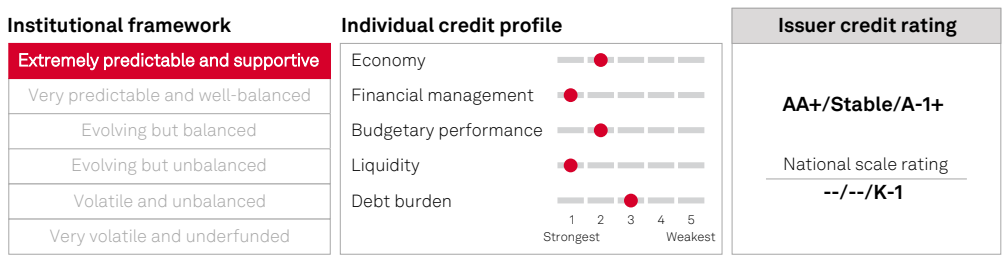


# Municipality of Södertälje

June 3, 2024

This report does not constitute a rating action.

## Ratings Score Snapshot



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## Credit Highlights

### Overview

#### Credit context and assumptions

--Sweden's extremely predictable and supportive institutional framework underpins the ratings on Södertälje.

--Although Södertälje's economy faces more pressure than that of most Swedish municipalities, due to its weaker socioeconomic profile, management is committed to addressing these issues.

--Management exercises strict budget control and addresses potential negative budget deviations promptly.

#### Base-case expectations

--We expect Södertälje to maintain strong operating balances (higher than 5%) which together with capital expenditure (capex) will lead to slight deficits after capex.

--We anticipate a gradual debt accumulation in the coming years, mainly due to the investment needs of the municipal companies.

--In our view, Södertälje's management can maintain a strong liquidity position.

**S&P Global Ratings anticipates that Sweden's Municipality of Södertälje can maintain prudent financial management and strong cash-flow-based budgetary performance in the coming years.** We expect tax revenue growth to remain resilient, supporting Södertälje's

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budgetary performance. Expenditure pressure related to its weaker socioeconomic profile remain a key risk.

**After a reduction in debt in 2023, we expect debt to increase moderately.** We expect large upcoming investments, especially within the municipal companies that provide properties for municipal use, as well as water, sewerage, and electricity grid, to drive Södertälje's borrowing needs.

## Outlook

The stable outlook reflects our view that risks related to Södertälje's weaker social economic profile than domestic peers' are balanced by the municipality's strong track record of containing debt.

### Downside scenario

We could take a negative rating action if Södertälje's management fails to adequately address local socioeconomic pressures and other, sectorwide challenges. This could result in recurring, more pronounced deficits, and its debt burden rising more than currently anticipated.

### Upside scenario

We could raise the rating if active policy measures, both at the local and central government levels, reduce the socioeconomic pressure on Södertälje's finances. The municipality's creditworthiness could also improve if it can significantly reduce its debt burden. This could stem from significantly lower deficits after capital accounts than incorporated in our base case.

## Rationale

### Financial management remains among the strongest compared to Swedish peers' and the political landscape is defined by broad cross-block consensus on core issues

We regard 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 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. Since 2020 and in response to the adverse economic and financial impacts of the pandemic, the central government has remained supportive of Sweden's local and regional governments (LRGs), implementing both direct and indirect budgetary support measures that boosted the LRGs' operating performance. Although structural challenges remain and the state's extraordinary support has been phased out, we see limited risk of a material deterioration of the LRG sector's financial position.

Södertälje has weaker socioeconomic characteristics than national average, which translate into higher spending pressure and lower tax revenue that weigh on our overall impression of risks associated with the local economy. The municipality benefits from Sweden's comparably high wealth, as illustrated by our 2024 GDP per capita estimate of about \$57,700. Södertälje is also the home of world-leading companies in the auto and pharmaceutical sectors, such as Scania and AstraZeneca, resulting in a net positive commuter inflow. However, due to a demographic- and skill-related mismatch in the job market, Södertälje has a higher unemployment rate than the national average, at 10.6% as of year-end 2023 versus 6.6%.

Furthermore, there is more widespread instances of crime and violence in the municipality, which create additional spending pressure.

Although structural and social challenges exist, Södertälje's management has been proactive in addressing social issues while maintaining a successful track record of budget discipline. Since the elections in September 2022, Södertälje has been governed by a majority coalition consisting of parties from both sides of the traditional left-right blocks. We observe strong consensus regarding long-term strategies, illustrated by debt reduction in previous years. The collaboration between politicians and civil servants is efficient, adding to predictability and budgetary discipline. We acknowledge that Södertälje is prudent regarding financial reporting and promptly addressing negative deviations from the budget. In the coming years, we expect management will remain committed to addressing its structural socioeconomic issues and undertake necessary efficiency measures to comply with its internal surplus goal and, as a minimum, the balanced budget requirement.

