Research Update:

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

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Overview

- Wellington City Council's proposed deconsolidation of water services from July 1, 2026, may relieve some pressure on the council's very large fiscal deficits.
- However, the council's debt burden will be temporarily elevated from fiscal 2027 (ending June 30, 2027), given our expectation that the transfer of debt to the new entity will be over five years.
- We affirmed our 'AA-/A-1+' issuer credit ratings on Wellington City.
- The outlook on the long-term rating remains negative, reflecting our view that the council could deviate from its financial consolidation strategy over the next two years.

Rating Action

On Sept. 25, 2025, S&P Global Ratings affirmed its 'AA-' long-term and 'A-1+' short-term issuer credit ratings on Wellington City Council, a New Zealand local government. The outlook on the long-term rating is negative.

Outlook

The negative rating outlook reflects our view that Wellington City could deviate from its financial consolidation strategy over the next two years, resulting in weaker budgetary outcomes and higher debt.

Downside scenario

We could lower our ratings if we consider Wellington City's financial management to be weakening. This could occur if the council scales back planned increases in property rates or adds to its post-reform capital program without offsetting revenues. This could drive debt above our forecasts.

We could also lower the ratings if Wellington City's debt remains very high compared to peers', and the council's exposure to contingent liabilities rises substantially, particular to Metro Water (which will take over the council's water services) via a guarantee or uncalled capital.

Upside scenario

We could revise our outlook on Wellington City to stable if its budgetary outcomes improve over the next two years, leading to a reduction in debt as a proportion of operating revenue without a substantial increase in contingent liabilities. Tight expense management and lower capital expenditure once Metro Water is operational could result in stronger operating margins and lower balances after capital deficits.

Rationale

We have updated our analysis for Wellington City through to fiscal 2028 following the council's adoption of its 2024 long-term plan amendment in June 2025 and its submission of a joint water service delivery plan on Aug. 29, 2025.

Wellington City plans to transfer its water-related revenues, expenses, assets, and liabilities to a new multi water council-controlled organization (WCCO), named Metro Water, from July 1, 2026, under the New Zealand central government's (Crown) Local Water Done Well reforms. Wellington City plans to be a minority owner in the new WCCO along with four other councils in the region. We have deconsolidated water services from Wellington City's activities from fiscal 2027 for the purpose of our credit rating. This approach reflects our view of the risks and the likelihood of support the council may provide to Metro Water under the chosen structure.

Wellington City's recent financial outcomes have been very weak owing to pressing infrastructure needs. The council's deficits after capital accounts were 38% of total revenue in fiscal 2024. We expect this deficit to narrow in fiscals 2025 and 2026. The removal of water services could see balance after capital accounts improve substantially toward the end of the decade.

We expect Wellington City's total tax-supported debt to spike to 376% of operating revenue in fiscal 2028. This reflects our expectation that the council's debt transfer to Metro Water will be staged over five years, while water revenue will be fully transferred in fiscal 2027. This will inflate the council's debt until the transition is complete. Excluding debt earmarked to transfer to Metro Water, Wellington City's debt ratio would still be very high at 319% in fiscal 2028.

We view Wellington City's financial management to be strong in a global context. This is a key factor supporting our ratings. The council raised its general property rates by an average of 12% in 2026 to support its budgetary outcomes. Additionally, it has engaged external consultants to seek further savings and efficiencies in its operating budget.

The council has an election scheduled for October 2025. We expect that new councilors will adhere to Wellington City's path toward fiscal consolidation, though a change in elected members could catalyze a shift in the financial strategy.

New Zealand's institutional framework and Wellington City's wealthy economy and financial management underpin the ratings.

The institutional framework within which New Zealand councils operate is a key factor supporting Wellington City's credit profile.

We believe the sector's revenue-expenditure imbalance has widened, and the predictability of its policy settings has weakened compared with the past. However, the framework remains strong relative to global peers, ranking the second-highest on our six-point scale (see "New Zealand Local Governments Face Rising Fiscal Imbalances And Less Certain Policy Settings," March 17, 2025).

Restrictive monetary and fiscal policies, and a downturn in household and business spending weigh on New Zealand's growth. We forecast growth will pick up to 1.2% in 2025 after a small contraction in 2024 (see "Economic Outlook Asia-Pacific Q4 2025: Growth To Ease On External Strain," Sept. 22, 2025).

