S&P Global
Ratings

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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
A supportive central government and stronger tax revenue growth will mitigate pressure on Västerås' performance metrics.	High population growth and demographic pressure translate into considerable investment needs.
--Improved labor market fundamentals will boost tax revenue growth in the aftermath of COVID-19.	--Capital expenditure will remain high through 2023, resulting in a gradual accumulation of debt.
--At the same time, continued central government support, albeit at diminishing levels, will counterbalance the increase in expenditure coming from the changing demographic profile.	--We expect management will remain committed to prudent financial policies, supporting the city's strong liquidity position.
--The city has an experienced management, supported by budgetary discipline, while enjoying above-average financial flexibility.	

We expect Västerås' management will remain committed to budgetary discipline, despite pressure on operating performance stemming from sustained effects from COVID-19, changes to the cost equalization system, and demographic factors. 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. Furthermore, we expect investment needs will remain high through 2023, resulting in a continued buildup of debt. We also believe the city's financial management will uphold its conservative and prudent financial policies that underpin the city's strong liquidity position.

Outlook

The negative outlook reflects our view that Vasteras' budgetary performance could come under pressure if management fails to use its budgetary flexibility to counteract sustained effects from COVID-19, a gradual decrease in government grants, and demographic-driven expenditure growth. At the same time, the city's high investment needs will result in a steadily growing debt burden.

Downside scenario

We could lower the rating if management fails to use its fiscal flexibility to mitigate pressure on budgetary performance, resulting in weaker operating results that are insufficient to maintain a robust financial position. In such a scenario, we could re-evaluate our assessment on management and budgetary flexibility. We could also lower the rating if long-term systemic support to the Swedish local government sector remains insufficient.

Upside scenario

We could revise the outlook to stable if management uses its budgetary flexibility to improve and stabilize the city's performance metrics.

Rationale

The experienced management supports Västerås' financial position, but sectorwide challenges could pressure 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, and the sector's revenue and expenditure management are based on a far-reaching equalization system and autonomy in setting local taxes. 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.

However, the sector's budgetary performance has deteriorated due to increasing expenditure, accentuated by central government policymaking, insufficient compensation mechanisms, and inadequate countermeasures by the local and regional governments (LRGs). Furthermore, how the central government aims to address the sector's demographic challenges, and to what extent it should provide financial support, is unclear. Therefore, we assess the institutional framework trend as weakening.

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, our base-case scenario assumes that management will respond to any further budgetary pressures by using its fiscal flexibility in order to maintain robust performance metrics. Also, the communication between civil servants and politicians is efficient 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.

One political issue concerns the city's fully owned airport. On the initiative of the ruling coalition, the local parliament voted to close the airport in September 2020, pointing to the company's financial challenges as reason for the decision. However, following a name collection campaign, a group of citizens managed to bring about a nonbinding referendum that took place on March 21 earlier this year, in which 78% of the participating citizens in Västerås voted to keep the airport in the city. Currently, the city is in discussion with the Region of Västmanland about running the airport jointly, but no formal agreement outlining the details of this partnership has been reached. Regardless of the outcome of these discussions, we expect the impact on Västerås' financial position will be limited since the airport's budget size and annual deficits are minimal compared with the city's revenue base.

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. Furthermore, Västerås is expanding quickly, leading to high investment needs in the coming years. In or view, the city's higher-than-national-average unemployment reflects an influx of jobseekers, rather than socioeconomic vulnerability. In addition, Västerås' economic position is supported by Sweden's strong economic fundamentals, demonstrated by an estimated GDP per capita of about $60,960 in 2021.

Strong tax revenue growth will mitigate the pressure on the performance metrics, but the debt burden continues to grow

After the abnormally strong result in 2020 stemming primarily from extraordinary central government support, we forecast a gradual deterioration in Västerås' budgetary performance through 2023, driven partly by gradually diminishing general grants from the central government and demographic-related cost pressure. That said, on the back of positive developments in Sweden's labor market, we expect tax revenue growth will start to pick up. At the same time, we believe the city's management will remain committed to budgetary discipline by implementing efficiency measures if needed to avoid deficits in the city's budgetary units. Still, our base case points to a deterioration in the city's performance metrics, with operating balances falling below 5% in 2022 and 2023.

