

Bulletin:

# Credit Implications Of New Zealand's Proposed "Three Water" Reforms

August 1, 2021

This report does not constitute a rating action.

MELBOURNE (S&P Global Ratings) Aug. 2, 2021--New Zealand's Department of Internal Affairs (DIA) has presented to S&P Global Ratings six hypothetical scenarios regarding proposed "three waters" reforms. The DIA asked us to evaluate the scenarios' hypothetical credit consequences on our ratings on the New Zealand sovereign, the New Zealand Local Government Funding Agency (LGFA), and several local councils. The three waters are drinking water, wastewater, and stormwater.

The reforms involve the creation of several entities to provide water services throughout the country. The scenarios propose that the entities are structurally separated from local councils and the New Zealand government, have financial and operational autonomy, and borrow in their own rights. The scenarios present a range of structures and governance arrangements.

We determined that there would likely be no changes to our ratings or outlooks on the New Zealand sovereign or the LGFA under the scenarios presented at the time they were evaluated.

We assessed that the impact on our ratings and outlooks of the local councils would depend on several key issues. These include the amount of support the sovereign provides, the degree of influence each council has over the water service entities, and their individual credit characteristics, such as the effect the reforms have on their financial outcomes and the headroom within our current ratings. In our view, under the scenarios presented, the impact on a local council's credit rating is likely to be increasingly negative where there is a greater level of local council influence and control over water service entities.

Regarding the water entities, we consider their business risk profiles and credit ratings would benefit from a larger asset and customer base in the scenarios presented.

The scenarios considered were provided by the DIA without input from S&P Global Ratings and S&P Global Ratings did not advise the DIA on how they should be structured to achieve a particular rating outcome. S&P Global Ratings does not recommend the implementation of any one scenario. The outcomes of the evaluations are point in time and based on many assumptions that may change over time. The outcomes are not rating affirmations or rating actions.

AUSTRALIA

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