Wellington City's local economy remains very wealthy in both a domestic and international context. Wellington is the capital city of New Zealand and home to the Crown's public service, with a population of 209,900 in 2024. The city is also a main hub and employment center in the Wellington metropolitan region. A large proportion of the employment is in knowledge-intensive service industries, including professional services, public administration, and financial services.

Wellington City has the most educated workforce in New Zealand and a higher percentage of working-age population than domestic peers. According to Infometrics, the city's GDP per capita of NZ$163,000 was double the national average in 2024. Mean annual earnings were about NZ$98,000, among the highest in New Zealand.

Like all New Zealand councils, a mayor and an elected group of councilors govern Wellington City. The council has credible and well-established financial management processes. We base our financial forecasts on the financial strategy outlined in Wellington City's latest amended long-term plan. The council's next scheduled elections are in October 2025. We expect the new council to not make material changes to its current financial strategy. The council will be led by a new mayor after the incumbent mayor, Tory Whanau, announced she would only stand for re-election as a councilor.

Wellington City has an experienced and well-staffed executive team. The council's location in the nation's capital also helps it attract qualified staff. The council 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. Wellington City appointed a new chief executive to lead the council after Barbara McKerrow's five-year term ended in March 2025. She has since been succeeded by Matt Prosser, former chief executive of Dorset Council in southwest England.

Wellington City's treasury risk-management policy sets limits on external borrowing, liquidity, and interest-rate risks. The council can only borrow in the local currency, in accordance with legislation.

Large deficits after capital accounts have driven Wellington City's debt much higher than in the past; a robust prefunding strategy underpins strong liquidity coverage.

We forecast Wellington City's operating margins will narrow slightly to an average of 11% of operating revenue over the next two years. The council increased its property rates by an average of 12% in 2026 to help offset rising costs. Between fiscals 2026 and 2027, Wellington City's operating revenue base will contract by about 12% as its water charges will transfer to Metro Water; we project its operating expenses will fall by 15%.

We forecast Wellington City's deficit after capital accounts will be 27% of total revenues in fiscal 2026, narrowing to 13% in fiscal 2028, compared with 38% in fiscal 2024. The improvements will mostly be driven by the council's lower capital spending after the transfer of water services and capital expenditure to Metro Water. We project Wellington City will deliver 90%-95% of its capital budgets over the next three years, reflecting improvements in deliverability compared with previous years.

Wellington City was the second New Zealand council to utilize the Crown's Infrastructure Funding and Financing Act (IFFA). The Act allows the council, on behalf of National Infrastructure Funding and Financing Ltd. and investors, to raise a levy from ratepayers over 30 years to support investments in a new sludge minimization facility.

Wellington City is not responsible for levy shortfalls or borrowings under the arrangements. The model will keep related expenses that are funded by the IFFA off the council's balance sheet for the purpose of our analysis and allow the council to maintain debt headroom for other projects. Any additional costs incurred by Wellington City, such as cost overruns during the construction phase, are incorporated within our credit rating on the council. The new levy commenced on July 1, 2024, although it accounts for a very small portion of total rates.

We believe Wellington City has strong flexibility to adjust its budget, compared with domestic and global peers. The city's wealthy demographic profile supports the council's ability to raise revenues. The council was able to increase general property rates by 12% for 2026, following a 17% increase in 2025. It derives about 90% of its operating income from property rates, fees, and charges. Total rates arrears have not increased substantially from prior years in Wellington City, despite growing concerns around rates affordability across the region.

Wellington City's total tax-supported debt reached 298% of operating revenue at the end of fiscal 2025, representing a steep increase from prior years, and is now among the highest of New Zealand local councils. New Zealand councils are some of the highest indebted sub-national governments that we rate in the world. New operating lease liabilities relating to Wellington City's large social housing portfolio and a new office building have contributed to the rise in debt. We forecast total tax-supported debt will reach 376% of operating revenue in fiscal 2028. The council had a debt burden of slightly more than 100% of operating revenue in fiscal 2017, before its recent infrastructure push and the pandemic.

The total tax-supported debt ratio is inflated, in our opinion, by our expectation that Wellington City will transfer its water debts to Metro Water over five years, but transfer revenues on July 1, 2026. During the transition period, Metro Water will be responsible for the interest payments on this debt, though the obligations will remain in Wellington City's name. Excluding debt earmarked to transfer to Metro Water, we forecast the council's total tax-supported debt ratio will be 319% of operating revenue in fiscal 2028. Wellington City's policy to pre-fund upcoming debt maturities in advance further inflates this ratio.

