City of Vasteras

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
The City of Vasteras enjoys a stable political landscape thanks to a majority coalition led by the Social Democrats.	Following Västerås' strong budgetary performance throughout the COVID-19 pandemic, inflationary pressure and higher pension costs will likely coax operating balances toward more normal and structurally sustainable levels through 2025.
Sweden's extremely predictable and supportive institutional framework underpins Västerås' credit quality, in our view.	We project a gradual and manageable increase in the municipality's debt burden, primarily due to sizable investment needs in the company sector.
Västerås' competent and experienced management supports our view of the city's robust financial position.	We expect Västerås' financial management will remain committed to prudent financial policies that underpin the city's robust liquidity position.

S&P Global Ratings expects Västerås' management will remain committed to budgetary discipline. We do not anticipate that pressure on operating performance from lingering effects of the COVID-19 pandemic, changes to the cost equalization system, or demographic factors will prompt a material change in the city's financial management. In our view, the city is well positioned to take advantage of its fiscal flexibility to, for instance, contain expenditure growth, divest nonstrategic assets, and adjust its tax rate if needed. At the same time, we expect investment needs will remain high through 2025, pushing debt levels up. We expect the city's financial management will uphold the conservative and prudent financial policies that have underpinned the city's strong liquidity position.

Outlook

The stable outlook reflects our view that Västerås' budgetary performance will remain robust despite fiscal pressure from high inflation and demographic issues characteristic of an aging population. Additionally, notwithstanding high investment needs both in the municipality and the company sector, we expect the city to contain debt accumulation while maintaining a very strong liquidity position, which is underpinned by conservative financial policies.

Downside scenario

We could lower the rating if the city experiences greater strain on its budgets than we expect and management fails to use its fiscal flexibility to mitigate this pressure. This would likely result in weaker budgetary results that are insufficient to maintain a robust financial position.

Rationale

Västerås' competent financial management and Sweden's robust institutional framework continue to underpin the city's credit quality

We think there is broad political consensus on key issues that sustains a stable decision-making environment in Västerås. The Social Democrats have retained leadership of the majority coalition after the September 2022 election, when the Christian Democrats and the Left Party replaced the Green Party and the Liberals. In our view, the city's financial management is competent, having displayed a track record of strict cost control, alongside sound debt and liquidity management. Although Västerås will experience some spending pressures over our forecast horizon, we assume management would likely respond to any budgetary strain by using its budgetary flexibility to avoid a material performance deterioration. For example, we assume management might consider raising its tax rate, divesting assets, or suppressing expenditure growth to maintain robust performance metrics. Furthermore, we believe the company sector is efficiently run, underpinned by clear strategic and financial targets. Moreover, we view positively the ongoing and transparent communication between civil servants and politicians, which leads to high flexibility within the organization.

We regard the institutional framework in Sweden as extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. Furthermore, the central government's swift response to the COVID-19 pandemic, partly through the distribution of general grants to the sector, supports our view.

Throughout the pandemic, the central government has remained supportive of the local and regional government (LRG) sector, implementing both direct and indirect support packages to boost operating performance for Swedish municipalities. Although structural challenges remain and budgetary performance could weaken somewhat as extraordinary support is phased out, we see limited risk of a material deterioration of the sector's financial stability.

We consider the local economy in Västerås as strong in a national comparison. The city's labor market is dominated by a large share of engineering and technology-focused industries, leading to higher income levels than the national average. In our view, the city's higher unemployment than the national average reflects an influx of jobseekers, rather than socioeconomic vulnerability. Additionally, Västerås' economic position is supported by Sweden's strong economic fundamentals, demonstrated by our national GDP per capita estimate of $58,000 in 2023.

Resilient tax revenue and budgetary discipline should mitigate pressure on performance metrics amid a steadily increasing debt burden

We assume that last year's strong operating performance helps Västerås to navigate a period of inflationary pressure and higher pension costs. Tax revenue rose strongly in 2022, strengthening performance more than we had anticipated. Additionally, operating expenditure increased slower than anticipated, creating positive deviations for all budgetary units against the budget.

We assume the city's operating balances could remain below 5% through 2025. Similar to the rest of the Swedish LRG sector, because of inflationary pressures, rising interest costs, and pension-related expenses, Västerås will likely display weaker operating performance than the extraordinarily strong results during the pandemic. In 2023-2024, pension costs will increase substantially because of a new pension agreement from January 2023 that includes a larger contribution to employees (6.0% instead of 4.5%) and a negative cash flow effect. Furthermore, the existing pension liability is consumer price index-linked, leading to a notable increase in pension provisions. However, this is a noncash expense that does not affect S&P Global Ratings' calculation of the operating balance. Overall, on an accrual basis, the increase in pension costs will have a notable effect on Swedish LRGs' income statements. That said, a share of the pension-related expenditure increase does not affect cash outflows. So, while LRGs adjust their budgets to accommodate the full accrual-based impact, it does not have a pronounced net effect on our calculated budgetary performance ratios. Moreover, we expect Västerås will remain committed to budgetary discipline and internal surplus targets, while continuing to post positive balanced budgets.

