

Research Update:

Swedish Municipality of Huddinge Upgraded To 'AAA' On Stronger Budgetary Prospects; Outlook Stable

November 1, 2024

Overview

- Because of easing inflationary cost pressures and strong financial management, we forecast that Huddinge will post resilient operating budget surpluses through 2026.
- We anticipate that debt levels will be broadly stable, even if Huddinge and its municipal companies still have high investment needs.
- Over the next two years, we forecast that Huddinge will maintain its strong liquidity position.
- We therefore raised to 'AAA' from 'AA+' our long-term rating on Huddinge, while affirming the 'A-1+' short-term rating. The outlook is stable.

Rating Action

On Nov. 1, 2024, S&P Global Ratings raised its long-term issuer credit rating on the Swedish Municipality of Huddinge to 'AAA' from 'AA+'. The outlook is stable. At the same time, we affirmed our 'A-1+' short-term rating and our 'K-1' short-term Nordic regional scale rating on the municipality.

Outlook

The stable outlook indicates that Huddinge is likely to maintain sound budgetary performance and contain its debt levels. Furthermore, we expect it to maintain its strong liquidity position, so that well over 80% of its annual debt maturities and investment finance needs are covered.

Downside scenario

We could lower the ratings if Huddinge failed to uphold its budgetary performance and its significant and negative budgetary deviations led to a pronounced increase in the debt levels.

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Rationale

The upgrade indicates that we expect Huddinge to maintain its financial position through good financial management. This, combined with strong nominal growth in tax revenue, suggests that the municipality is likely to demonstrate strong budgetary performance. Specifically, we forecast that Huddinge will report budgetary surpluses that exceed 5% of operating revenue, despite cost pressures.

Over the past couple of years, Huddinge has adhered to stricter budgeting and follow-up processes and has focused on the need to comply with its overarching financial policies. This includes compliance with its internal consolidated budgetary surplus goal as well as refined decision-making for investments, targets for self-financing capital expenditure (capex), debt limits on a per capita basis, and stricter requirements that individual budgetary units such as municipal boards do not overrun their budgets. This approach has enabled Huddinge to outperform both its budget and our previous expectations, despite macroeconomic challenges. It also translates into a brighter forecast for budgetary performance and debt burden in the years ahead.

Although implementing its ambitious public investment strategy will cause Huddinge's debt to increase somewhat over the next few years; we anticipate that it will decline thereafter. We also expect Huddinge to maintain its solid liquidity position throughout our forecast horizon.

Huddinge benefits from close integration with the Stockholm region, political stability, and a supportive institutional framework

Huddinge's local economy remains strong, thanks to its close integration with the Stockholm region. As a result, its economy is diversified, which benefits its employment structure. In line with other Swedish local and regional governments (LRGs), Huddinge benefits from Sweden's comparably high wealth levels and resilient economy--we estimate that national GDP per capita for 2024 will be about \$59,600.

Huddinge has about 114,000 inhabitants and is the second-largest municipality in the metropolitan Stockholm region, after the City of Stockholm. In line with most municipalities in Sweden, population growth has been subdued, largely because of a substantial drop in immigration, combined with low birth rates. Nevertheless, we anticipate that Huddinge's population will grow, although much more slowly than it did in the past two decades. Compared with national peers, Huddinge residents have relatively high income levels, but unemployment in the municipality is somewhat higher.

The political situation in Huddinge is stable. The municipality has been governed by a left-leaning minority coalition since the September 2022 election. That said, there is broad-based collaboration in key areas that foster Huddinge's continued economic growth, and we do not expect any major policy shifts. Huddinge's management has historically sustained relatively strong budget discipline. In line with several other Swedish LRGs, Huddinge temporarily lowered its budget surplus targets for 2023. However, Huddinge has outperformed its targets and remained compliant with the balanced budget requirement for the Swedish LRG sector.

