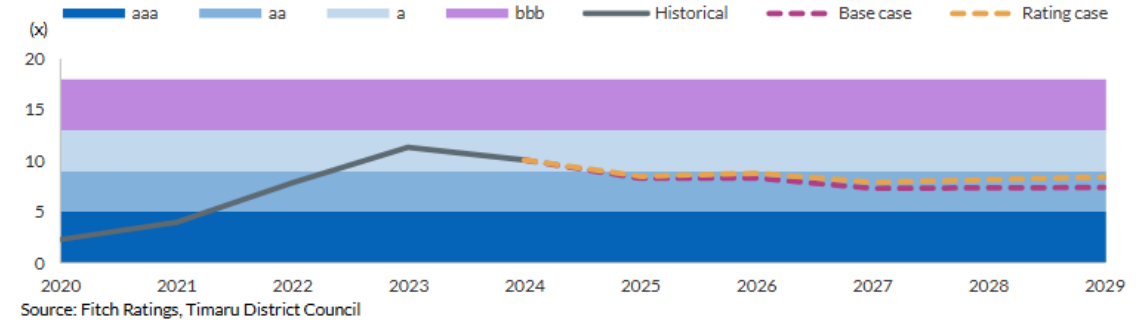
Financial Profile: aa category

Financial Profile Score Summary

	Primary metric	Secondary metrics	
	Payback ratio (x)	Coverage (x)	Fiscal debt burden (%)
aaa	$X \leq 5$	$X \geq 4$	$X \leq 50$
aa	$5 < X \leq 9$	$2 \leq X < 4$	$50 < X \leq 100$
a	$9 < X \leq 13$	$1.5 \leq X < 2$	$100 < X \leq 150$
bbb	$13 < X \leq 18$	$1.2 \leq X < 1.5$	$150 < X \leq 200$
bb	$18 < X \leq 25$	$1 \leq X < 1.2$	$200 < X \leq 250$
b	$X > 25$	$X < 1$	$X > 250$

Note: Yellow highlights show metric ranges applicable to Issuer
Source: Fitch Ratings

Payback Ratio - Fitch's Base and Rating Case Scenarios



Analytical Outcome Guidance

Risk Profile	Financial Profile					
Stronger	aaa or aa	a	bbb	bb	b	
High Midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low Midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome (SCP)	aaa	aa	a	bbb	bb	b

Source: Fitch Ratings



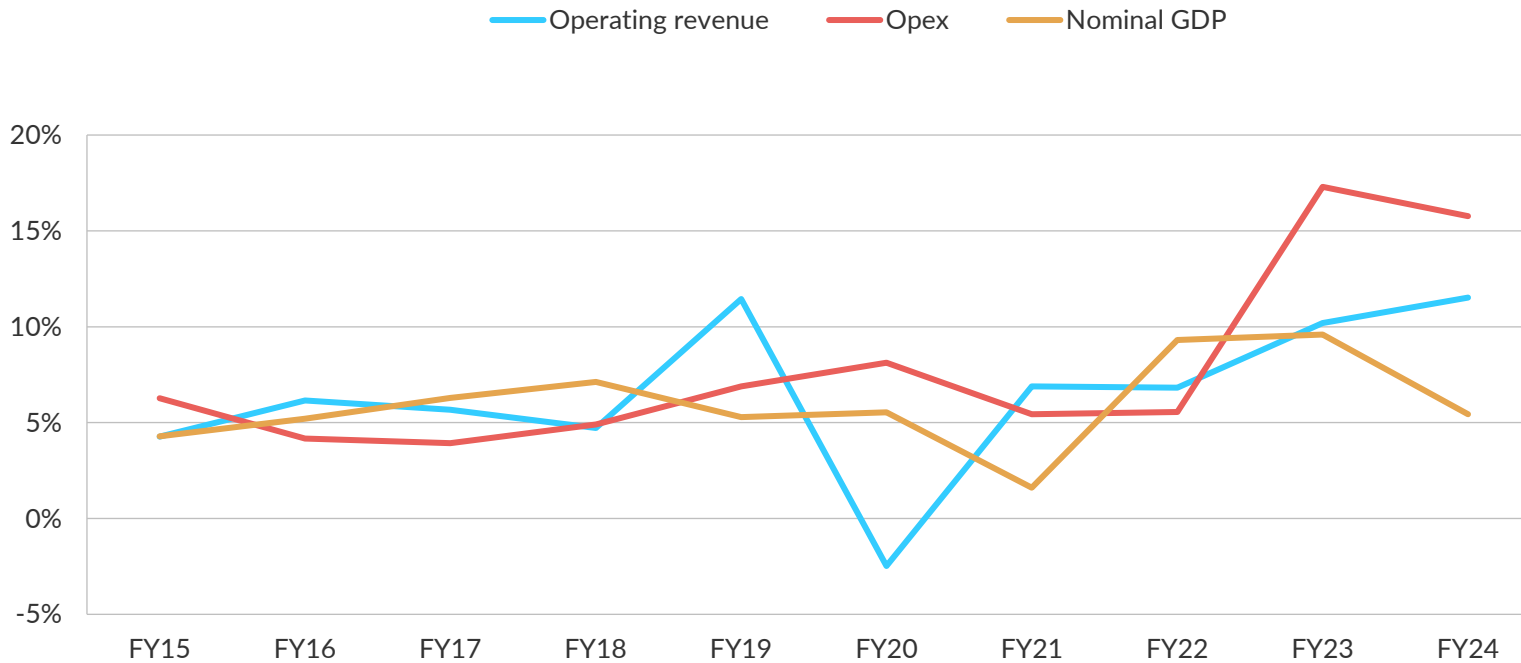
Global and Local Context to Fitch's Ratings

