Greater Wellington Regional Council

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Prudent financial management and wealthy economy underpin the ratings.	Greater Wellington’s after-capital account deficits could widen substantially on an enlarged capital program.
New Zealand’s institutional framework for the local government sector remains excellent.	Strong liquidity coverage could offset risks associated with prolonged deficits and rising debt.
Wellington's high income levels support revenue growth.	

Our long-term issuer credit ratings on Greater Wellington Regional Council, a New Zealand local government, are 'AA+'. New Zealand was relatively successful in managing COVID-19. This allowed the local economy to recover strongly. The direct impact of the pandemic on Greater Wellington’s finances was, thus, manageable.

Greater Wellington’s after-capital account deficits could widen and be at the weaker end compared with peers over the next two to three years. This is because the council and its subsidiary, WRC Holdings Ltd. which is captured within our analysis, have enlarged their capital expenditure (capex) plans, with the council bringing forward a number of water-related projects. This would lift the group’s debt-to-operating revenue ratio. Liquidity coverage remains strong. We have extended our forecasts through the fiscal year ending June 30, 2025.

Greater Wellington’s management and New Zealand’s institutional settings underpin the ratings.

Our base case excludes the potential effects of the Crown government's proposed "three waters" reforms. The reform program, as currently envisaged, could see responsibility for drinking water, wastewater, and stormwater assets taken away from councils and amalgamated into four new regional water service entities from mid-2024. The reforms are still under development.

Outlook

The stable outlook on Greater Wellington reflects our view that the council would incur large deficits as it increases capex over the next two to three years and spends previously received insurance receipts. This would result in higher debt, albeit within our expectations at the current rating level.

Downside scenario

We could lower our ratings on Greater Wellington if its deficits are worse than our current expectations and the council's liquidity weakens. This could occur because of the three waters reforms, or if capex increases without additional revenue to help fund it, and cash holdings drop. This scenario may cause us to reappraise our view of the council's management.

We would also lower our ratings on Greater Wellington if we were to take similar action on our sovereign credit ratings on New Zealand. This is given our view that the council could not sustain stronger credit characteristics than the sovereign in a stress scenario.

Upside scenario

We could raise our ratings on Greater Wellington if we were to upgrade New Zealand, and if there were a substantial improvement in the council's stand-alone credit metrics. The latter could be indicated by a sustained improvement in budgetary performance, leading to a lower debt burden. This could occur because of the three waters reforms.

Rationale

A wealthy economy, strong financial management, and New Zealand’s institutional framework support creditworthiness.

Greater Wellington, like most of New Zealand, rebounded strongly from a COVID-induced slowdown in 2020. More recently, persistent inflation, supply chain disruptions, and rising interest rates weighed on growth, in 2022.

We recently revised our GDP growth projections for New Zealand to 3.3% in fiscal year 2023. We expect Greater Wellington's economy to remain very wealthy in a global context. The regional economy is service-oriented and unemployment is low. It is home to the country’s capital, Wellington, which has a growing public service as well as a large financial and insurance sector.

We forecast national GDP per capita to be about US$45,300 in 2023. This is less than our previous forecast because of the depreciation of the New Zealand dollar. We expect GDP per capita to improve to about US$48,000 in 2024.

According to the Ministry for Business, Innovation, and Employment, Greater Wellington had a GDP per capita of NZ$74,300 in 2020. This was substantially above the national average. Similarly, economics consultancy, Infometrics Ltd., estimates the region's mean household income at NZ$135,909 in 2022, above the national average of NZ$117,786.

We consider Greater Wellington's management to be very strong, compared with its global and domestic peers. Five new councilors were elected on Oct. 8, 2022. Given that the political alignment of the councilors remains similar, we expect the new council to maintain its previous direction.

Management prepares long-term plans every three years and annual plans in the intervening years. These set the foundation for prudent financial management and are an important baseline for Greater Wellington’s operating and capex requirements as well as funding strategy.

Debt and liquidity policies remain prudent. Greater Wellington does not borrow in foreign currencies. The council mostly hedges its interest exposure.

We believe Greater Wellington manages governance and oversight of its council-controlled trading organization well. The council holds its commercial assets in WRC Holdings, which it wholly owns. WRC Holdings' main operating companies in the group are CentrePort Ltd. and Greater Wellington Rail Ltd.

The institutional framework within which New Zealand local governments operate is a key strength underpinning Greater Wellington's credit profile. We believe the framework is one of the strongest and most predictable globally.

The New Zealand local government system promotes a strong management culture, fiscal discipline, and high levels of financial disclosure among local councils. Additionally, the framework supports councils' rate-collection abilities. This system allows Greater Wellington to support higher debt than some of its international peers can tolerate at the current rating level.

Large capital program would widen after-capital deficits and increase debt; prefunding and large bank facilities support liquidity.

Greater Wellington would incur large-after capital account deficits of more than 20% of total revenue between 2023 and 2025, in our view. This reflects the enlarged capex plan of the council and its subsidy, WRC Holdings. The latter owns the region’s largest port, CentrePort.

The group's capex could average about NZ$228 million per year in 2023-2025, up from about NZ$111 million in 2021. This will partly drive the widening deficits. Our forecasts incorporate 30%-35% of underspending compared with the budgets of the council and WRC Holdings. This reflects our view of nationwide capacity constraints and the group's historical underspending.

CentrePort is ramping up its capex as it hastens port redevelopment after years of earthquake reconstruction and insurance receipts. Greater Wellington is also increasing investments in public transport infrastructure. In addition, key water supply and flood protection projects may now cost more than originally budgeted due to scope changes and inflation.