While the pre-funding strategy increases gross debt, we believe it reduces refinancing risks and improves Wellington City's liquidity coverage. With our expectation of rising debt, gross interest expenses could average about 11% of operating revenues over fiscals 2025-2027. This includes interest costs on debt that is earmarked to transfer to Metro Water.

Wellington City has limited quantifiable contingent liabilities. They do not materially weigh on the council's credit profile at this stage because all water-related debt is captured within our debt ratio. However, as Metro Water commences borrowing in its own name, we expect Wellington City's contingent liabilities to grow. This is because we expect the council to provide a guarantee, or equivalent uncalled capital, covering its proportional share of Metro Water's debt. Wellington City also provides a joint-and-several guarantee to the New Zealand Local Government Funding Agency (LGFA).

The council has comprehensive insurance coverage and self-insures minor events. We expect Crown support in the event of natural disasters, as was during the 2016 Kaikoura earthquake.

That said, an increase in uninsured assets would expose Wellington City to some financial risks in the event of a major natural disaster. Traditional insurance solutions are becoming increasingly impractical due to the council's lack of market capacity and Wellington's location on a major seismic fault line. Wellington City has been able to increase its insurance coverage over the last year. It is continuing to look for alternative solutions to improve the resilience of its balance sheet to future natural disasters.

We expect Wellington City to maintain a solid liquidity position over the next two years. We estimate the council has a debt-service coverage ratio at 141% for upcoming debt service needs over the next year, including bank lines and contracted funding. Wellington City has about NZ$267 million in cash equivalents and NZ$310 million of undrawn bank lines to cover NZ$191.5 million of debt repayments and NZ$90 million in interest costs in fiscal 2026, and NZ$86 million in short-dated commercial paper.

In addition to internal liquidity, the LGFA provides Wellington City with strong access to a well-established source of external liquidity. In our view, the LGFA benefits from an extremely high likelihood of extraordinary Crown support. The agency has helped councils to both lengthen their maturity profiles and reduce borrowing costs.

Wellington City Council Selected Indicators

Mil. NZ$	2024	2025e	2026bc	2027bc	2028bc
Operating revenue	681	836	865	758	741
Operating expenditure	648	686	783	667	620
Operating balance	33	150	82	91	121
Operating balance (% of operating revenue)	4.8	17.9	9.5	12.0	16.3
Capital revenue	58	43	105	56	62
Capital expenditure	370	387	451	327	284
Balance after capital accounts	(279)	(194)	(264)	(180)	(100)
Balance after capital accounts (% of total revenue)	(37.8)	(22.1)	(27.2)	(22.2)	(12.5)
Debt repaid	140	96	192	181	285
Gross borrowings	560	379	495	383	387
Balance after borrowings	141	88	40	(7)	2
Tax-supported debt (outstanding at year-end)	2,002	2,493	2,796	2,829	2,790
Tax-supported debt (% of consolidated operating revenue)	293.9	298.3	323.4	373.3	376.5
Interest (% of operating revenue)	10.6	9.1	10.0	11.0	10.8
National GDP per capita (NZ$)	79,880	82,197	84,763	87,424	90,217

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.

Rating Component Scores

Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	2
Budgetary performance	3

Rating Component Scores

Key rating factors	Scores
Liquidity	1
Debt burden	5
Stand-alone 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. 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

- Economic Outlook Asia-Pacific Q4 2025: Growth To Ease On External Strain, Sept. 22, 2025
- Subnational Government Outlook Mid-Year 2025: Setting Sail In A Gale, July 2, 2025
- Various Rating Actions Taken On New Zealand Councils On Lower Institutional Framework Assessment, March 18, 2025
- A Closer Look At Our Downgrades Of 18 New Zealand Councils, March 18, 2025
- New Zealand Local Governments Face Rising Fiscal Imbalances And Less Certain Policy Settings, March 17, 2025
- New Zealand Local Government Funding Agency Ltd. Ratings Affirmed; Outlook Stable, March 17, 2025

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"). 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 Rating Component Scores 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").

Ratings List

Ratings List	
Ratings Affirmed	
Wellington City Council	
Issuer Credit Rating	AA-/Negative/A-1+
Senior Secured	AA-
Commercial Paper	A-1+