FitchRatings

Greater volatility in revenue and expenditure since pandemic onset

Revenue and expenditure growth vs GDP

All councils consolidated

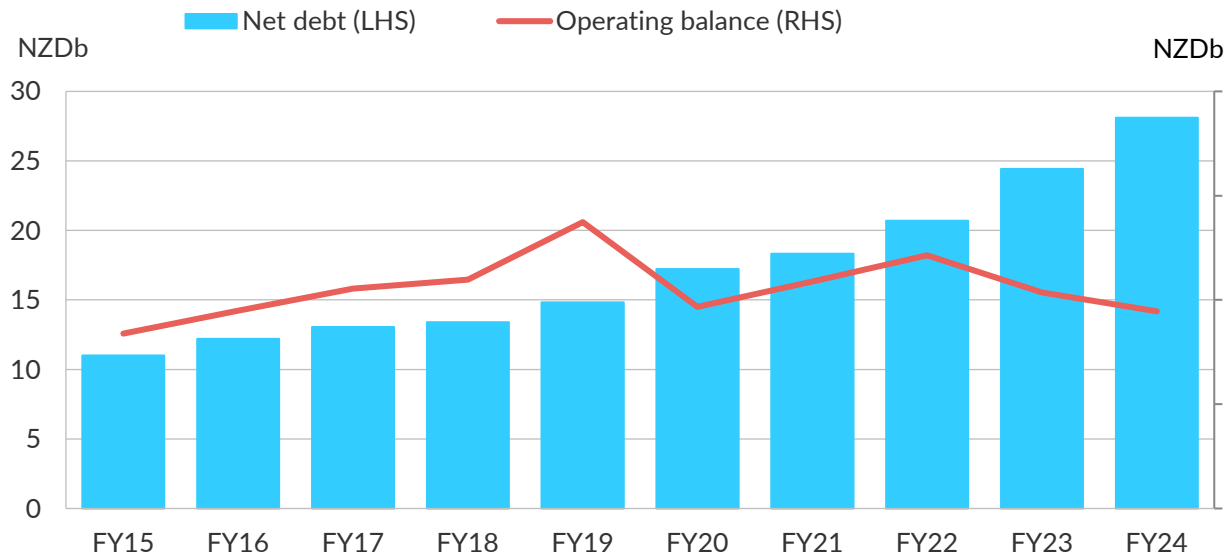


Source: Fitch Ratings, Stats NZ

Operating balance trend lagging debt growth, resulting in rising leverage in the sector. For now