We forecast Västerås' capital expenditure will remain sizable throughout the forecast period. The substantial investment needs reflect the city's growing population and the changing demographic structure, characterized by a larger share of children and elderly citizens. Consequently, a considerable portion of upcoming investment relates to the construction and refurbishment of schools and nursing homes.

In our view, Västerås has above-average flexibility to counterbalance pressure on its budgetary performance. The city benefits from its strong per capita tax base and comparably low tax rate, which sits below both the national and regional averages. Furthermore, Västerås has declared its willingness to divest nonstrategic assets, the proceeds from which can be used to repay debt. The city has a track record of using this flexibility in the past. Consequently, we believe the city enjoys considerable headroom to boost revenue if needed to support financial sustainability.

Västerås operates a centralized in-house bank and lends the majority of debt to its company sector. The largest recipient of funding is the housing company Bostads AB Mimer. In our view, the company is financially robust, supported by a low-risk business profile and high demand for housing in Västerås, leading to non-cyclical and stable operating cash flows. As a result, we believe the company will service its debt in a timely manner and not require financial support from the city. We therefore consider the lending to the housing company as a mitigating factor to our assessment of Västerås' debt burden. Furthermore, we view the city's exposure to contingent liabilities as limited with low risk of materialization.

Västerås' liquidity remains very strong. It is supported by a diversified mix of liquidity sources including cash, checking accounts, contracted facilities, and financial assets. We estimate the debt service coverage ratio at close to 170%. We apply haircuts on the financial assets, managed in the form of mutual funds, based on underlying credit quality in the security holdings. The city treasury has a strong track record of maintaining ample liquidity buffers and keeping the coverage ratio comfortably over 120%. Furthermore, we believe Västerås benefits from strong and reliable access to external liquidity, even in times of financial stress.

City of Vasteras Selected Indicators

Mil. SEK	2020	2021	2022	2023bc	2024bc	2025bc

City of Vasteras Selected Indicators

Operating revenue	11,460	11,578	12,323	12,419	12,952	13,526
Operating expenditure	10,675	10,506	11,035	11,828	12,362	12,859
Operating balance	785	1,072	1,288	591	590	668
Operating balance (% of operating revenue)	6.9	9.3	10.5	4.8	4.6	4.9
Capital revenue	139	599	487	200	200	200
Capital expenditure	1,237	1,222	1,066	1,135	1,511	1,491
Balance after capital accounts	(313)	449	709	(345)	(722)	(623)
Balance after capital accounts (% of total revenue)	(2.7)	3.7	5.5	(2.7)	(5.5)	(4.5)
Debt repaid	3,630	2,755	2,030	2,459	2,629	2,550
Gross borrowings	4,165	2,772	2,485	3,358	4,676	3,963
Balance after borrowings	(112)	(731)	(854)	458	500	0
Direct debt (outstanding at year-end)	11,402	11,419	11,874	12,773	14,819	16,232
Direct debt (% of operating revenue)	99.5	98.6	96.4	102.9	114.4	120.0
Tax-supported debt (outstanding at year-end)	11,585	11,597	12,051	12,944	14,986	16,394
Tax-supported debt (% of consolidated operating revenue)	72.7	69.3	62.9	70.4	78.7	83.0
Interest (% of operating revenue)	0.7	1.2	1.5	2.3	3.2	3.9
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	52,970.2	61,358.3	56,058.3	58,017.9	63,191.9	69,082.8

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. SEK--Swedish krona. $--U.S. dollar.

City of Vasteras Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	2
Liquidity	1
Debt burden	3
Stand-alone credit profile	aaa
Issuer credit rating	AAA

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

Sweden, May 1, 2023

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

- Local And Regional Governments Outlook 2023: Rougher Seas Ahead, Nov. 29, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- Most Rated Swedish LRGs Can Absorb Higher Interest Costs, Sept. 12, 2022
- Southern Swedish LRGs Bear The Brunt Of Surging Electricity Prices, July 20, 2022
- City of Vasteras Outlook Revised To Stable From Negative; 'AAA/A-1+' Ratings Affirmed, June 3, 2022
- Swedish Local Governments Are Holding Up Against Cyber Attacks, Jan. 26, 2022
- Institutional Framework Assessment: Swedish Municipalities And Counties, Dec. 13, 2021

Ratings Detail (as of June 01, 2023)*

Vasteras (City of)		
Issuer Credit Rating		AAA/Stable/A-1+
Nordic Regional Scale		--/--/K-1
Commercial Paper		A-1+
Senior Unsecured		AAA
Issuer Credit Ratings History		
03-Jun-2022	*Foreign Currency*	AAA/Stable/A-1+
05-Jun-2020		AAA/Negative/A-1+
25-Sep-2015		AAA/Stable/A-1+
03-Jun-2022	*Local Currency*	AAA/Stable/A-1+
05-Jun-2020		AAA/Negative/A-1+
25-Sep-2015		AAA/Stable/A-1+
31-Dec-1998	*Nordic Regional Scale*	--/--/K-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.