Wellington City Council Rated ‘AA+/A-1+’ On Sound Financial Profile; Outlook Stable

Melbourne, Sept. 2, 2010—Standard & Poor’s Ratings Services said today that it has assigned its ‘AA+’ long-term and ‘A-1+’ short-term issuer credit ratings to New Zealand’s Wellington City Council. The outlook is stable.

In Standard & Poor’s opinion, Wellington City displays excellent financial management and high budgetary flexibility, while also benefitting from the strong institutional framework that is characteristic of New Zealand city councils, and a limited ownership of council controlled trading organizations. These strengths are partially offset by the council’s accrual operating costs (S&P adjusted) and capex deficits.

The stable outlook reflects the current strength of Wellington City's financial position, which allows it some flexibility to undertake additional borrowings. It is based on our expectation that net debt is likely to peak at about 100% of adjusted operating revenues in fiscal 2011 before declining thereafter.

“We regard Wellington City’s asset management strategies as sophisticated, being, as they are, inextricably linked to the council’s financial management tools,” said credit analyst Anna Hughes. “With more than 70% of its adjusted operating revenues modifiable and capital expenditure as a percentage of total expenditures at around 20%, Wellington City’s budgetary flexibility is high, and council controlled trading organization contribution of less than 2% to the consolidated council’s revenues is a further supporter of the ratings at the ‘AA+’ level.

Although Wellington City’s debt levels are high for an ‘AA+’ rating, unlike some of its New Zealand peers, Wellington City is forecasting that it debt will peak in 2011 at 100% of adjusted operating revenue before gradually declining over the medium term. Given Wellington City's history of rolling over capital expenditures, we expect that the peak will not be as high as forecast and debt levels are likely to remain flatter than forecast.

Given the strength of Wellington City’s financial position, the outlook on the ratings is stable. “Downward pressure would be placed on the rating if Wellington City’s debt increased quicker and higher than forecast, added Ms. Hughes. “Net debt forecast would need to exceed 100%-110% and be forecast to stay at this level before it would materially affect the council’s ratings. Other risks to the rating include a significant deterioration in the council’s operating position or a change in the council’s management approach to debt or CCO ownership, for example, both of which Standard & Poor’s considers highly unlikely.”

Reflecting our view that there is a high correlation in economic and financial performance between the New Zealand sovereign and New Zealand local governments, a downgrade to the New Zealand sovereign ratings (AA+/A-1+) would most likely lead in a downgrade for Wellington City Council. We believe that Wellington City does not have sufficient operational and financial flexibility to deal with potential stresses better than the sovereign, and its credit characteristics are likely to deteriorate together with those of the sovereign in severe macroeconomic or geopolitical stress scenarios. However, we think it unlikely that Wellington City Council would be upgraded if the New Zealand sovereign was upgraded without improvement in its creditworthiness. For example, a higher rating would only be consistent with a much lower net burden.

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