

Research Update:

Swedish City of Vasteras 'AAA/A-1+' Ratings Affirmed; Outlook Stable

May 31, 2024

Overview

- We expect the City of Västerås will uphold strong operating performance through 2026, supported by robust tax revenue growth despite long-term challenges from lower population growth.
- In addition, the city's capital expenditures are stabilizing, leading to only marginal deficits after capital accounts over 2024-2026.
- We therefore affirmed our 'AAA/A-1+' long- and short-term ratings on Västerås. The outlook is stable.

Rating Action

On May 31, 2024, S&P Global Ratings affirmed its 'AAA/A-1+' long- and short-term issuer credit ratings on the City of Västerås. The outlook is stable.

At the same time, we affirmed our 'K-1' Nordic regional scale rating on Västerås.

Outlook

The stable outlook reflects our view that Västerås' management will uphold strong operating performance, supported by robust tax revenues growth, which will mitigate expenditure pressure from demographic changes.

Downside scenario

We could lower the rating if management relaxed its budgetary discipline, resulting in weaker budgetary results that are insufficient to maintain a robust financial position, leading to deficits after capital accounts widening beyond 5% of revenues.

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Rationale

The rating reflects our view of the high predictability and supportiveness of Sweden's institutional framework and of management's continued commitment to budgetary discipline.

We believe Västerås will be able to maintain its strong operating performance in 2024-2026, through a combination of lower cost inflation and stronger tax revenue growth. Additionally, as population growth slows in Sweden, it will lead to easing of debt accumulation as the Västerås municipal group adjusts its investment plans, while the negative effects of the lower tax base will be visible only in the longer term.

An extremely supportive institutional framework continues to support Västerås' credit quality

We consider the institutional framework in Sweden as extremely predictable and supportive. In our view, the framework displays a high degree of stability, while the sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. Historically, central government has provided extensive support to the local and regional government (LRG) sector, and we expect this will continue (see "Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

In our view, Västerås' financial management is competent, supported by a track record of strict cost control, along with sound debt and liquidity management. As a result, in our base-case scenario, we assume that management will respond to any budgetary pressures by using its budgetary flexibility--for example, by raising its tax rate, divesting assets, or moderating expenditure--to maintain robust performance metrics. At the same time, we believe the company sector is efficiently run, underpinned by clear strategic and financial targets. Also, communication between civil servants and politicians is fluent and transparent, leading to high flexibility within the organization. Furthermore, we believe there is broad consensus on key priorities among political parties, underpinning the relatively stable political landscape in Västerås. The city has a history of forming strong majority coalitions, including parties from both sides of the political spectrum, resulting in a stable decision-making environment.

We consider the local economy in Västerås strong in a national comparison, supported by Sweden's strong economic fundamentals, demonstrated by an estimated GDP per capita of about \$60,000 in 2024. 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.

Strong operating performance and modest lending to municipal companies will support slower debt accumulation

In our view, Västerås will maintain stronger operating performance through 2026 than previously expected, supported by strong tax revenue growth and lower cost inflation. We expect the operating balance to stabilize, at 8.8% in 2026, compared with 10.2% in 2023. Since the start of the pandemic in 2020, Västerås has structurally improved its operating performance and delivered cost cutting on less pressing products and services, as well as dynamically adapting to volume changes in welfare demand and consistently overperforming its budgets.

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Lower population growth is likely to spark adjustments to long-term investment plans. Västerås' capital expenditures will remain at a high level, but stabilize through 2024-2026, which together with strong operating performance will result in only minimal deficits on average. From 2027, we believe the lower expected population growth is likely to reduce capital expenditure for construction of municipal properties like schools, while posing a longer-term challenge in terms of balancing the operational structure.

Västerås operates a centralized in-house bank and lends the majority of its existing debt to the company sector, the largest recipient of funding being housing company Bostads AB Mimer. In our view, the company is financially robust, supported by high demand for housing in Västerås, leading to noncyclical and stable operating cash flows. In the coming years, we believe lending to Bostads AB Mimer will decline as the economic environment and population expectations have put a halt on starting any new developments for the moment; ongoing project are scheduled to be completed in 2025. The main driver of debt accumulation over 2024-2026 will be energy-related investments carried out by the utility company Mälarenergi. Mälarenergi will borrow from Vasteras on average about Swedish krone (SEK) 300 million (about €26 million) per year, as it invests in the local electricity grid, district heating, and a battery park. Västerås' reduced lending to its companies, together with its stronger operating performance, will lead to slower debt accumulation than we previously expected. We now forecast debt will rise to 108% of revenues by year-end 2026, from 96% in 2023.

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 just above 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's treasury has a strong track record of maintaining ample liquidity buffers and keeping the debt service coverage ratio comfortably over 120%. Furthermore, we believe Västerås benefits from strong and reliable access to external liquidity, even in times of financial stress.

Key Statistics

Table 1

City of Vasteras--Selected indicators

Mil. SEK	--Year ended Dec. 31--					
	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenues	11,578	12,323	13,028	13,486	13,841	14,262
Operating expenditures	10,506	11,035	11,704	12,299	12,677	13,006
Operating balance	1,072	1,288	1,324	1,187	1,164	1,257
Operating balance (% of operating revenues)	9.3	10.5	10.2	8.8	8.4	8.8
Capital revenues	599	487	331	150	165	180
Capital expenditures	1,222	1,066	1,368	1,591	1,536	1,348
Balance after capital accounts	449	709	287	(254)	(207)	89
Balance after capital accounts (% of total revenues)	3.7	5.5	2.1	(1.9)	(1.5)	0.6
Debt repaid	2,755	2,030	2,459	2,629	2,550	2,150
Gross borrowings	2,772	2,485	3,108	4,329	3,340	2,728

Table 1

City of Vasteras--Selected indicators (cont.)

Mil. SEK	--Year ended Dec. 31--					
	2021	2022	2023	2024bc	2025bc	2026bc
Balance after borrowings	(731)	(854)	(13)	971	(0)	(0)
Direct debt (outstanding at year-end)	11,419	11,874	12,523	14,222	15,012	15,591
Direct debt (% of operating revenues)	98.6	96.4	96.1	105.5	108.5	109.3
Tax-supported debt (outstanding at year-end)	11,597	12,051	12,676	14,371	15,156	15,730
Tax-supported debt (% of consolidated operating revenues)	69.3	62.9	64.0	70.4	72.5	73.2
Interest (% of operating revenues)	1.2	1.5	2.5	3.3	3.5	3.4
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	528,606	571,313	598,264	608,711	628,917	648,518

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 krone. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

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

Key Sovereign Statistics

- Sweden, April 29, 2024

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

- Subnational Debt 2024: Focus On Debt Sustainability, Feb. 29, 2024
- Subnational Debt 2024: Infrastructure Spending Succumbs To Economic Slowdown, Feb. 29, 2024
- Subnational Debt 2024: Global LRGs Can Handle Rising Interest Expenses, Feb. 29, 2024
- Institutional Framework Assessment: Swedish Municipalities And Regions Have Flexibility To Balance Costs, Nov. 29, 2023
- Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise, Sept. 14, 2023

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

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Ratings Affirmed

Vasteras (City of)

Issuer Credit Rating	AAA/Stable/A-1+
Nordic Regional Scale	--/--/K-1
Senior Unsecured	AAA
Commercial Paper	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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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