S&P Global
Ratings

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Research Update:

Greater Wellington Regional Council 'AA+/A-1+' Ratings Affirmed; Outlook Stable

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Overview

- We expect Greater Wellington Regional Council to incur large cash flow deficits from 2022 as it increases capital expenditure, particularly at CentrePort, and spends previously received insurance receipts. This will result in higher debt levels, albeit within our expectations at the current rating level.
- Our ratings are supported by New Zealand's institutional settings, as well as Greater Wellington's financial management, wealthy economy, and exceptional liquidity coverage.
- We affirmed our 'AA+' long-term and 'A-1+' short-term issuer credit ratings on Greater Wellington. We maintained our stable outlook on the long-term rating.

Rating Action

On Feb. 21, 2022, S&P Global Ratings affirmed its 'AA+' long-term foreign currency and local currency and 'A-1+' short-term issuer credit ratings on Greater Wellington Regional Council in New Zealand. The outlook on the long-term ratings is stable.

Outlook

The stable outlook reflects our view that Greater Wellington will incur large deficits as it increases capital expenditure and spends previously received insurance receipts. This will result in a higher debt level, albeit within our expectations at the current rating level.

Downside scenario

We could lower our ratings on Greater Wellington if its deficits underperform our current expectations and weaken the council's liquidity. This could occur if capital expenditure increased without raising additional revenues to help fund it, and cash holdings reduce. 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 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 Greater Wellington's standalone credit metrics. The latter could be indicated by a sustained improvement in budgetary performance, leading to a declining debt burden.

Rationale

In our assessment, Greater Wellington's financial management is successfully addressing the challenges posed by COVID-19 and the subsequent recovery period, and the commencement of the redevelopment of CentrePort. Consistent with our previous expectations, Greater Wellington will incur large deficits as it increases its capital expenditure and because it will no longer receive insurance receipts from the 2016 earthquake. This will result in higher debt levels, but not enough at this stage, to weaken our credit rating on the council.

The council's liquidity position provides a buffer to cover potential short-term financial shock aided by large holdings of liquid financial assets, committed facilities, and strong access to external liquidity. We anticipate investment holdings will decline as CentrePort uses previously received insurance receipts to fund infrastructure.

New Zealand's institutional settings and Greater Wellington's wealthy economic profile continue to support the ratings.

Financial management and institutional framework support ratings; wealthy economy performing well after the COVID-19 pandemic

Greater Wellington, like most of New Zealand, emerged from a brief lockdown in August 2021 in response to a COVID-19 outbreak in Auckland. Since the onset of the pandemic, New Zealand has been successful in suppressing COVID-19, allowing its economy to rebound strongly. In January 2022, the detection of the first local cases of the omicron variant caused the Crown government to tighten some restrictions, but it has so far ruled out fresh lockdowns.

We estimate the national economy expanded by 5.4% in calendar 2021. In late 2021, the Reserve Bank of New Zealand lifted its policy rate twice for the first time in seven years, signaling the start of a tightening cycle.

Economic activity in the Greater Wellington region should remain robust after outperforming the national economy recently. The regional economy is service-oriented and it has low unemployment. It is home to the country's capital, Wellington, which has a growing public service as well as a large financial and insurance sector. The population is wealthy with GDP per capita of US$47,300 in 2020; higher than national GDP of US$39,900.

Population growth will pick up once borders reopen and should further stimulate economic growth. While population growth has slowed due to COVID-19-related travel restrictions, it was broadly in line with the national average of 0.6% in 2021. The broader region's economy has been resilient throughout the pandemic and has avoided lengthy lockdowns like those experienced by

Auckland and most global peers. According to Infometrics, Greater Wellington's economy grew by 2.4% in 2020 compared to 1.6% nationally.

We consider Greater Wellington's management to be very strong compared with its global peers, with an experienced financial management team. The council's finance team has demonstrated strong management capacity, including its execution and management of major infrastructure projects. Greater Wellington is restructuring to better align the bureaucracy with the council's long-term goals, which were outlined in the 2021-2031 long-term plan (LTP). It prepares the LTP every three years and annual plans in the intervening years.

The council's debt and liquidity policies remain prudent. The council does not borrow in foreign currency, and interest exposure is mostly hedged. We believe governance and oversight of its council-controlled trading organization are well managed. Commercial assets are held in WRC Holdings Ltd., which is wholly owned by the council. 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 is supportive of councils' rate-collection abilities. This system allows Greater Wellington to support higher debt levels than some of its international peers can tolerate at the current rating level.

Record level of investment in capital is leading to large after-capital account deficits and rising debt levels; liquidity remains a key strength

The council will likely incur large after-capital account deficits of about 15% of total revenues between 2022 and 2024. This reflects the larger capital program, particularly at WRC Holdings-the owner of CentrePort. We forecast capital expenditure to average about NZ$148 million per year between 2022 and 2024, up from about NZ$90 million per year. This is about 75% of the budget amount, reflecting our view of likely planning and consenting delays, and nationwide capacity constraints including labor and materials. Greater Wellington's capital expenditure is higher than in the past as CentrePort increases the pace of its port redevelopment after the 2016 Kaikoura earthquake. The council is also increasing investment in public transport infrastructure, water supply, and environment and flood protection programs.

Capital revenues will provide some support to Greater Wellington's financial outcomes over the next few years in the form of central government grants, and funding from the Waka Kotahi New Zealand Transport Agency, but it will be much lower than in the past. Over the past few years, the council via CentrePort, has received about NZ$485 million after it suffered major damage during the 2016 Kaioura earthquake. Insurance receipts helped the council achieve average after-capital account surpluses of 6.5% of total revenues between 2016 and 2020.

