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Research Update:

Swedish Municipality of Vellinge 'AAA/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:

Carina Johansson, Stockholm (46) 8-440-5918; carina.johansson@spglobal.com

Secondary Contact:

Gabriel Forss, Stockholm (46) 8-440-5933; gabriel.forss@spglobal.com

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Overview

- We anticipate that the Municipality of Vellinge's tax-supported debt will increase moderately over 2017-2019, thanks to an uptick in investments in 2016 and 2017.
- However, we think Vellinge will maintain ample liquidity buffers through year-end 2019.
- We are therefore affirming our 'AAA/A-1+' and 'K-1' ratings on Vellinge.
- The stable outlook reflects our expectation that Vellinge will maintain exceptional liquidity and sound budgetary performance through year-end 2019, supported by continued prudent management practices.

Rating Action

On Aug. 18, 2017, S&P Global Ratings affirmed its 'AAA' long-term and 'A-1+' short-term issuer credit ratings on the Swedish Municipality of Vellinge. The outlook is stable.

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

Outlook

The stable outlook reflects our expectation that Vellinge's management will maintain sound budgetary performance, with surpluses after investments in 2018-2019. In addition, we expect that Vellinge will continue to prudently manage the maturity structure of its loan portfolio to keep refinancing risk low and liquidity exceptional.

Downside Scenario

Although unlikely at this stage, we could consider lowering the rating, in line with our downside scenario, if we observed an unexpected and significant deterioration of Vellinge's budgetary performance that resulted in a squeeze on liquidity. This could happen, for example, through an unexpected increase in operating expenditures. We could then also revise our liquidity assessment downward, owing for instance to the depletion of the municipality's cash holdings, combined with marked accumulation of short-term debt.

Rationale

The affirmation reflects our opinion that the risks to the ratings are balanced. Vellinge benefits from a wealthy local economy and Sweden's extremely predictable and supportive institutional framework. The city's financial management is prudent and its liquidity position is exceptional, including our view of strong access to

external liquidity. The municipality continues to show strong budgetary performance as a result of strict budgetary discipline, together with inflows of some additional revenues from the reallocation of pension funds. This results in only moderate financing needs after capital expenditures (capex). Although modest, we note that the city's average financing needs are temporarily higher due to a peak in investments in 2017, mostly related to a new elderly care facility. Vellinge's company sector is also experiencing some investment needs, chiefly related to the growing population. The main share of onlending is centered around the housing company Vellingebostäder and its construction of new housing. This onlending has put the municipality's tax-supported debt on an upward trajectory, albeit from a currently modest level. The municipality's financial flexibility is strong, stemming from the high share of modifiable revenues compared with peers'. Vellinge also has very low contingent liabilities, in our view.

Vellinge benefits from a wealthy local economy, strong management, and strong financial flexibility

Vellinge's economy is wealthy, both in a domestic and international comparison, and is furthermore boosted by the municipality's close integration with the dynamic Malmö-Copenhagen area. We regard Vellinge's local economic fundamentals as very strong, underpinned by high income, low unemployment, and stable growth prospects. The high incomes mean that Vellinge is one of the few net contributors to the Swedish local and regional government (LRG) sector's equalization system. We consider Sweden's extremely predictable and supportive institutional framework for LRGs to be a key component of our ratings on Vellinge. In our view, the Swedish LRG system shows a high degree of institutional stability, and the LRG sector's revenue and expenditure management is based on the far-reaching equalization system and autonomy in setting local taxes.

Vellinge has a track record of efficient provision of public services, strong budgetary performance, and a very low local income tax rate. We consider that, thanks to its broad financial autonomy, Vellinge also has strong budgetary flexibility. The municipality's share of modifiable revenues is a high 89% of operating revenues, and the average municipal tax rate is Swedish krona (SEK) 18.50 per SEK100 (€10.45), the lowest in Sweden. This gives Vellinge significant flexibility to boost revenues through tax increases. Our view of Vellinge's ability to increase operating revenues through tax increases counterbalances what we view as a fairly rigid expenditure structure.

We view Vellinge's financial management as strong. We regard the management team as prudent and effective at maintaining strong budgetary performance by upholding strict budget discipline. Importantly, we expect that management will be willing to use its revenue flexibility when necessary to ensure strong budgetary performance, as it has done in the past. This is an important factor in our assessment of Vellinge's financial management as strong. Furthermore, we observe that management focuses on debt sustainability and planning over the long term, which we view as positive.

Strong operating balances, resulting in modest financing needs for investments

We believe that Vellinge will continue to show strong operating balances of 5.4% of operating revenues over 2017-2019, on average, owing to the city's commitment to maintaining strict budget discipline. However, we note that the reallocation of pension funds somewhat bolstered budgetary performance in 2016. Moreover, we expect operating revenues will be lower over our forecast horizon through year-end 2019, albeit staying comfortably above 5%. We believe that Vellinge's capital expenditures will peak in 2017, mainly due to a large investment of SEK200 million in its new care facility, together with some other smaller investments in schools and the development of public infrastructure in centers within the municipality. We think investments in 2016 and 2017 will lead to temporary deficits after capital accounts, but we expect that the municipality will return to balanced accounts after capex in 2018.

