

# RatingsDirect®

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## Sundsvall (Municipality of)

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# Sundsvall (Municipality of)

This report does not constitute a rating action.

## Key Rating Factors

**Issuer Credit Rating**  
 AA+/Stable/A-1+  
*Nordic Regional Scale*  
 --/--/K-1

Credit context and assumptions	Base-case expectations
<p>Additional central government grants support Sundsvall's performance metrics.</p> <ul style="list-style-type: none"> <li>• Extraordinary grants and a more positive tax revenue forecast than previously will boost the municipality's operating results.</li> <li>• At the same time, S&amp;P Global Ratings expects Sundsvall will implement efficiency measures to address structural deficits in a number of municipal boards.</li> <li>• Consequently, we expect the municipality to post stable balanced budget results throughout the forecast period.</li> </ul>	<p>High investment needs in the municipality and the company sector will lead to continued debt build-up.</p> <ul style="list-style-type: none"> <li>• That said, a significant share of debt will be on-lent to financially healthy companies.</li> <li>• Furthermore, we expect Sundsvall will remain committed to its financial policies, which support the strong liquidity position.</li> </ul>

## Outlook

The stable outlook reflects our expectation that Sundsvall will post stable operating results through 2023, supported by additional grants distributed by the central government and efficiency measures implemented by the municipality. Furthermore, despite high investment needs in the coming years, in both the municipality and the company sector, we expect Sundsvall will contain its expanding debt, with a significant share on-lent to financially stable companies.

### Downside scenario

We could lower the rating if Sundsvall does not contain operating and capital expenditure (capex), leading to material deficits after investments and debt build-up beyond our base-case expectations. Furthermore, we could take a negative rating action if medium-term systemic support to the local and regional government (LRG) sector proves insufficient.

## Upside scenario

We could raise the rating if Sundsvall implements effective spending controls, resulting in significant improvements in the municipality's budgetary performance and a declining debt burden. In such a scenario, we could also consider a reassessment of the municipality's management.

## Rationale

Owing to extraordinary central government support to the LRG sector in light of the COVID-19 pandemic, we expect Sundsvall's operating performance will remain relatively stable through 2023. At the same time, we expect the municipality will continue implementing efficiency measures to address budgetary deficits in struggling municipal boards, leading to gradually improving performance metrics. Furthermore, because of continued high investment needs in the municipality and the company sector, we project a gradually expanding debt burden through 2023. However, we expect Sundsvall will remain committed to its financial policies that will mitigate debt build-up and support its strong liquidity position.

### **Extraordinary central government support during the COVID-19 pandemic is providing a boost, but structural issues in the sector remain unresolved**

We consider the institutional framework in Sweden to be extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the LRG sector's revenue and expenditure management is based on a far-reaching equalization system and tax autonomy. 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, before the pandemic, the sector's budgetary performance had structurally deteriorated due to increasing expenditure, accentuated by central government policymaking, insufficient compensation mechanisms, and LRGs' inadequate countermeasures. Moreover, how the central government aims to address the sector's demographic challenges, and to what extent it should provide financial support, are unclear. Consequently, we assess the institutional framework trend as weakening.

The municipality's political situation remains stable, supported by a majority government consisting of three parties from both sides of the political spectrum. Overall, there is widespread consensus regarding the municipality's key priorities going forward. That said, in our view, Sundsvall has displayed somewhat weak budgetary discipline in recent years, evidenced by structural deficits in a few municipal units. These issues contributed to two consecutive years of negative balanced budget results in 2018 and 2019. However, we expect the municipality will continue implementing cost rationalizations, digitalization efforts, and changes to administrative processes that are anticipated to gain full effect toward the end of the forecast period. Moreover, we believe the city's management displays sound debt and liquidity management.

Sundsvall benefits from Sweden's very favorable economic fundamentals, reflected in our 2021 estimate of national GDP per capita of about \$59,700. The unemployment rate and income levels are roughly at par with national averages, and the socioeconomic profile does not stand out in a domestic comparison.

## **Government support and efficiency measures will mitigate pressure on operating performance, but debt continues to increase**

Despite the adverse economic effects from the COVID-19 pandemic and structural demographic challenges, we expect Sundsvall will post relatively stable operating margins from 2021 to 2023. Since the pandemic spread to Sweden, the central government has implemented unprecedented support packages to the LRG sector, especially for 2020. At the same time, the central government has provided extensive support to the private sector, allowing continued tax revenue growth. The municipality's expenditure growth was also lower than expected last year, partly due to cancelled activities in light of COVID-19. As a result, the preliminary accounts point to a very strong operating balance for 2020.

In the 2021-2023 period, we expect lingering effects from COVID-19 and demographic factors will pressure operating performance somewhat, resulting in more normalized operating balances compared with the inflated result in 2020. As a part of the 2021 Budget Bill, the central government announced additional support for 2021 and 2022, albeit at a declining rate. In addition, we expect the municipality will continue implementing efficiency measures to address the structural deficits in a few municipal boards. Although we are more conservative than the municipality as to what extent it will be able to cut costs, we project a gradual improvement in operating balance throughout the forecast period. Consequently, we also expect the municipality will comply with the accrual-based balanced budget requirement in 2021-2023.

