S&P Global
Ratings

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Research Update:

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

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Overview

- We forecast Greater Wellington's operating margins will improve in each of the next three years following an 8% operating deficit in fiscal 2024 (ending June 30, 2024). Driving the improvements will be large, planned increases in council property rates and public transport fares.
- The council's large infrastructure requirements will contribute to bigger overall cash deficits and higher total tax-supported debt than those of all 'AA+'-rated peers globally.
- We affirmed our 'AA+/A-1+' long- and short-term issuer credit ratings on Greater Wellington.
- The negative outlook on the long-term rating reflects downward pressure on institutional settings for New Zealand's local government sector and our view that narrowing of Greater Wellington's budgetary deficits could be slower than our expectations over the next two years.

Rating Action

On Jan. 22, 2025, S&P Global Ratings affirmed its 'AA+' long-term and 'A-1+' short-term issuer credit ratings on Greater Wellington Regional Council, a New Zealand local government. The outlook on the long-term rating is negative.

Outlook

The negative outlook reflects downward pressure on institutional settings for New Zealand's local government sector and our view that Greater Wellington's operating performance could underperform our forecasts over the next two years.

Downside scenario

We could downgrade Greater Wellington if the New Zealand local government sector's overall commitment to strong finances continues to deteriorate, as indicated by large sector-wide cash deficits and further growth in the sector's already-elevated debt burden. This could result from inadequate revenue growth to fund capital expenditure in central government policy, undermining the financial outcomes of the sector.

We could also lower our ratings if Greater Wellington's operating performance does not improve as we expect. This could lead us to reassess our view of its financial management.

Upside scenario

We could revise our outlook on Greater Wellington to stable if the overall commitment of the New Zealand local government sector to strong finances improves and we believe the council can sustain stronger operating performance in line with our forecasts. Such improvements would lead to a narrowing of Greater Wellington's overall cash deficits and slow the growth in total tax-supported debt as a proportion of operating expenses.

Rationale

Greater Wellington's 2024-2034 long-term plan (LTP) outlines rising cost of services and a very large infrastructure pipeline, which will contribute to large cash deficits and rising debt. To help fund this plan Greater Wellington will increase property rates by an average of more than 10% per year in fiscals 2026 and 2027.

We expect the council's deficits after capital accounts to narrow over the next three years, supported by improving operating performance. Greater Wellington delivered a large cash operating deficit of 8% of operating revenues, and a deficit after capital accounts of 34% of total revenue, in fiscal 2024.

Greater Wellington's strong management team, prudent liquidity management policies, and robust economic profile continue to support our ratings on the council.

Improving operating performance to drive narrowing budgetary deficits despite a continuing rise in debt; prefunding and large bank facilities support liquidity

We forecast Greater Wellington will realize operating surpluses averaging 7% of operating revenues over the next three years. The council increased property rates an average of 20.5% in fiscal 2025 as it struggled to keep pace with widespread inflation. The council plans to implement very large increases in property rates revenue and public transport fares over the next few years to further narrow budgetary deficits. Furthermore, we forecast operating expenses will be relatively flat over the next three years, after rising 18% between fiscals 2023 and 2024.

The spike in operating expenses in fiscal 2024 contributed to an 8% cash operating deficit, one of the weakest results among New Zealand council peers. Greater Wellington's extension of its half-price public transport fare policy in 2024 resulted in much lower operating revenue than we forecast.

Greater Wellington and its wholly owned subsidiary, WRC Holdings Ltd., will deliver record capital spending over fiscal years 2025 and 2026 as the council commences the Lower North Island Mobility Project, though we expect spending to taper off in fiscal 2027. We forecast deficits after capital accounts for the group will average 16% over the next three years, compared with 27% in the preceding two years.

We believe Greater Wellington has strong flexibility to adjust its budget compared with global peers. Increases in rates revenue have exceeded 10% in each of the past three years and have been higher than those of most New Zealand councils over this period. Greater Wellington rate bills are lower than those at most local governments in New Zealand. Accordingly, increases in rates are not as burdensome on local ratepayers. Greater Wellington could also slow its large capital program or sell some of its commercial assets to support budgetary outcomes.

Increased borrowings to fund infrastructure will drive Greater Wellington's debt beyond our previous expectations. We forecast total tax-supported debt will reach 183% of operating revenues in fiscal 2027, up from 146% in fiscal 2023. A 40% rise in the council's operating revenue base over the four years will temper the increase. Greater Wellington's debt burden is higher than all 'AA+'-rated subnational governments globally. We expect its interest expenses to average 7% of operating revenues in fiscals 2024-2026.

Our measure of total tax-supported debt includes our estimate of the net present value of the council's administration building lease and the borrowings of WRC Holdings and its subsidiaries.

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

We expect Greater Wellington's liquidity position to remain sound over the next two years. Its debt-service coverage ratio, including bank lines and contracted funding, is 199% of upcoming debt service. We estimate the council has about NZ$336 million in cash and term deposits and NZ$140 million in undrawn bank lines--to cover NZ$96 million in debt repayments and NZ$55 million in interest costs during fiscal 2025, plus NZ$93 million in short-dated commercial paper. Supporting the council's liquidity is its prefunding strategy, which allows it to prefund long-term debt maturities up to 18 months in advance.

In addition to internal liquidity, New Zealand's Local Government Funding Agency (LGFA) provides Greater Wellington with strong access to a well-established source of external liquidity. In our view, LGFA benefits from an extremely high likelihood of extraordinary Crown (central government) support. The agency has helped councils to both lengthen their maturity profiles and reduce borrowing costs.