### **Prudent cost containment and interest revenue from lending to municipal companies will mitigate lingering inflationary pressure on operating performance**

We expect Södertälje to maintain a solid although slightly declining operating balance higher than 5% of revenue in 2024-2025, despite persistent challenges such as rising interest costs, lingering effects of inflation, structural demographic issues, and slower tax revenue growth. Management will continue its prudent budgetary steering and we expect it to remain committed to implementing efficiency measures, especially to address structural deficits at its board for social care. Like in 2023, Södertälje's and the Swedish LRG sector's 2024 performance in general will be burdened by significantly larger pension costs (see "Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise," published Sept. 14, 2023, on RatingsDirect). The municipality's main revenue source consists of taxes (55%), while grants and equalization revenue make up a comparably high 30% of revenue. The latter revenue item compensates for a sizable part of Södertälje's expenditure pressure stemming from above-peer-average socioeconomic related spending linked to family care and education, among other areas.

We anticipate sizeable capex will likely push the balance after capital accounts into a deficit position in 2024, before it recovers to almost balance in 2025-2026. The main areas of investment include local roads and land development. We continue to include the capex of Södertälje's property company Telge Fastigheter AB into the calculation of Södertälje's investments, since we consider this company's property holdings to be core to the municipality's operations. For the rest of the municipality's company sector, for example, public housing and utility companies, we continue to anticipate notable investment needs through 2026. These investments will not affect Södertälje's after-capex performance but will add to its debt burden, as the municipal companies borrow from Södertälje's in-house bank.

We anticipate Södertälje's moderate debt will gradually increase, mostly due to its need to finance borrowings by the municipal companies. One of the main recipients of Södertälje's lending is its housing company Telge Bostäder AB, whose debt accounts for 30% of the overall municipal debt. We consider Södertälje's lending to Telge Bostäder to be a possible mitigant to its debt burden because the company has a strong credit profile and good ability to service its own debt. Overall, Södertälje will be largely compensated for rising interest costs through the corresponding increase in interest payments from the companies it owns, mitigating our assessment of interest rate exposure. Furthermore, we continue to view Södertälje's contingent liabilities, including guarantees extended to the public-sector funding agency Kommuninvest, as limited.

Södertälje's liquidity position is very strong, supported by ample reserves, including contracted facilities. We estimate the weighted debt-service coverage ratio at 143%. After divestment of its energy trading company Telge Energi in 2023, with resulting lower need for placing liquidity as collateral in electricity trading, Södertälje has reduced its contracted facilities by Swedish krona

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(SEK) 1 billion to a total of SEK3 billion. Furthermore, in line with other rated Swedish LRGs, we view Södertälje's access to external liquidity as strong, with a strong track record of tapping capital markets and accessing funds via funding agencies.

Södertälje has centralized its treasury activities at its in-house bank. In our view, the treasury adheres to conservative, risk-minimizing policies, and ensures cost-efficient financing for the municipality and its GREs. The main source of funding is the capital markets, via a SEK10 billion medium-term note program, SEK4 billion commercial paper program, and borrowings via Kommuninvest. Södertälje's debt profile shows average capital maturity of two years and interest rate duration of 4.3 years.

### Municipality of Sodertälje Selected Indicators

Mil. SEK	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenue	7,719	8,245	8,713	8,976	9,251	9,547
Operating expenditure	7,128	7,643	8,188	8,508	8,723	8,942
Operating balance	591	602	525	467	528	605
Operating balance (% of operating revenue)	7.7	7.3	6.0	5.2	5.7	6.3
Capital revenue	111	91	63	55	100	100
Capital expenditure	318	555	415	787	609	753
Balance after capital accounts	384	138	173	(265)	19	(48)
Balance after capital accounts (% of total revenue)	4.9	1.7	2.0	(2.9)	0.2	(0.5)
Debt repaid	2,255	1,673	2,420	2,200	1,650	1,140
Gross borrowings	2,246	2,547	2,092	2,851	1,937	1,539
Balance after borrowings	(9)	218	(225)	(24)	(0)	0
Direct debt (outstanding at year-end)	7,365	8,239	7,911	8,562	8,849	9,248
Direct debt (% of operating revenue)	95.4	99.9	90.8	95.4	95.7	96.9
Tax-supported debt (outstanding at year-end)	7,365	8,239	7,911	8,562	8,849	9,248
Tax-supported debt (% of consolidated operating revenue)	70.4	75.5	67.0	70.5	70.8	71.8
Interest (% of operating revenue)	2.0	3.0	3.7	4.1	4.2	4.4
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	61,637.0	56,692.8	56,419.0	57,741.4	N/A	N/A

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 Södertälje--Rating Component Scores

Key rating factors	Scores
Institutional framework	1
Economy	2
Financial management	1
Budgetary performance	2

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Liquidity	1
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

- Sweden, April 29, 2024

## 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

- Nordic Public Finance Credit Outlook 2024: A Mixed Picture, May 16, 2024
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., April 8, 2024
- 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, Sept. 14, 2023

**Ratings Detail (as of June 03, 2024)\***

**Södertälje (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
Senior Unsecured	AA+

**Issuer Credit Ratings History**

04-Jun-2021	AA+/Stable/A-1+
05-Jun-2020	AA+/Negative/A-1+
15-Dec-2011	AA+/Stable/A-1+
15-Dec-2011	<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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