

Research Update:

# Greater Wellington Regional Council Long-Term Rating Raised To 'AA+' After Similar Action On New Zealand; Outlook Stable

February 22, 2021

## Overview

- On Feb. 22, 2021, we raised our long-term foreign-currency rating on New Zealand to 'AA+' from 'AA'.
- We are consequently raising our long-term rating on Greater Wellington Regional Council to 'AA+' from 'AA'. This is because we assess Greater Wellington's standalone credit profile at 'aa+' and its rating was constrained by that on the sovereign.
- At the same time, we are affirming our 'A-1+' short-term rating on Greater Wellington.
- The outlook is stable.

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## Rating Action

On Feb. 22, 2021, S&P Global Ratings raised its long-term foreign- and local-currency issuer credit ratings on Greater Wellington Regional Council, a New Zealand local government, to 'AA+' from 'AA' and revised the outlook to stable. At the same time, we affirmed our 'A-1+' short-term rating on Greater Wellington.

## Outlook

The stable outlook reflects our expectation that Greater Wellington will incur a large cash-flow deficit in 2021 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 deficits and debt levels rose beyond our

current expectations. This could occur if capital expenditure increased without raising additional revenues to help fund it. 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 New Zealand.

## Upside scenario

We could raise our ratings on Greater Wellington if we were to do the same for New Zealand and if there were a substantial improvement in Greater Wellington's standalone credit metrics. The latter could be evidenced by a sustained improvement in budgetary performance, leading to a declining debt burden.

## Rationale

We have raised our long-term rating on Greater Wellington after taking a similar action on the New Zealand sovereign (see "New Zealand Ratings Raised To 'AA+' FC And 'AAA' LC As Pandemic Risks Moderate; Outlook Stable," published Feb. 22, 2021). We assess Greater Wellington's standalone credit profile at 'aa+', but its ratings were constrained by our long-term foreign-currency rating on New Zealand. We believe Greater Wellington and its domestic peers do not meet the conditions set out in our methodology to be rated higher than the sovereign.

Our ratings on Greater Wellington reflect its strong financial management, wealthy economy, and very strong liquidity position.

We forecast Greater Wellington's budgetary performance to weaken in 2021 as it increases its capital spending, particularly at WRC Holdings Ltd. These deficits will be partly funded by earthquake-related insurance receipts. We don't expect any more major insurance receipts. This will cause debt to rise as a percentage of operating revenues.

New Zealand's excellent institutional framework underpins our ratings. New Zealand has been successful to date in containing the spread of coronavirus, allowing its economy to reopen sooner than other advanced countries.

## 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+

Table 2

## Ratings Score Snapshot (cont.)

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. An interactive version is 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: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- New Zealand Ratings Raised To 'AA+' FC And 'AAA' LC As Pandemic Risks Moderate; Outlook Stable, Feb. 22, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Feb. 8, 2021
- Local And Regional Governments Outlook 2021: Gradual Recovery Will Test Rating Resilience, Dec. 10, 2020
- Default, Transition, and Recovery: 2019 Annual International Public Finance Default And Rating Transition Study, Dec. 8, 2020
- Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments, Oct. 28, 2020
- Comparative Statistics: Asia-Pacific Local And Regional Government Risk Indicators, July 29, 2020
- COVID-19: Fiscal Response Will Lift Local And Regional Government Borrowing To Record High, June 9, 2020
- Ratings History List: Asia-Pacific Local And Regional Government Ratings Since 1975, May 29, 2020
- COVID-19's Effects Will Pressure New Zealand Council Ratings, May 24, 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

### Upgraded/Affirmed Ratings Outlook Action

	To	From
<b>Greater Wellington Regional Council</b>		
Issuer Credit Rating	AA+/Stable/A-1+	AA/Positive/A-1+

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