

**Summary:**

**Sodertalje (Municipality of)**

**Primary Credit Analyst:**

Erik A Karlsson, Stockholm + 46(0)84405924; erik.karlsson@spglobal.com

**Secondary Contact:**

Carl Nynerod, Stockholm (46) 8-440-5919; carl.nynerod@spglobal.com

**Table Of Contents**

---

Key Rating Factors

Outlook

Rationale

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria

Related Research

## Summary:

# Södertälje (Municipality of)

**Issuer Credit Rating**

AA+/Stable/A-1+

## Key Rating Factors

Credit context and assumptions	Base-case expectations
<p>Fiscal position supported by political consensus</p> <ul style="list-style-type: none"><li>• Despite a healthy industry sector, Södertälje's local economy is constrained by its vulnerable socioeconomic profile.</li><li>• At the same time, Södertälje benefits from broad political consensus regarding long-term strategies and a track record of budgetary discipline.</li></ul>	<p>Contained debt burden, despite high investments</p> <ul style="list-style-type: none"><li>• Although demographic pressure exists, we anticipate operating balances will remain stable.</li><li>• We expect Södertälje's debt burden will remain stable, despite high company sector investments.</li></ul>

## Outlook

The stable outlook reflects S&P Global Ratings' view that the Swedish municipality of Södertälje will maintain its strong liquidity position through year-end 2021. Furthermore, we expect Södertälje's financial management to maintain its prudent liquidity management and remain committed to its financial policies.

### Downside scenario

We could consider a negative rating action over the coming two years if we observed a marked deterioration in Södertälje's liquidity coverage ratio. If this downside scenario were also accompanied by a more relaxed attitude toward financial policies, we would negatively reassess Södertälje's financial management and lower the long-term rating.

### Upside scenario

We could consider raising the rating over the coming two years if Södertälje's debt burden decreased to levels we regard as low. An upgrade could also hinge on a structural improvement in Södertälje's liquidity, likely from fewer maturities on the back of a lower debt burden, as well as markedly stronger budgetary performance. This could happen if the municipality further tightens control over expenditures, resulting in an improved operating balance. That said, we consider these upside scenarios unlikely over our forecast period.

## Rationale

Södertälje benefits from a very stable political situation that, alongside Sweden's institutional framework, counterbalances risks stemming from the city's relatively weaker socioeconomic profile. We anticipate that Södertälje's budgetary discipline, track record of policy implementation, and revenue flexibility, thanks to its pool of sellable assets, will support stable operating performance and a contained debt burden. Furthermore, we anticipate Södertälje will remain committed to prudent risk policies in order to uphold its current liquidity position.

The short-term Nordic regional scale rating on Södertälje is 'K-1'.

### **Sweden's institutional framework and broad political consensus offset risks related to socioeconomic vulnerability**

In our view, Sweden's institutional framework for local and regional governments (LRGs), which we consider as extremely predictable and supportive, is a key component in our ratings on Södertälje. The system has a strong institutional stability in combination with a revenue and expenditure management based on a far-reaching equalization system and local tax autonomy. Owing to the equalization system, we base our analysis on Swedish LRGs, including Södertälje, on the national GDP per capita (\$53,000).

Södertälje's local economy is strong and diversified, benefits from close integration with the capital, Stockholm, and has a strong presence of industries, such as trucking and pharmaceuticals. That said, we consider the socioeconomic profile in Södertälje to be more sensitive than that of most other rated peers. Despite strong economic fundamentals, there is a mismatch between the education level of the workforce and the demand from the industries, resulting in higher-than-average unemployment (10.4% in April 2019) and weaker income levels. In our view, this has potential to constrain Södertälje's budgetary performance.

A cross-block majority coalition took office after the elections in September 2018. In our view, the political situation in Södertälje is characterized by broad political consensus, regarding for instance the long-term strategies and the economic development policies. The financial management is very adept at enforcing budgetary discipline--crucial given that the municipality may face expenditure pressure due to its relatively weaker socioeconomic profile in a Swedish context.

### **Contained debt burden despite high company-sector investments**

In our view, Södertälje has a track record of budgetary discipline and cost control. As such, although we anticipate greater spending needs driven by demographic factors, we expect Södertälje will maintain stable operating balances through 2021, averaging 3.7% of operating revenues compared with 4.7% in 2018. That said, we consider Swedish LRGs to have an inflexible expenditure structure, which is not easily reduced without decreasing important, and often compulsory, public services.

As the main bulk of the investments are carried out by the municipal company sector, we anticipate Södertälje's own investments will remain modest, averaging Swedish Krona (SEK) 250 million (about €24 million), slightly up from SEK234 million in 2018. As a result, we expect Södertälje will continue to post surpluses after capital accounts, averaging about 1.3% of total revenues in 2019-2021, versus 2.7% in 2018. In our view, however, the balance after

## Summary: Södertälje (Municipality of)

capital accounts is artificially high as some of the municipality's core investments are carried out by the company sector.