Because of investment needs at the municipality and on-lending to municipal companies to finance their investments, we anticipate a steady increase in Sundsvall's debt through 2023. However, as for the municipality's capex, we forecast somewhat lower annual investments in the coming years compared with 2019-2020. In the company sector, the main spurs of on-lending are housing company Mitthem AB and water company Sundsvall Vatten AB. However, since both companies have strong financial profiles and operate in low-risk industries, we consider on-lending to these entities a mitigant to the municipality's debt burden.

In addition, the municipality is in the process of constructing a logistics park, administered by fully owned company Sundsvall Logistikpark AB. Although acknowledging the positive economic impact of this investment, we also note the associated risks are higher than in other fully owned companies. Therefore, we do not consider on-lending to this project a mitigant to the debt burden. The company is set to receive on-lending from the municipality in 2022 and 2023. Furthermore, we consider Sundsvall's exposure to contingent liabilities limited and the risk of materialization low.

We view Sundsvall's liquidity position as strong, supported by ample amounts of cash holdings, checking accounts, and contracted facilities. The municipality's funding options primarily include a Swedish krona (SEK) 10 billion medium-term note program and a SEK3 billion commercial paper program. We forecast gradually increasing debt repayments through 2023, spurred by higher bond maturities, since we assume outstanding commercial paper will remain largely unchanged. However, we expect Sundsvall will contract additional facilities to account for the expanding debt portfolio, mitigating pressure on the liquidity ratio. The municipality has a strong track record of maintaining sufficient liquidity sources to cover upcoming debt maturities. We estimate the weighted debt service coverage ratio at 174%. Moreover, in line with other rated Swedish LRGs, Sundsvall has a strong track record of reliable access to external financing.

## Key Statistics

**Table 1**

Sundsvall (Municipality of) Selected Indicators						
	2018	2019	2020e	2021bc	2022bc	2023bc
Operating revenues	7,145	7,483	7,690	7,766	7,927	8,092
Operating expenditures	6,963	7,282	7,217	7,461	7,612	7,761
Operating balance	182	201	473	305	315	332
Operating balance (% of operating revenues)	2.5	2.7	6.1	3.9	4.0	4.1
Capital revenues	24	2	570	182	0	0
Capital expenditures	700	648	780	561	591	512
Balance after capital accounts	(494)	(445)	263	(74)	(276)	(180)
Balance after capital accounts (% of total revenues)	(6.9)	(5.9)	3.2	(0.9)	(3.5)	(2.2)
Debt repaid	2,450	2,640	2,950	2,550	2,850	3,300
Gross borrowings	3,061	3,774	3,040	2,872	3,545	3,975
Balance after borrowings	11	290	110	(15)	0	0
Direct debt (outstanding at year-end)	8,335	9,469	9,559	9,880	10,576	11,251
Direct debt (% of operating revenues)	116.7	126.5	124.3	127.2	133.4	139.0
Tax-supported debt (outstanding at year-end)	9,066	9,931	9,820	9,917	10,612	11,287
Tax-supported debt (% of consolidated operating revenues)	103.6	108.8	103.6	103.4	108.4	112.9
Interest (% of operating revenues)	1.0	0.9	0.8	0.8	0.9	0.9
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	477,094	491,114	479,018	497,494	517,705	536,641

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. N.A.--Not available. N.M.--Not meaningful.

## Ratings Score Snapshot

**Table 2**

Sundsvall (Municipality of) Ratings Score Snapshot	
Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	3
Budgetary performance	3
Liquidity	1
Debt burden	3
Stand-alone credit profile	aa+

Table 2

### Sundsvall (Municipality of) Ratings Score Snapshot (cont.)

Key rating factors	Scores
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

- Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Feb. 12, 2021.

## 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, Feb. 8, 2021
- Extra Funding In Sweden's 2021 Budget Will Support LRGs, Sept. 24, 2020
- European Local And Regional Government Risk Indicators, June 30, 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
- Sweden's Local Governments To Get A Slight Boost From 2020 Budget, Sept. 20, 2019
- Default, Transition, and Recovery: 2018 Annual International Public Finance Default And Rating Transition Study, Aug. 19, 2019

### Ratings Detail (As Of March 22, 2021)\*

Sundsvall (Municipality of)	
Issuer Credit Rating	AA+/Stable/A-1+
<i>Nordic Regional Scale</i>	--/--/K-1
Commercial Paper	
<i>Nordic Regional Scale</i>	K-1

**Ratings Detail (As Of March 22, 2021)\*(cont.)**

Senior Unsecured	AA+
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**Issuer Credit Ratings History**

30-Apr-2013	AA+/Stable/A-1+
05-Apr-2011	AA+/Stable/--
28-Mar-2008	AA/Stable/--
18-Apr-2001	--/--/K-1

*Nordic Regional Scale*

\*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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