We forecast Västerås' capital expenditure will remain high 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 counteract 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 a track record and has declared its willingness to divest nonstrategic assets, the proceeds from which can and have been used to repay debt. 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 being 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 the city of 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. Consequently, we consider the ending 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.

The city's liquidity remains very strong, supported by a healthy mix of liquidity sources including cash, checking accounts, contracted facilities, and financial assets. Earlier this year, the city's financial management decided to reduce cash holdings and invest the proceeds in financial assets instead. In line with the criteria guidelines, we apply haircuts on the financial assets, managed in the form of mutual funds, based on underlying credit quality in the security holdings. We estimate the debt service coverage ratio at 209%. The city treasury has a strong track record of maintaining ample liquidity buffers and keeping the coverage ratio comfortably over 120%. Furthermore, in line with other LRGs we rate in Sweden, we believe Västerås benefits from strong and reliable access to external liquidity, even in times of financial stress. Despite the capital market turbulence precipitated by the pandemic, the rated Swedish LRGs have enjoyed reliable access to external funding, further supporting our view.

City of Vasteras Selected Indicators

Mil. SEK	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenue	10,424.0	10,854.0	11,460.0	11,661.7	11,968.9	12,339.6
Operating expenditure	10,002.0	10,377.0	10,675.0	11,034.9	11,420.5	11,799.0
Operating balance	422.0	477.0	785.0	626.9	548.4	540.5
Operating balance (% of operating revenue)	4.1	4.4	6.9	5.4	4.6	4.4
Capital revenue	218.0	493.0	139.0	150.0	150.0	150.0
Capital expenditure	977.0	1,138.0	1,237.0	1,250.0	1,335.9	1,517.6
Balance after capital accounts	(337.0)	(168.0)	(313.0)	(473.1)	(637.5)	(827.0)
Balance after capital accounts (% of total revenue)	(3.2)	(1.5)	(2.7)	(4.0)	(5.3)	(6.6)
Debt repaid	3,962.0	2,453.0	3,630.0	2,755.0	1,980.5	2,809.0
Gross borrowings	4,178.0	3,748.0	4,165.0	3,749.9	3,088.0	4,154.0
Balance after borrowings	(92.0)	416.0	(112.0)	49.8	0.0	0.0
Direct debt (outstanding at year-end)	9,572.0	10,867.0	11,402.0	12,396.9	13,504.4	14,849.5

City of Vasteras Selected Indicators

Direct debt (% of operating revenue)	91.8	100.1	99.5	106.3	112.8	120.3
Tax-supported debt (outstanding at year-end)	9,795.8	11,051.0	11,585.0	12,574.4	13,676.6	15,016.5
Tax-supported debt (% of consolidated operating revenue)	64.8	70.9	72.7	77.6	81.7	87.3
Interest (% of operating revenue)	0.7	0.9	0.7	0.7	0.7	0.8
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	54,885.6	52,186.7	52,390.1	59,263.4	60,080.1	63,545.6

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

--Sovereign Risk Indicators, Oct. 12, 2021. An interactive version is available at http://www.spratings.com/sri

Related Criteria

--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

--Institutional Framework Assessments For International Local And Regional Governments, Nov. 4, 2021

--Extra Funding In Sweden's 2021 Budget Will Support LRGs, Sept. 24, 2020

--COVID-19: Fiscal Response Will Lift Local And Regional Government Borrowing To Record High, June 9, 2020

--COVID-19 Could Further Strain Swedish LRGs' Budgets, May 20, 2020

--Swedish Government To Mitigate Impact From Coronavirus On Local And Regional Governments, March 11, 2020

--Public Finance System Overview: Swedish Municipalities And Regions, Dec. 3, 2019

Ratings Detail (as of December 06, 2021)*

Vasteras (City of)		
Issuer Credit Rating		AAA/Negative/A-1+
Nordic Regional Scale		--/--/K-1
Commercial Paper		A-1+
Senior Unsecured		AAA
Issuer Credit Ratings History		
05-Jun-2020	*Foreign Currency*	AAA/Negative/A-1+
25-Sep-2015		AAA/Stable/A-1+
18-Oct-2013		AA+/Positive/A-1+
05-Jun-2020	*Local Currency*	AAA/Negative/A-1+
25-Sep-2015		AAA/Stable/A-1+
18-Oct-2013		AA+/Positive/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.