We expect Huddinge's approach toward managing its debt and liquidity will remain prudent and that it will ensure it has sufficient liquidity to cover its debt-servicing needs. Huddinge's financial management has been improving, based on prudent expenditure management, organizational structure, capex planning, and policy reforms. Furthermore, Huddinge is currently deriving eligible

loan-funding limits linked to each capex projects' ability to generate revenue. We anticipate that management will continue to mitigate spending pressures through cost-efficiency measures while maintaining prudent debt and liquidity policies, thus keeping debt in check and maintaining the strong liquidity position.

We regard the institutional framework for Swedish municipalities as extremely predictable and supportive. In our view, the framework provides for a high degree of stability. The LRG sector's revenue and expenditure management is based on a far-reaching equalization system and significant tax autonomy. Historically, Sweden's central government has provided extensive support to the LRG sector; for example, through additional grants distributed in response to the pandemic or, more recently, to cover rising pension costs (see "Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

Persistently strong budgetary performance and a liquidity position that benefits from temporarily low maturities of outstanding debt

Huddinge's budgetary performance remains strong, and is now predicted to outperform its own 2024 budget and our previous expectations. This mainly stems from higher-than-expected tax revenue, large central government grants, and sound results at the level of municipal boards, thanks to successful financial management.

Against the backdrop of a few years of very high operating budget surpluses, we expect Huddinge's budgetary performance to slightly weaken in 2024-2026, while remaining comfortably above 5%. Although the lingering effects of higher inflation have squeezed operating expenditure, we anticipate that this will be partly counterbalanced by robust tax revenue growth. Structurally, we expect Huddinge's management to maintain strong budgetary discipline and fully comply with the sectorwide balanced budget requirement.

We expect broadly stable investment needs in 2024-2026, averaging about Swedish krona (SEK) 615 million a year, leading to slim budget surpluses after capex. Nevertheless, considering Huddinge's elevated long-term investment needs, we believe that, after capex, budget balances will turn into deficits beyond our two-year forecast period. In calculating Huddinge's budget balance after capital accounts, we include investments made by its municipal property company, Huddinge Samhällsfastigheter AB. We regard this company as core to the provision of municipal services and its spending as a substitute for direct municipal investment.

In our view, the two municipal companies--Huge Bostäder, a public housing company, and Huddinge Samhällsfastigheter--will be the main drivers of Huddinge's debt dynamics over the next two years. However, we now expect the increase in debt to be slightly lower than we previously forecast, and that tax-supported debt will fall to 61% of operating revenue by 2026.

Huddinge acts as an in-house bank and lends all the proceeds from new debt issuance to its companies. This implies that the municipality is not directly exposed to higher interest rates because the companies generate cash flow to service the debt. Furthermore, in assessing Huddinge's debt position, we adjust for debt onlent to Huge Bostäder. This company has a strong financial profile, supported by noncyclical operating cash flows and high local demand for housing. Consequently, in our view, including Huddinge's lending to this entity in our measures overstates the municipality's debt burden. If we exclude Huddinge's lending to Huge Bostäder, the adjusted tax-supported debt ratio falls to about 20% of consolidated revenue.

Huddinge's contingent liabilities, including extended guarantees are low. Furthermore, we consider Huddinge's contingent liabilities that are associated with its joint and several guarantee to Sweden's public sector funding agency Kommuninvest i Sverige AB (AAA/Stable/A-1+) to be

limited.

We anticipate that Sweden's central bank, the Riksbank, will continue to lower its policy rate over the coming year. However, we do not expect Huddinge to experience rapid relief in terms of its interest burden because it still has some low-cost, fixed-rate loans that will need to be refinanced at higher rates, in addition to the loans it has recently renegotiated at fixed rates.

We assess Huddinge's liquidity as strong, based on its solid debt-service coverage ratio, which we estimate at 133% as of end-2024. This is an increase from our previous published estimate of about 126%. Over the past year, the debt-service coverage ratio has been extraordinarily high because the municipality:

- Recently sold a large property; and
- Has relatively little outstanding debt due to mature in 2025-2026.

