

Vellinge (Municipality of)

February 12, 2024

This report does not constitute a rating action.

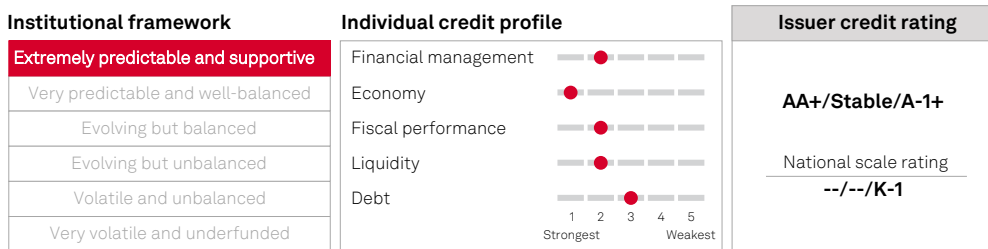
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Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions

Sweden's extremely predictable and supportive institutional framework underpins the ratings on the Municipality of Vellinge.

Base-case expectations

After a weaker 2024, we expect a gradual improvement in budgetary performance on the back of robust tax revenue growth and less inflationary cost pressure.

Overview

Credit context and assumptions	Base-case expectations
The municipality benefits from a competent management team that is committed to budgetary discipline and strict cost control.	Investment and borrowing needs will remain relatively high in 2024-2025 due to a peak in capital investment, but should return to more structurally sustainable levels thereafter.
The economic position is supported by strong socioeconomic fundamentals and close integration with the Oresund region labor market.	Vellinge's liquidity position is set to strengthen throughout 2024 because of lower debt repayments in 2025.

We expect Vellinge's operating performance will gradually improve through 2026 on decreased cost inflation and robust tax revenue growth.

At the same time, we think Vellinge will remain committed to budgetary discipline and implement efficiency measures to meet internal surplus targets and uphold a sound financial position. However, the municipality's cash flows after investments will be subdued in 2024-2025, due to unusually higher capital expenditure (capex) that we do not expect to continue. Moreover, the liquidity position is set to improve as debt repayments decrease from abnormally high levels in 2024. Furthermore, we expect the recent cyberattack that affected Vellinge's operations will have limited financial impact on the municipality.

Outlook

The stable outlook reflects our view that Vellinge's sound financial risk management and continued budgetary discipline will mitigate risks associated with inflation and higher pension costs. We expect the municipality will sustain its strong operating performance and contain the debt burden despite sizable investment needs.

Downside scenario

We could lower our ratings if management fails to adequately navigate external cost pressures and address other budgetary issues, such as operational risks and elevated capex, leading to structurally weaker budgetary performance. In such a scenario, the municipality's debt burden could also increase more rapidly than we expect.

Upside scenario

We could consider a positive rating action if the debt burden reduction was sustained amid stronger budgetary performance. Moreover, if Vellinge continued to improve its financial policies and internal risk control, translating into structurally improved liquidity ratios, we could raise the ratings.

Rationale

An extremely supportive institutional framework and robust demographic fundamentals continue to support the ratings

We consider the institutional framework in Sweden 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. Historically, the central government has provided extensive support to the local and regional government (LRG) sector, for example through additional grants distributed in response to the pandemic or more recently to cover rising pension costs (for more information, see "Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

The political landscape in Vellinge has been stable for many years. The municipality is governed by the right-leaning Moderate Party. Given the dominance of more conservative parties in Vellinge, we don't expect the municipality will face issues in passing budgets and expect the political leadership will continue prioritizing financial sustainability. In our view, Vellinge displays a track record of conservative revenue and expenditure management, as its strong budgetary performance indicates. Furthermore, in light of somewhat weaker risk control and unpredictable reserve policies from a few years ago, we believe Vellinge has taken steps to strengthen its financial policies to prevent similar issues from resurfacing.

In mid-January 2024, one of Vellinge's IT service providers was targeted in a cyberattack, resulting in the shutdown of parts of the municipality's IT infrastructure. As a result, some day-to-day operations had to be temporarily carried out manually. Uncertainty remains about the magnitude of the attack, the added costs for the municipality, and whether insurance will partially cover these. We do not think this incident will have a material impact on the municipality's finances and expect management to learn lessons and address related operational risks.

Vellinge's favorable economic position is supported by high income levels, low unemployment, and close integration with the Oresund region, which constitutes the largest labor market in the Nordics. Vellinge also benefits from Sweden's robust economic fundamentals, reflected in our estimate of 2024 national GDP per capita of \$57,600.

Robust tax revenue growth, less inflationary cost pressure, and budgetary discipline should mitigate pressure on Vellinge's performance metrics

Against the backdrop of strong operating performance in 2023, we expect Vellinge's budgetary performance will gradually strengthen through 2026. In 2023, inflationary pressure resulted in higher expenditure growth than expected when the budget was announced. On the other hand, the labor market has remained robust despite economic issues, resulting in stronger tax revenue growth than anticipated. On an accrual basis, Vellinge's financial revenue shot up in 2023 due to sizable unrealized gains pertaining to financial assets, stemming from favorable developments on the stock markets. However, because these gains do not generate cash inflow, we adjust for them in our performance metrics and when considering the balanced budget requirement.