The other key driver of wider after-capital account deficits in 2022-2023 is Greater Wellington’s thin operating balances. The council's operating balances may improve from 2023 as the local economy recovers from the pandemic, which would increase user charges from higher public transport patronage.

Over 2021-2025, we expect operating surpluses to average about 5.1% of operating revenue. Operating margins are at the lower end of the domestic range, reflecting Greater Wellington’s role as a regional council rather than a territorial authority like city or district councils.

Operating margins declined to less than 1% of operating revenue in 2020-2022. The main cause was COVID-19 disruptions, which affected user charges. However, revenue swiftly recovered to almost 10% in 2021. This was as the central government increased its grants to offset the impact of the pandemic. The central government reimbursed councils a proportion of public transport fees following its decision to lock down large parts of the economy.

Greater Wellington has been increasing general property rates and user charges to counter some of this weakness and help fund its large capex. The council has increased general property rates by 12.3% for 2023 and are set to increase rates by about 14% for 2024.

Rates per household are still lower than at many other local governments in New Zealand. As such, the increases are not likely to place a heavy burden on the ratepayers.

Furthermore, if needed, Greater Wellington could slow down its large capital program or sell some of its commercial assets to support budgetary outcomes.

Greater Wellington's widening after-capital account deficits will increase its debt. We forecast the council’s total tax-supported debt could reach about 178% of operating revenue in 2025, from 122% in 2021. Debt could hit NZ$1.2 billion in 2025, from NZ$650 million in 2021. This figure includes our estimate for the net present value of the council’s administration building lease, and the borrowings of WRC Holdings and its subsidiaries.

Greater Wellington has relatively low contingent liabilities, including potential out-of-pocket costs of natural disasters. This is because of the council's comprehensive insurance policies and potential support from the central government.

Greater Wellington has a strong liquidity position compared with its domestic and global peers. The council’s debt service coverage ratio with committed facilities is about 162% of upcoming debt maturities and interest expenses over the next 12 months.

At the beginning of 2023, the group had about NZ$285 million in cash and liquid assets and NZ$124 million of undrawn bank facilities, to cover NZ$122 million of commercial papers, upcoming term debt maturities of NZ$30 million, interest costs, and budget needs. Its debt service coverage ratio has fallen from more than 300% in the past because Greater Wellington's after-capital account balance has swung to large deficits from surpluses. The council's liquidity is supported by its prefunding strategy that allows it to prefund long-term debt maturities up to 12-18 months in advance.

In addition, Greater Wellington has access to the Local Government Funding Agency (LGFA). This provides the council, along with most of its New Zealand peers, with strong access to a well-established source of external liquidity. In our view, LGFA benefits from an extremely high likelihood of extraordinary central government support. It has helped Greater Wellington both lengthen its maturity profile and reduce its interest expenses.

Key Indicators

Mil. NZ$	2021a	2022a	2023bc	2024bc	2025bc
Operating revenue	533	497	559	639	675
Operating expenditure	480	493	542	608	628
Operating balance	53	4	17	30	47
Operating balance (% of operating revenue)	9.9	0.9	3.1	4.8	7.0
Capital revenue	15	13	30	43	78
Capital expenditure	111	142	185	213	286
Balance after capital accounts	(42)	(124)	(138)	(139)	(162)
Balance after capital accounts (% of total revenue)	(7.8)	(24.3)	(23.4)	(20.4)	(21.5)
Debt repaid	0	25	30	50	96
Gross borrowings	20	135	154	296	166
Balance after borrowings	(23)	(14)	(14)	106	(92)
Direct debt (% of operating revenue)	121.9	153.3	158.1	176.7	177.6
Tax-supported debt (outstanding at year-end)	650	762	884	1,129	1,198
Tax-supported debt (% of consolidated operating revenue)	121.9	153.3	158.1	176.7	177.6
Interest (% of operating revenue)	4.0	4.4	5.1	6.3	6.3
National GDP per capita (US$)	46,539	47,743	45,247	47,870	51,234

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	3

Liquidity	1
Debt burden	4
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 https://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
- Criteria | Governments | International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign, Dec. 15, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Ratings List: International Public Finance Entities 2023, Jan. 9, 2023
- Local And Regional Governments Outlook 2023: Rougher Seas Ahead, Nov. 29, 2022
- Credit FAQ – Lifting The Lid On New Zealand's "Three Waters" Reforms, Oct. 12, 2022
- Default, Transition, and Recovery: 2021 Annual International Public Finance Default And Rating Transition Study, Oct. 4, 2022
- Comparative Statistics: Local And Regional Government Risk Indicators: Asia-Pacific LRGs' Post-Pandemic Appetite For Capital Spending Is Strong, Sept. 22, 2022
- Global Ratings List: International Public Finance Entities 2022, June 3, 2022
- Institutional Framework Assessment: New Zealand Local Governments, April 28, 2022
- New Zealand Local Government Funding Agency Ltd., March 2, 2022
- 25 Ratings In 25 Years: New Zealand Councils Prove Their Staying Power, Feb. 1, 2022
- Ratings History List: Asia-Pacific Local And Regional Government Ratings Since 1975, May 29, 2020

Ratings Detail (as of February 21, 2023)*

Greater Wellington Regional Council	
Issuer Credit Rating	AA+/Stable/A-1+
Senior Unsecured	AA+
Short-Term Debt	A-1+
Issuer Credit Ratings History	
22-Feb-2021	AA+/Stable/A-1+
31-Jan-2019	AA/Positive/A-1+
08-Dec-2010	AA/Stable/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 obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.