S&P Global
Ratings

RatingsDirect®

Research Update:

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

January 22, 2020

PRIMARY CREDIT ANALYST

Anthony Walker
Melbourne
+ 61 3 9631 2019
anthony.walker
@spglobal.com

SECONDARY CONTACT

Jin Zhang
Melbourne
+ 0396312041
jin.zhang
@spglobal.com

Overview

- We expect Greater Wellington Regional Council to achieve a very strong surplus in 2020 because of large earthquake-related insurance receipts, before turning into large deficits as the council spends these insurance receipts on new infrastructure.
- New Zealand's institutional settings as well as Greater Wellington's financial management, wealthy economy, and exceptional liquidity coverage continue to support our ratings.
- We are affirming our 'AA' long-term and 'A-1+' short-term issuer credit ratings on Greater Wellington.
- The outlook is positive.

Rating Action

On Jan. 23, 2020, 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. The outlook on the rating remains positive.

Outlook

The positive outlook reflects that on the sovereign because the council's ratings are constrained by the long-term foreign-currency rating on New Zealand.

Upside scenario

If we were to raise our rating on the sovereign within the next two years, then we would likely raise our ratings on Greater Wellington because the council's standalone credit profile is currently stronger than our foreign-currency rating on the sovereign.

Downside scenario

We could revise the outlook to stable if we were to take similar action on New Zealand or Greater Wellington's own creditworthiness were to deteriorate from our current expectations. This could occur if the council's financial management weaken as demonstrated by significantly increasing capital expenditure without raising additional revenues to help fund it. This would lead to larger deficits and higher debt levels.

Rationale

We have updated our analysis for Greater Wellington following the release of the 2018-19 Annual Report. Consistent with last year, we expect Greater Wellington's budgetary performance to temporarily strengthen in 2020 because of large earthquake-related insurance receipts. We forecast the council to then incur large deficits as it spends these insurance receipts on new infrastructure. This will result in the debt rising as a percentage of operating revenue.

New Zealand's institutional settings as well as Greater Wellington's financial management, wealthy economy, and exceptional liquidity coverage continue to support its credit profile and higher debt levels.

A supportive institutional framework, strong financial management, and wealthy economy support Greater Wellington's creditworthiness

We continue to cap our ratings on Greater Wellington at the level of our long-term foreign currency rating on New Zealand (AA/Positive/A-1+) because we believe the council could not withstand a default scenario better than the sovereign could, and that the council's credit metrics would deteriorate in line with those of the sovereign in the event of a distress scenario.

The institutional framework within which New Zealand local governments operate is a key strength supporting 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 its current rating.

We consider Greater Wellington's management to be very strong compared with its global peers, with an experienced and stable financial management team. Greater Wellington's finance team has demonstrated strong management capacity, including its execution and management of major infrastructure projects. The council is able to adopt annual plans and long-term plans without delay, and it remains focused on being financially disciplined with its approach to borrowing and insurance policies.

The council's debt and liquidity policies to be 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.

Council elections were held on Oct. 12, 2019. A returning councilor was elected the new chair of the council and six new councilors were elected out of 13. The council's priorities include responding to climate change, Let's Get Wellington Moving transport program, and improving the quality and resilience of water.

Wellington region has a population of 521,500. According to the Ministry for Business, Innovation and Employment, GDP per capita for the year to March 2018 was NZ$71,622, higher the national average of NZ$58,271. The median annual household income in the region for 2018 was NZ$102,100, also higher than the national average of NZ$89,100. A total of 14.4% of the Wellington population are aged 65 years and older as of June 30, 2018, roughly in line with the national average of 15.3%. The percentage of labor force that was unemployed in Wellington region in the year to June 2019 was 4%, next to a national average of 4.1%.

The Wellington region has a service-oriented economy, with financial and insurance services, professional, scientific and technical services, public administration and safety being the top three economic drivers for the region for the past 10 years. Population growth remains a key driver of the region's economy, with population growth of 1.5% in 2018, roughly in line with the national average of 1.9%. The region's economic performance broadly reflects the growing national trends and we expect its economy to continue growing for the next few years.

Insurance receipts will fund infrastructure spending resulting in somewhat volatile budgetary performance; meanwhile liquidity remains a key strength

We expect Greater Wellington's budgetary performance to temporarily strengthen in 2020, thanks to large earthquake-related insurance receipts, before turning into large deficits during 2021 and 2022 as it spends these insurance receipts on new infrastructure. Timing issues for insurance and grant receipts, and earthquake recovery capital works make the budgetary performance somewhat volatile.

We forecast the council to deliver a large surplus of 18.7% in 2020 as its council controlled organization--CentrePort Ltd.--receives about NZ$200 million as part of its earthquake related insurance claims. CentrePort Ltd. has received about NZ$440 million in insurance proceeds for earthquake related costs.

However, the council's after-capital account balance will swing into large deficits averaging about 15% of total revenues in 2021 and 2022 as CentrePort Ltd. spends its insurance receipts. We forecast Greater Wellington to spend about NZ$140 million per year on capital expenditure during the next three years. This is about 75% of its budgeted capital spend.