Operating balance vs Net debt

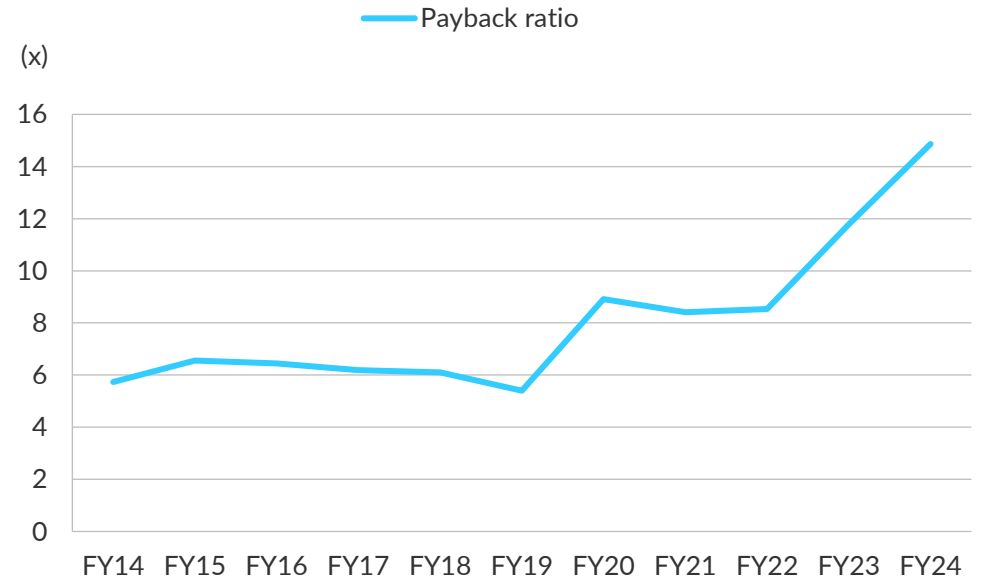
All councils consolidated



Source: Fitch Ratings, Stats NZ

Payback ratio (leverage)