We assess Vellinge's debt burden as moderate, although debt is increasing owing to funding needs of the municipal companies, together with the municipality's moderate, although temporary, deficits after capex. Almost half of Vellinge's debt consists of debt lent on to its company sector. Apart from direct debt, its tax-supported debt also includes some minor guarantees extended to its non-self-supporting subsidiaries and external associations. We forecast that Vellinge's tax-supported debt will stand at almost 97% of consolidated revenues at year-end 2019.

We consider that Vellinge has very low contingent liabilities. Its company sector is small, and we incorporate all of the companies' debt into our analysis of the municipality's debt.

We assess Vellinge's liquidity as exceptional, owing to the municipality's very strong internal liquidity and strong access to external liquidity. Specifically, Vellinge has low debt repayments in the short term, holds large cash reserves, and has what we view as strong market access. Vellinge's liquidity sources comfortably cover its liquidity outflows. We estimate that the municipality's net free cash and liquid investments represent 108% of debt maturing over the next 12 months, including our proxy of financing needs for municipal investments. Over the next 12 months, we believe that Vellinge's internal liquidity will remain exceptional, staying above the 100% threshold for our assessment. We believe that these short-term investments would be available as a source of liquidity at management's discretion, should the need arise. Consequently, we include them in our liquidity calculations, with the appropriate haircuts as outlined in our criteria.

At the same time, Vellinge's outstanding financial debt consists mainly of long-term bonds, which have an even and predictable maturity structure, with SEK200 million maturing in December 2017. Vellinge also has a SEK1 billion commercial paper (CP) program, under which it has issued SEK0.3 billion of CP. We note that Vellinge has kept about SEK0.2 billion of the issuance proceeds as a cash reserve, and we expect that it will continue to take the necessary actions to maintain exceptional liquidity coverage over the coming two years.

Overall, we regard the municipality's debt management as prudent. In our base case, we assume that Vellinge will maintain the long-term nature of its loan portfolio and that its liquidity will remain exceptional over 2017-2019.

Key Statistics

Table 1

Municipality of Vellinge Key Statistics						
	--Fiscal year ending Dec. 31--					
(Mil. SEK)	2014	2015	2016	2017bc	2018bc	2019bc
Operating revenues	1,789	1,926	2,074	2,097	2,169	2,225
Operating expenditures	1,703	1,797	1,929	1,984	2,051	2,104
Operating balance	86	129	145	113	118	121
Operating balance (% of operating revenues)	4.8	6.7	7.0	5.4	5.4	5.4
Capital revenues	11	9	12	10	10	23
Capital expenditures	91	116	215	271	116	141
Balance after capital accounts	5	22	(59)	(147)	12	2
Balance after capital accounts (% of total revenues)	0.3	1.1	(2.8)	(7.0)	0.5	0.1
Debt repaid	300	450	150	500	650	700
Gross borrowings	300	750	500	729	678	785
Balance after borrowings	(123)	(24)	135	(0)	(0)	0
Modifiable revenues (% of operating revenues)	89.8	88.6	85.9	89.5	89.3	90.0
Capital expenditures (% of total expenditures)	5.1	6.1	10.0	12.0	5.4	6.3
Direct debt (outstanding at year-end)	1,150	1,450	1,800	2,030	2,058	2,143
Direct debt (% of operating revenues)	64.3	75.3	86.8	96.8	94.9	96.3
Tax-supported debt (outstanding at year-end)	1,339	1,637	1,985	2,215	2,243	2,328
Tax-supported debt (% of consolidated operating revenues)	68.6	77.4	87.8	97.0	95.2	96.5
Interest (% of operating revenues)	1.3	1.0	0.7	0.9	1.0	1.1
Local GDP per capita (SEK)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (SEK)	408,180	428,947	444,134	458,621	473,105	487,085

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. N/A--Not applicable.

Ratings Score Snapshot

Table 2

Municipality of Vellinge Ratings Score Snapshot

Key rating factors

Institutional framework	Extremely predictable and supportive
Economy	Very strong
Financial management	Strong
Budgetary flexibility	Strong
Budgetary performance	Strong
Liquidity	Exceptional
Debt burden	Moderate
Contingent liabilities	Very low

*S&P Global Ratings' credit ratings on local and regional governments (LRGs) are based 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, July 6, 2017. An interactive version is also available at <http://www.spratings.com/sri>.

Related Criteria And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - July 27, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- 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 - October 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Default, Transition, and Recovery: 2016 Annual Non-U.S. Local And Regional Government Default Study And Rating Transitions - May 08, 2017
- Swedish Local And Regional Government Risk Indicators: April 2017 Update - April 5, 2017
- Research Update: Kingdom of Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Stable - March 03, 2017
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments - April 21, 2016
- Public Finance System Overview: Swedish Local And Regional Governments - January 21, 2016

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

	Rating	
	To	From
Vellinge (Municipality of)		
Issuer Credit Rating		
Foreign and Local Currency	AAA/Stable/A-1+	AAA/Stable/A-1+
Nordic Regional Scale	--/--/K-1	--/--/K-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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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Additional Contact:

International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

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