We anticipate that the liquidity coverage ratio will gradually revert to its historical level of 80%-120%. When calculating the liquidity ratio, we consider cash and committed facilities as a share of maturing debt plus investment financing needs. In the coming years, commercial paper proceeds are likely to finance an increasing share of debt maturities, although we do not think this will depress the liquidity coverage ratio. Moreover, in line with other rated Swedish LRGs, Huddinge benefits from a strong record of reliable access to external financing, even in times of financial market stress.

Huddinge funds itself in the capital markets through a medium term note program and a commercial paper program, both denominated in Swedish krona. Furthermore, Huddinge sources part of its loan portfolio via Kommuninvest.

Key Statistics

Table 1

Municipality of Huddinge--Selected Indicators

(Mil. SEK)	--Fiscal year ends Dec. 31--				
	2022	2023	2024bc	2025bc	2026bc
Operating revenue	8,719	9,064	9,381	9,556	9,847
Operating expenditure	8,070	8,150	8,678	8,861	9,055
Operating balance	649	915	702	695	792
Operating balance (% of operating revenue)	7.4	10.1	7.5	7.3	8.0
Capital revenue	385	67	60	91	98
Capital expenditure	473	660	511	618	717
Balance after capital accounts	561	322	251	168	174
Balance after capital accounts (% of total revenue)	6.2	3.5	2.7	1.7	1.7
Debt repaid	1,600	1,720	2,249	1,417	1,150
Gross borrowings	1,209	1,755	2,700	1,750	1,250
Balance after borrowings	(120)	(60)	44	(18)	(6)
Direct debt (outstanding at year-end)	5,622	5,978	6,429	6,762	6,862
Direct debt (% of operating revenue)	64.5	65.9	68.5	70.8	69.7

Table 1

Municipality of Huddinge--Selected Indicators (cont.)

(Mil. SEK)	--Fiscal year ends Dec. 31--				
	2022	2023	2024bc	2025bc	2026bc
Tax-supported debt (outstanding at year-end)	6,151	6,493	6,929	7,262	7,362
Tax-supported debt (% of consolidated operating revenue)	58.9	59.1	60.8	62.4	61.4
Interest (% of operating revenue)	1.4	1.7	2.5	2.3	2.0
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A
National GDP per capita (SEK)	561,139	589,887	605,277	628,464	654,778

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. SEK--Swedish krona. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable.

Ratings Score Snapshot

Table 2

Municipality of Huddinge--Ratings score snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	1
Liquidity	2
Debt burden	2
Stand-alone credit profile	aaa
Issuer credit rating	AAA

Key Sovereign Statistics

- Sovereign Risk Indicators, Oct. 7, 2024. An interactive version is available at <http://www.spratings.com/sri>

Related Criteria

- 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

- Sweden-Based Local Government Funding Agency Kommuninvest i Sverige AB Affirmed At 'AAA/A-1+'; Outlook Stable, Oct. 30, 2024
- Sweden, Oct. 28, 2024
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., Sept. 18, 2024
- Nordic Public Finance Credit Outlook 2024: A Mixed Picture, May 16, 2024
- Subnational Debt 2024: Focus On Debt Sustainability, Feb. 29, 2024
- Subnational Debt 2024: Infrastructure Spending Succumbs To Economic Slowdown, Feb. 29, 2024
- Subnational Debt 2024: Global LRGs Can Handle Rising Interest Expenses, Feb. 29, 2024
- 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

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

Upgraded; Outlook Action; Ratings Affirmed

	To	From
Huddinge (Municipality of)		
Issuer Credit Rating	AAA/Stable/A-1+	AA+/Positive/A-1+

Upgraded

	To	From
Huddinge (Municipality of)		
Senior Unsecured	AAA	AA+

Ratings Affirmed

Huddinge (Municipality of)		
Issuer Credit Rating--Nordic Regional Scale	--/--/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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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