All councils consolidated

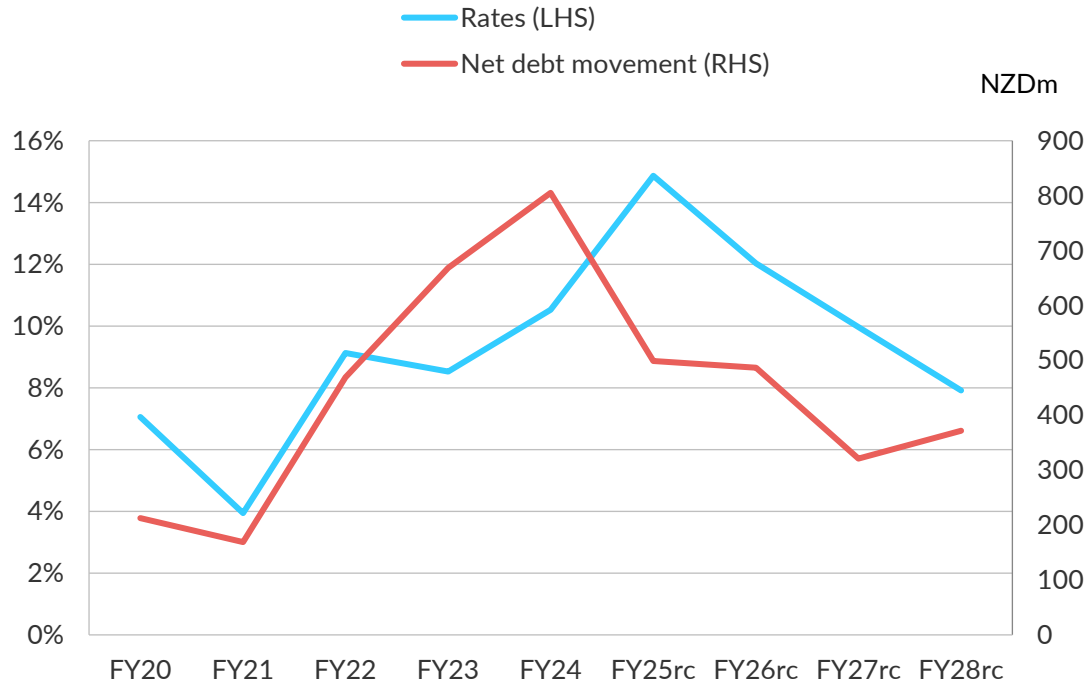


Source: Fitch Ratings, Stats NZ

Revenue powers, particularly rates, expected to counter the sharper debt growth

Rates growth vs Net debt movement

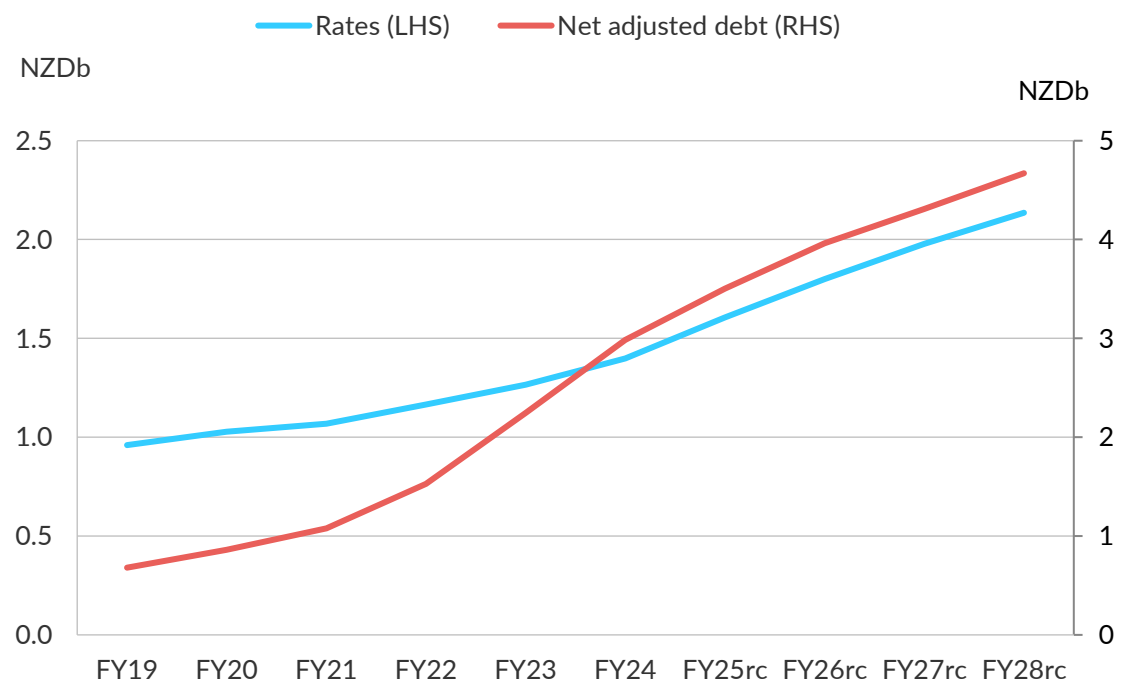
Fitch-rated councils



Source: Fitch Ratings

Rates revenue vs Net adjusted debt

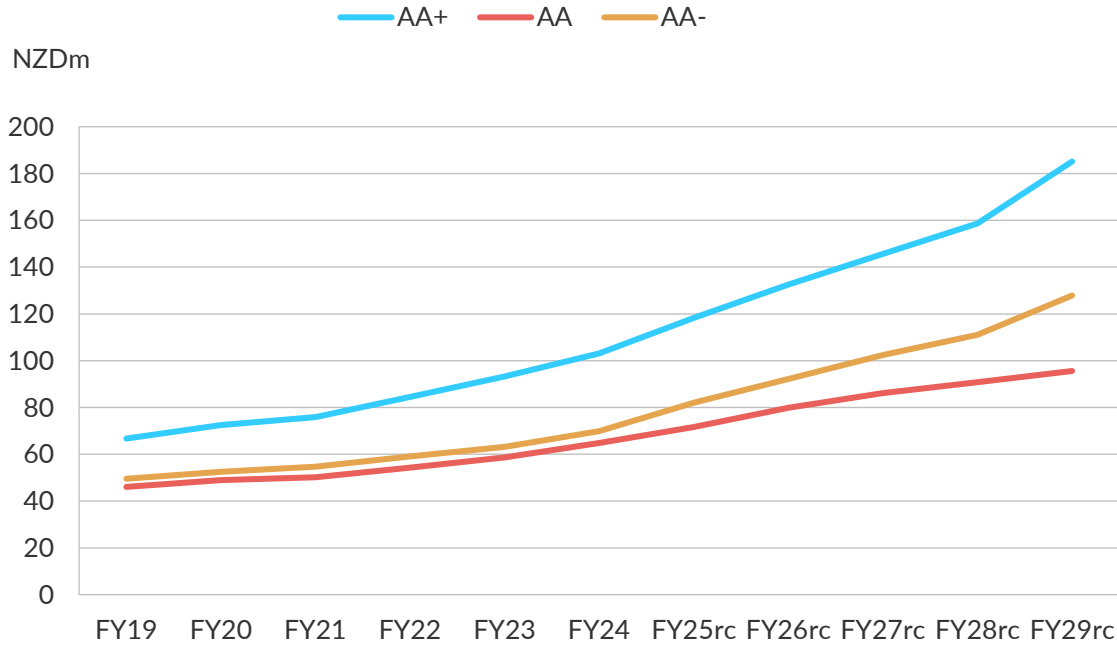