Greater Wellington's operating balance is healthy at 6.0% of operating revenues between 2020 and 2024. This is lower than that of most domestic peers, reflecting its role as a regional council rather than a territorial authority like city or district councils.

The council has displayed very strong revenue flexibility by increasing rates and user charges to fund its growth and has relatively lower rates per household than other local New Zealand governments. This means a small rise in rates will have a much larger impact on the council's revenues than it would for its domestic and international peers. Further, Greater Wellington could slow the large capital program if needed, or sell some of its commercial assets if needed to support budget outcomes.

Large deficits will lead to growing debt levels as insurance receipts are used. We forecast the council's total tax-supported debt to reach about 144% of operating revenues in 2024, up from 121% in 2021. This reflects the council's growing infrastructure plans. We estimate the net present value of the council's administration building lease was worth about NZ$130 million at 2021. Our assessment of Greater Wellington's debt burden captures the debt and revenues of WRC Holdings Ltd. and its subsidiaries. The council provides uncalled capital to WRC Holdings Ltd. and has provided guarantees for CentrePort's debt obligations in the recent past.

We expect interest expenses to average about 3.5% of operating revenues from 2021 to 2023. Interest expenses will rise to about 4.5% of operating revenues in 2024 reflecting higher debt levels and the rising interest rate environment in New Zealand. By itself, this is unlikely to weaken our view of Greater Wellingtons' debt burden.

Greater Wellington's contingent liabilities, including potential out-of-pocket costs of natural disasters, are relatively low because of its insurance policies and anticipated central government support.

Greater Wellington's liquidity position is very strong compared with its domestic and global peers. We forecast debt service coverage ratio without committed facilities to be 178% of upcoming debt maturities and interest expenses for the next 12 months. At the end of 2021, the council had NZ$307 million in cash and liquid assets to cover its NZ$200 million of commercial paper, upcoming debt maturities, and interest costs. The debt service coverage ratio has fallen from more than 300% in the past because the council's after-capital account balance is swinging to large deficits from surpluses, and it had no long-term debt maturing in 2020.

Further, the council's liquidity is supported by NZ$125.8 million bank facilities and prefunding of 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 Greater Wellington, along with most of its New Zealand peers, with strong access to a well-established source of external liquidity. In our view, the LGFA benefits from an extremely high likelihood of extraordinary central government support and has helped Greater Wellington to both lengthen its maturity profile and reduce its interest expenses.

Key Statistics

Table 1

Key Statistics

	--Year ended June 30--				
(mil. NZ$)	**2020**	**2021**	**2022bc**	**2023bc**	**2024bc**
Selected Indicators					
Operating revenues	452	533	554	592	643
Operating expenditures	456	485	524	550	599
Operating balance	(4)	48	30	42	44
Operating balance (% of operating revenues)	(0.8)	9.0	5.4	7.1	6.9
Capital revenues	218	15	34	45	43
Capital expenditures	91	111	156	196	166
Balance after capital accounts	123	(48)	(92)	(110)	(79)

Table 1

Key Statistics (cont.)

	--Year ended June 30--				
(mil. NZ$)	**2020**	**2021**	**2022bc**	**2023bc**	**2024bc**
Balance after capital accounts (% of total revenues)	18.4	(8.7)	(15.7)	(17.3)	(11.5)
Debt repaid	0	0	70	30	50
Gross borrowings	32	20	96	57	263
Balance after borrowings	156	(28)	(66)	(82)	134
Tax-supported debt (outstanding at year-end)	630	650	686	712	924
Tax-supported debt (% of consolidated operating revenues)	139.4	121.9	123.8	120.3	143.6
Interest (% of operating revenues)	5.2	4.0	3.2	3.4	4.5
National GDP per capita (single units)	63,027	66,948	69,413	73,602	76,256

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/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

Ratings Score Snapshot

Key rating factors	
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	3
Liquidity	1
Debt burden	4
Standalone 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, Dec. 13, 2021. 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
- 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

- Local And Regional Governments Outlook 2022: Long-Term Challenges Resurface As The Pandemic Eases, Nov. 18, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Nov. 4, 2021
- Global Ratings List: International Public Finance Entities 2021, Oct. 13, 2021
- Economic Outlook Asia-Pacific Q4 2021: Growth Slows On COVID-19 And Rising China Uncertainty, Sept. 27, 2021
- Default, Transition, and Recovery: 2020 Annual International Public Finance Default And Rating Transition Study, Sept. 15, 2021
- Comparative Statistics: Asia-Pacific Local And Regional Government Risk Indicators, Sept. 1, 2021
- Non-U.S. Local Governments: To What Extent Did Sovereign Support Offset The Pandemic Downdraft? July 19, 2021
- Local And Regional Governments Midyear Outlook 2021: Sovereign Support And Market Access Anchor Credit Quality, July 15, 2021
- New Zealand Councils' Infrastructure Spending Could Erode Rating Headroom, April 12, 2021
- Local Government Debt 2021: Infrastructure Needs Will Boost Borrowing In Developed Markets, March 25, 2021
- Local Government Debt 2021: Global Borrowing To Hit $2.25 Trillion, March 25, 2021
- Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments, Oct. 28, 2020
- Ratings History List: Asia-Pacific Local And Regional Government Ratings Since 1975, May 29, 2020

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

Ratings List

Ratings Affirmed	
Greater Wellington Regional Council	
Issuer Credit Rating	AA+/Stable/A-1+