In 2024, we expect cost inflation to hinder Vellinge's budgetary performance. Most importantly, a new pension agreement will impair operating results in the Swedish LRG sector. In addition, annual pension provisions will increase since these are indexed to inflation. Based on our inflation projections, we expect these provisions will remain elevated in 2024 and 2025. However, these provisions do not generate cash outflows, meaning our calculated performance metrics are not affected (see "Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise," published Sept. 14, 2023).

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For 2025-2026, we expect Vellinge's performance metrics will gradually improve as cost pressure abates and tax revenue growth remains robust. At the same time, although the average interest rate for the debt portfolio has increased, we foresee a gradual decrease in the cost of new borrowing through 2026. Also, given Vellinge's relatively low debt burden, we don't expect interest payments to materially affect the financial position. Moreover, we expect management will remain committed to budgetary discipline and adhere to the municipality's financial targets, translating into operating balances structurally above 5%.

We expect capital spending will remain high through 2025. A notable share of the investment plan relates to the construction of two elementary schools. In 2026, we expect capex will decrease notably to more sustainable levels as these large capex projects are completed. Nevertheless, despite the downward revision, population projections for Vellinge provide basis for continued investment needs, albeit not to the same level as in 2024-2025. Consequently, we expect the municipality's deficit after capital accounts will stabilize at 0%-5% in 2026 and beyond.

Furthermore, we anticipate limited investments and borrowing needs in the municipality's fully owned housing company, Vellingebostader AB, through 2026. The other two municipal companies, Vellinge Kommunlokal AB and Vellinge Stadsnat AB, plan to continue amortizing debt according to plan. Overall, we expect a moderate increase in Vellinge's tax-supported debt through 2026, and primarily from investments in the municipality. In tax-supported debt, we also include guarantees extended to various associations and the holding company, Vellinge Koncern AB, because we consider the entity's activities closely tied to the municipality. Moreover, Vellinge's exposure to contingent liabilities is limited and we see the risk of materialization as low.

Liquidity sources primarily include cash and financial assets in the municipality's pension portfolio, to which we apply appropriate haircuts in line with the underlying credit quality. As a result of favorable stock market developments in 2023, the market value of Vellinge's financial assets increased notably throughout the year. As a result, in line with the financial policies, Vellinge has divested a minor share of the assets and transferred the proceeds to cash holdings instead. After abnormally high debt repayments in 2024--although one Swedish krona 200 million debt repayment has been covered by a bond issuance of equal amount--maturing debt is set to decrease significantly in 2025 and 2026, resulting in stronger liquidity ratios. Still, in recent years, the liquidity position has been somewhat volatile. Moreover, in our view, Vellinge benefits from strong and reliable access to external liquidity, even in times of financial stress.

Municipality of Vellinge Selected Indicators

Mil. SEK	2021	2022	2023e	2024bc	2025bc	2026bc
Operating revenue	2,537	2,685	2,867	2,933	3,038	3,162
Operating expenditure	2,257	2,353	2,610	2,723	2,788	2,893
Operating balance	280	333	258	209	251	269
Operating balance (% of operating revenue)	11.0	12.4	9.0	7.1	8.3	8.5
Capital revenue	73	76	33	90	50	40
Capital expenditure	259	441	501	508	497	336
Balance after capital accounts	94	(32)	(210)	(208)	(196)	(27)
Balance after capital accounts (% of total revenue)	3.6	(1.2)	(7.3)	(6.9)	(6.4)	(0.9)
Debt repaid	600	300	550	800	250	300
Gross borrowings	400	400	850	1,100	450	400

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Municipality of Vellinge Selected Indicators

Balance after borrowings	(218)	21	(56)	76	23	92
Direct debt (outstanding at year-end)	2,200	2,300	2,500	2,800	3,000	3,100
Direct debt (% of operating revenue)	86.7	85.7	87.2	95.5	98.7	98.0
Tax-supported debt (outstanding at year-end)	2,371	2,471	2,623	2,923	3,124	3,224
Tax-supported debt (% of consolidated operating revenue)	88.2	87.0	86.4	94.1	97.0	96.2
Interest (% of operating revenue)	0.4	0.6	1.5	1.9	2.2	3.3
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	61,633.8	56,560.5	56,187.9	57,592.7	62,280.7	66,686.6

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.

Municipality of Vellinge--Rating Component Scores

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

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, Dec. 11, 2023. An interactive version is available at <http://www.spratings.com/sri>

Related Criteria

Vellinge (Municipality of)

- 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

- 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

Ratings Detail (as of February 07, 2024)*

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Issuer Credit Rating	AA+/Stable/A-1+
<i>Nordic Regional Scale</i>	--/--/K-1

Issuer Credit Ratings History

12-Feb-2021	AA+/Stable/A-1+	
26-May-2020	AA+/Negative/A-1+	
15-Feb-2019	AA+/Stable/A-1+	
06-Sep-2013	<i>Nordic Regional Scale</i>	--/--/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.

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