Fitch-rated councils



Source: Fitch Ratings

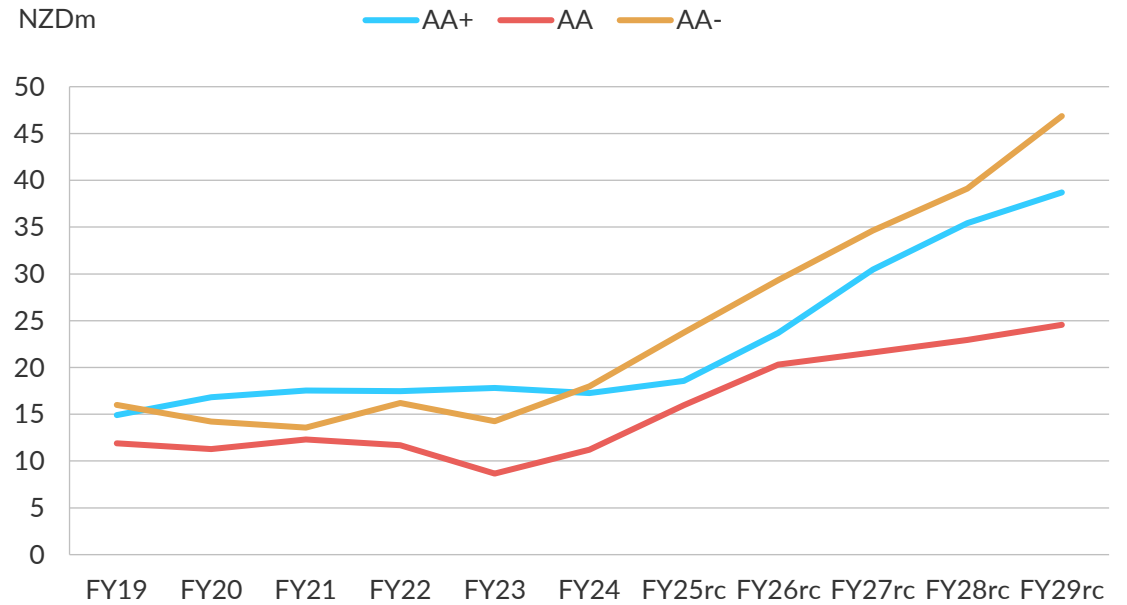
Upswing in rates revenue to drive stronger operating surpluses

Rates revenue, actual and Fitch's forward estimates,
Fitch-rated councils, averages across each rating level



Source: Fitch Ratings

Operating balance, actual and Fitch's forward estimates,
Fitch-rated councils, averages across each rating level