We expect direct debt will remain around 107% of operating revenues by end-2021, at par with 2018. We anticipate the company sector's borrowing needs will average SEK330 million in 2019-2021, primarily related to housing (Telge Bostäder) and public service properties (Telge Fastigheter). As Södertälje grows, we anticipate these investments could remain high even after 2021. Consequently, we estimate that Södertälje's debt, as a share of operating revenues, could start to increase toward the end of our forecast period. That said, we have conservatively projected divestments and acknowledge that borrowing needs will likely be lower if higher divestments materialize.

We continue to regard Södertälje's contingent liabilities as limited. Outstanding guarantees are relatively small, and mainly related to either the regulated water company SYVAB, or the partly owned energy company Söderenergi. Södertälje has also signed joint and several guarantees of the Swedish PSFA Kommuninvest's obligations, although we currently believe a scenario in which its operations would falter is unlikely.

Södertälje's favorable liquidity position rests on an ample amount of contracted and committed liquidity facilities, covering 96% of the coming 12 months of debt service. In addition, we believe Södertälje has strong access to external liquidity sources. We factor into our calculation of available liquidity resources SEK3.3 billion of committed facilities and unused overdrafts, together with SEK186 million in cash and estimated cash flows. In terms of liquidity uses, we factor in SEK3.6 billion of maturing debt and interest.

Debt and liquidity management is fully centralized at the in-house bank, which caters to the funding needs of the municipality and the companies. In our view, the treasury adheres to prudent and risk minimizing policies in order to keep financing risks at a minimum. Södertälje sources funding primarily from the capital markets, via a SEK4 billion commercial paper program and a SEK8 billion mid-term note program, but also via borrowings mainly related to Kommuninvest.

## Key Statistics

Table 1

Municipality of Södertälje Selected Indicators						
	--Fiscal year ends Dec. 31--					
(Mil. SEK)	2016	2017	2018	2019bc	2020bc	2021bc
Operating revenues	6,541	6,893	7,143	7,321	7,569	7,802
Operating expenditures	6,214	6,395	6,808	7,063	7,281	7,497
Operating balance	327	498	335	258	288	305
Operating balance (% of operating revenues)	5.0	7.2	4.7	3.5	3.8	3.9
Capital revenues	224	56	95	77	71	79
Capital expenditures	151	241	234	267	250	253
Balance after capital accounts	400	313	196	68	109	131
Balance after capital accounts (% of total revenues)	5.9	4.5	2.7	0.9	1.4	1.7
Debt repaid	2,768	3,180	2,650	3,225	2,175	1,900

Table 1

Municipality of Sodertalje Selected Indicators (cont.)						
--Fiscal year ends Dec. 31--						
(Mil. SEK)	2016	2017	2018	2019bc	2020bc	2021bc
Gross borrowings	1,216	2,568	2,443	3,232	2,475	2,227
Balance after borrowings	(278)	(87)	92	(47)	0	0
Modifiable revenues (% of operating revenues)	57.2	57.0	56.7	57.5	57.4	57.3
Capital expenditures (% of total expenditures)	2.4	3.6	3.3	3.6	3.3	3.3
Direct debt (outstanding at year-end)	8,550	7,937	7,680	7,687	7,986	8,313
Direct debt (% of operating revenues)	130.7	115.1	107.5	105.0	105.5	106.6
Tax-supported debt (outstanding at year-end)	9,301	8,646	8,356	8,363	8,662	8,989
Tax-supported debt (% of consolidated operating revenues)	86.0	77.0	70.4	68.7	69.1	69.7
Interest (% of operating revenues)	2.7	2.6	2.6	2.5	2.5	2.4
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	445,182	458,105	473,383	486,479	501,858	519,196

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. N/A--Not applicable. SEK--Swedish krona.

## Ratings Score Snapshot

Table 2

Municipality of Sodertalje Ratings Score Snapshot	
Key rating factors	
Institutional framework	Extremely predictable and supportive
Economy	Strong
Financial management	Very strong
Budgetary flexibility	Average
Budgetary performance	Average
Liquidity	Strong
Debt burden	Moderate
Contingent liabilities	Low

\*S&P Global Ratings bases its credit ratings on local and regional governments (LRGs) on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments" summarizes how the eight factors are combined to derive the foreign currency rating on an LRG.

## Key Sovereign Statistics

Sovereign Risk Indicators, April 11, 2019. A free interactive version is available at <http://www.spratings.com/sri>.

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Feb. 22, 2019
- Public Finance System Overview: Swedish Municipalities And Counties, Jan. 21, 2019
- European Local And Regional Government Risk Indicators, Nov. 9, 2018
- S&P Global Ratings Definitions, Oct. 31, 2018
- Sweden's Unclear Parliamentary Situation Clouds Local Governments' Future Financial Policy, Oct. 4, 2018
- A Potential Profit Cap On Private Operators In Sweden's Welfare Sector Could Increase LRG Spending, March 11, 2019

### **Additional Contact:**

EMEA Sovereign and IPF; SovereignIPF@spglobal.com

## Summary: Sodertalje (Municipality of)

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.