New Zealand's institutional framework may be weakening; wealthy local economy and experienced financial management support rating

The institutional framework within which New Zealand local governments operate is a key factor supporting Greater Wellington's creditworthiness. We believe this framework to be one of the strongest and most predictable globally. It promotes a robust management culture and high levels of disclosure.

However, rising spending needs exert pressure on the sector (see "Institutional Framework Assessment: New Zealand Councils' Extremely Predictable and Supportive Institutional Settings Are At Risk," published Feb. 18, 2024). Policy uncertainty is also elevated, particularly in relation to water services, with the National Party-led central government repealing its predecessor's "Affordable Water Reform" legislation in early 2024. New Zealand's local government sector's ratio of overall debt to operating revenue is more than double those of international peers.

Under our base-case assumptions, Greater Wellington will continue to deliver all water-related activities. In December 2024, the Crown introduced a second bill for its "Local Water Done Well" reforms. The bill sets out a framework for new water service providers and provides a range of options for councils to structure and finance these entities. The reforms give councils the option to shift drinking water, wastewater, and stormwater assets into new council-controlled organizations (owned by one or more councils) or consumer trusts. Greater Wellington is considering options to form a new water service entity with other councils in the region.

The Greater Wellington economy is service-oriented with a highly educated population. The district is home to the country's capital, Wellington, which has a growing public service sector and a large financial and insurance sector. According to economics consultancy Infometrics, the region had a total population of about 550,600 as of June 30, 2024, with some 40% of residents located in Wellington city. The region accounts for about 13% of New Zealand's GDP.

The region's economic fundamentals are solid. According to Infometrics, Greater Wellington has a GDP per capita of NZ$91,000, well above the national average of NZ$72,000. Similarly, mean household income was about NZ$149,000, about NZ$16,000 higher than the national average.

At a national level, real GDP was flat over the year. We project real GDP growth will pick up to 2.2%-2.4% over the next few years (see "Economic Outlook Asia-Pacific Q1 2025: U.S. Trade Shift Blurs The Horizon," published Nov. 24, 2024).

The Reserve Bank of New Zealand has recently begun loosening monetary policy for the first time in more than four years, cutting its policy rate by 125 basis points between August and November 2024. This should eventually lower debt-servicing costs for households and businesses, boosting domestic spending power.

We assess Greater Wellington's financial management to be very strong in a global context. The council has a record of increasing modifiable revenues, such as general rates and other fees and charges, to keep pace with fiscal needs. However, in recent years, inflation has outpaced revenue growth in operating budgets. We expect the council to use revenue levers and control expense growth to improve its budgetary outcomes.

A chairperson and an elected group of councilors govern Greater Wellington. The council's financial management processes are credible and well-established. It prepares 10-year long-term plans every three years, annual plans in the intervening years, and audited annual reports, in line with sector-wide requirements. Greater Wellington's treasury risk-management policy sets limits on external borrowing, liquidity, and interest-rate risks. The council can borrow only in local currency, in accordance with legislation.

We believe Greater Wellington manages governance and oversight of its council-controlled organizations 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.

Key Statistics

Table 1

Selected indicators

	--Fiscal year ended June 30--				
(NZ$ mil.)	2023	2024	2025bc	2026bc	2027bc
Operating revenue	633	622	777	828	885
Operating expenditure	599	671	744	776	797
Operating balance	34	(49)	33	52	88
Operating balance (% of operating revenue)	5.4	(7.8)	4.2	6.3	9.9
Capital revenue	24	42	72	92	127
Capital expenditure	195	218	269	318	302
Balance after capital accounts	(137)	(224)	(164)	(173)	(87)
Balance after capital accounts (% of total revenue)	(20.9)	(33.8)	(19.3)	(18.9)	(8.6)
Debt repaid	30	52	96	50	104
Gross borrowings	168	321	260	223	191
Balance after borrowings	1	45	0	0	0
Tax-supported debt (outstanding at yearend)	923	1,207	1,373	1,548	1,619
Tax-supported debt (% of consolidated operating revenue)	145.8	194.0	176.8	187.0	182.9
Interest (% of operating revenue)	4.9	8.0	7.0	7.1	6.7
National GDP per capita (single units)	76,142	77,759	80,110	82,589	85,187

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.

Ratings Score Snapshot

Table 2

Greater Wellington Regional Council--Ratings score snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	4
Liquidity	1
Debt burden	4
Stand-alone credit profile	aa+

Table 2

Greater Wellington Regional Council--Ratings score snapshot (cont.)

Key rating factors	Scores
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 our "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

- Subnational Government Outlook 2025: Developed Markets' Regional Differences Intensify, Jan. 16, 2025
- Economic Outlook Asia-Pacific Q1 2025: U.S. Trade Shift Blurs The Horizon, Nov. 24, 2024
- Comparative Statistics: Local And Regional Government Risk Indicators: Asia-Pacific Spending Appetite Erodes Creditworthiness, Sept. 19, 2024
- New Zealand Local Government Funding Agency Ltd. Ratings Affirmed; Outlook Stable, Sept. 9, 2024
- Default, Transition, and Recovery: 2023 Annual International Public Finance Default And Rating Transition Study, Aug. 20, 2024
- New Zealand's Water Infrastructure Reshuffle Could Alter Local Government Funding Agency's Lending Mix, Aug. 11, 2024
- Global Ratings List: International Public Finance Entities July 2024, July 30, 2024
- Global LRGs Rating History List, June 18, 2024
- New Zealand Councils Will Lean Into Rising Credit Risk, May 6, 2024
- Institutional Framework Assessment: New Zealand Councils' Extremely Predictable and Supportive Institutional Settings Are At Risk, Feb. 18, 2024

- Various Rating Actions Taken On New Zealand Local Councils On Weakening Institutional Framework Trend, Feb. 18, 2024

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+/Negative/A-1+