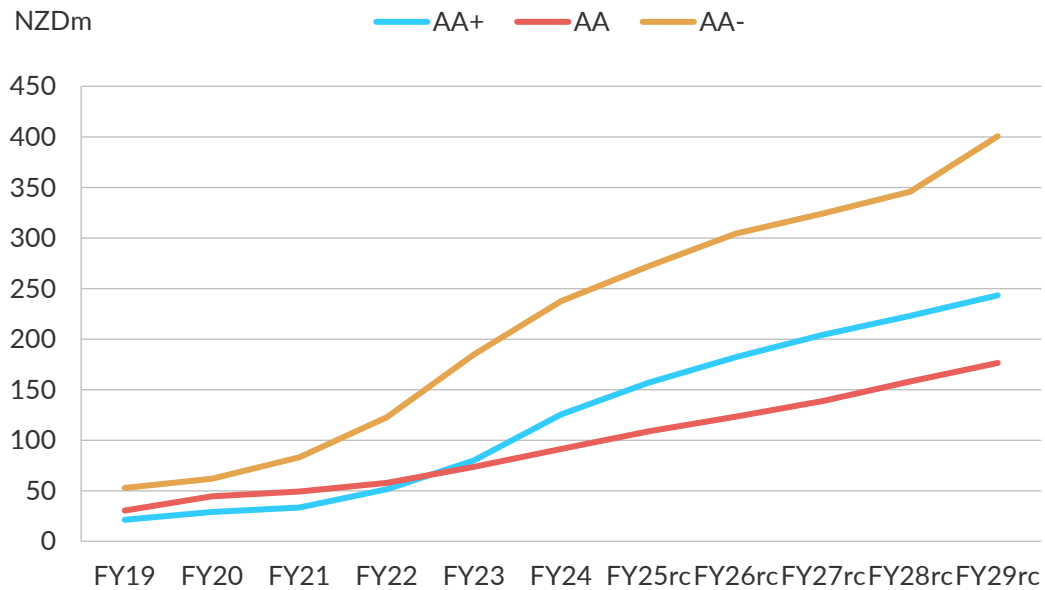
Source: Fitch Ratings

Debt metrics tested, but pressure expected to be transitory

The “Payback ratio” is Fitch’s measure of leverage: **Council net adjusted debt / operating balance**

Net adjusted debt, actual and Fitch’s forward estimates,

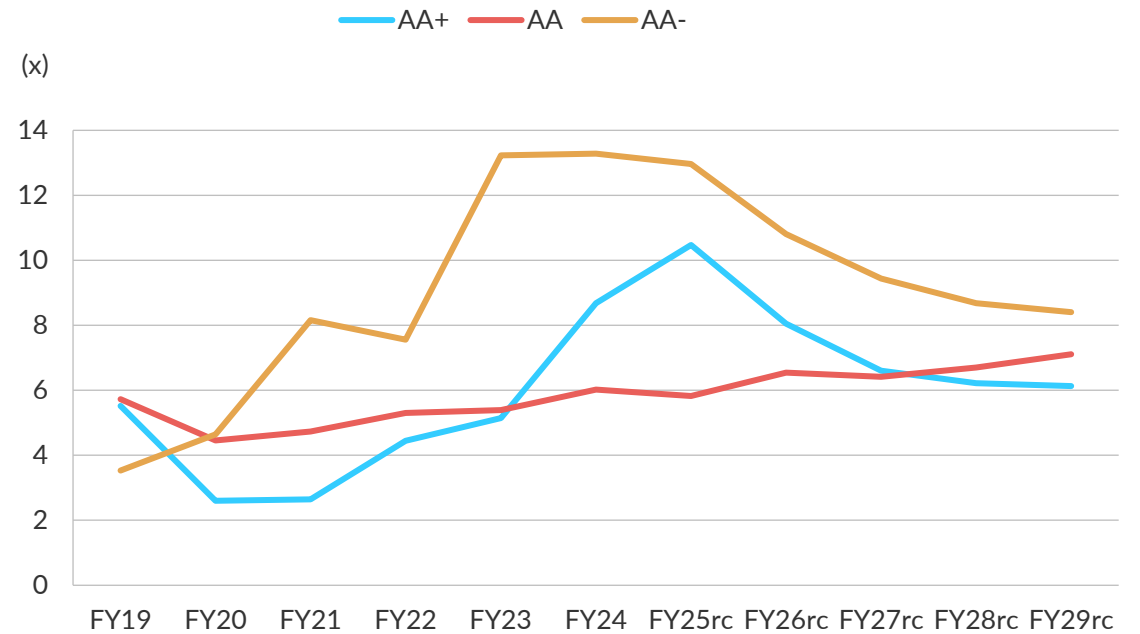
Fitch-rated councils, averages across each rating level



Source: Fitch Ratings

Payback ratio*, actual and Fitch’s forward estimates,

Fitch-rated councils, averages across each rating level



* Instances of negative payback ratios are excluded

Source: Fitch Ratings



Other Factors to Watch

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Factors to Watch

- **Policy and regulatory settings (examples):**
 - **Local Water Done Well**
 - Water services currently remain included in our council assessments. Leverage may rise in the near-term with higher debt leeway for CCOs. Potential long-term benefits to council credit profiles depending on how plans evolve and Fitch's treatment of CCOs
 - **Rates Capping** – passage of the proposal into legislation; counteracting changes; government support
 - **RMA** – potential replacement/changes; potential fiscal impacts to councils (although may not be significant on the most part)
- **Capex/Debt growth; impact on leverage**
 - Capex delivery rates, catch-up of historical infrastructure underspend; speed of debt growth
- **Implementation of council revenue adjustments to offset expenditure pressures**
 - Path of growth in operating balances; avoidance of budget slippage; operating balance trend against debt growth

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