The council achieved an after-capital account surplus of about 7% of total revenues in 2019, up from a deficit of 9% in 2018. In 2019, the council implemented the Public Transport Operating Model resulting public transport fare revenue coming on-balance sheet, with fees and charges increasing by NZ$50 million in 2019. CentrePort Ltd. also received insurance payments of about NZ$70 million in 2019.

Supporting the council's financial position is its operating balances of 7.4% of operating revenues from 2018 to 2022, and its budgetary flexibility. The council is increasing rates and user charges to fund its growth, and has relatively lower rates per household than other governments, meaning a small rise in rates will have a much larger impact on its revenues than it would for its domestic and international peers. Further, its large capital program could be slowed, as it has in the past, and the council holds a number of commercial assets such as investment properties that could be used to support budget outcomes.

Higher capital expenditure is leading to growing debt levels. We forecast the council's total tax-supported debt to reach NZ$760 million, or 137% of operating revenues, in 2022, up from

118% in 2018. The council's lease of the new administration building also adds to the council's debt level and we estimate that the net present value of lease commitments was about NZ$136.6 million as of the end of 2019. Our assessment of Greater Wellington's debt burden captures the debt and revenues of its council-controlled trading organization, WRC Holdings Ltd., and its subsidiaries. We expect interest expenses to average about 5.6% of operating revenues from 2019 to 2021.

Greater Wellington's contingent liabilities, including potential out-of-pocket costs of natural disasters, to be relatively low because of its insurance policies and Crown support.

Greater Wellington's liquidity position is exceptional compared to its domestic and global peers. At the end of 2019, the council had NZ$108.6 million in cash and cash equivalents, NZ$33 million in term deposits and NZ$50 million in contingency funds, which are invested in term deposits and investment-grade bank bonds. The council does not have any long-term New Zealand Local Government Funding Agency (LGFA) debt maturities in 2020, but has a sizeable amount of commercial paper. We estimate interest cost will be about NZ$28 million in 2020. We forecast debt service coverage ratio without bank facilities to be 310% for the next 12 months.

Further, supporting liquidity is the council's NZ$155 million bank facilities and pre-funding of long-term debt maturities up to 12-18 months in advance. In addition, Greater Wellington has access to the 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$)	**2018**	**2019**	**2020BC**	**2021BC**	**2022BC**
Selected Indicators					
Operating revenues	381	466	517	522	554
Operating expenditures	370	418	480	479	505
Operating balance	11	48	36	43	49
Operating balance (% of operating revenues)	2.9	10.2	7.0	8.2	8.9
Capital revenues	68	88	216	32	15
Capital expenditures	119	97	115	139	163
Balance after capital accounts	(40)	39	137	(65)	(98)
Balance after capital accounts (% of total revenues)	(9.0)	7.0	18.7	(11.7)	(17.3)
Debt repaid	18	62	3	25	70
Gross borrowings	52	88	66	108	77
Balance after borrowings	(6)	65	200	19	(91)
Tax-supported debt (outstanding at year-end)	452	604	667	750	757
Tax-supported debt (% of consolidated operating revenues)	118.7	129.7	129.1	143.8	136.8

Table 1

Key Statistics (cont.)

	--Year ended June 30--				
(mil. NZ$)	**2018**	**2019**	**2020BC**	**2021BC**	**2022BC**
Interest (% of operating revenues)	8.2	5.2	5.4	6.1	5.9
National GDP per capita (single units)	60,121	61,340	63,298	65,363	67,722

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. dc--Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. uc—Upside case represents some but not all aspects of S&P Global Ratings’ scenarios that could be consistent with an upgrade. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful. BC--Base case.

Ratings Score Snapshot

Table 2

Ratings Score Snapshot

Key Rating Factors	
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	2
Liquidity	1
Debt burden	4
Standalone credit profile	aa+
Issuer credit rating	AA

Note: 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. Interactive version available at http://www.spratings.com/sri.

Related Criteria

- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Default, Transition, and Recovery: 2018 Annual International Public Finance Default And Rating Transition Study, Aug. 19, 2019
- Global Ratings List: Local And Regional Governments 2019, Aug. 3, 2019
- Non-U.S. Local And Regional Government Had A Good Half, Ratings-Wise, July 16, 2019
- New Zealand Councils Remain Highly Rated Even As Debt Expands, June 25, 2019
- Local Government Debt 2019: Global Debt Stock, Outside The U.S., To Exceed US$11 Trillion By 2020, Feb. 26, 2019
- New Zealand Outlook Revised To Positive On Improving Fiscal Position; 'AA+' LC And 'AA' FC Ratings Affirmed, Jan. 31, 2019
- 2019 Outlook: Prospects For Non-U.S. Local And Regional Governments Remain Sound, Although A Few Risks Loom For Some Entities, Dec. 11, 2018`
- Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments, Nov. 12, 2018

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/Positive/A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.