

Huddinge (Municipality of)

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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>Huddinge benefits from its diversified economy and proximity to central Stockholm, while demographic challenges could put pressure on future financial performance.</p> <ul style="list-style-type: none">Central government support and expected stronger tax revenue growth will mitigate the pressure on Huddinge's performance metrics.Sweden's extremely predictable and supportive institutional framework for local and regional governments (LRGs) supports our rating on Huddinge.	<p>The municipal companies, Huga Bostäder and Huddinge Samhällsfastigheter, are the main drivers of debt, pushing the municipality's tax-supported debt up to an estimated 79% of consolidated revenue by 2023.</p> <ul style="list-style-type: none">Despite high capital expenditure (capex), we expect the city will remain committed to its financial policies.The municipality lends all debt to its municipal companies.Huddinge has strong liquidity with ample backup facilities.

Outlook

The stable outlook reflects S&P Global Ratings' view that Huddinge will remain committed to budgetary discipline and comply with the balanced budget requirement. We expect the debt burden will increase somewhat in the coming years, in line with continued high investments.

Downside scenario

We could consider a negative rating action if Huddinge's management failed to uphold a balanced budget on a structural basis and debt increased beyond our current expectations. We could also lower the rating if systemic support to the sector proved insufficient, leading to long-term imbalances between responsibilities and revenue generation.

Upside scenario

We could raise the rating if Huddinge improved its budgetary performance and limited its debt buildup. Furthermore, this would likely bolster the municipality's structural liquidity position.

Rationale

The wealthy economy of Sweden (AAA/Stable/A-1+) and the extremely predictable and supportive institutional framework for Swedish LRGs support our ratings on Huddinge. In our view, Huddinge's local economy is very strong, supported by the municipality's proximity to central Stockholm. Huddinge's debt is low, considering it is all lent to its financially sound subsidiaries. Furthermore, liquidity is strong, which continues to support Huddinge's creditworthiness.

The central government has provided extensive support to the LRG sector during the pandemic, but structural issues remain unresolved

We consider the institutional framework in Sweden to be extremely predictable and supportive, demonstrated by our national GDP per capita forecast of about \$59,700 in 2021. The LRG sector's revenue and expenditure management are based on a far-reaching equalization system and taxing autonomy. Furthermore, the central government's swift response to the COVID-19 pandemic, partly through ample distribution of 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. Furthermore, how the central government aims to address the sector's demographic challenges in the longer term, and to what extent it should provide financial support, are somewhat unclear. Consequently, we assess the institutional framework trend as weakening.

With more than 113,000 inhabitants, Huddinge is the second-largest municipality in the metropolitan area of Stockholm region. The population growth in 2020 was the lowest since 1988, largely explained by a substantial pandemic-related drop in immigration. However, population growth is expected to return to previous levels in the coming years. The economy is well balanced, with a diverse employment structure.

Huddinge's financial management supports the ratings, since it continues to prioritize cost efficiency measures and complies with the national balanced budget requirement. We also believe that Huddinge's debt and liquidity approach will remain prudent, ensuring that liquidity remains sufficient to cover debt-servicing needs. Despite the municipality having a minority government, there is broad-based collaboration in key areas that foster the municipality's continued growth.

The municipality's debt level is mitigated by the on-lending to its municipal companies

We expect Huddinge's stable economic fundamentals and prudent financial management will support its budgetary performance. Nevertheless, even with the more optimistic tax revenue forecast and continued central government support, we still expect a slight decrease in the operating balance in the coming years. This is related to the structural negative trend in the Swedish LRG sector, with increasing cost pressure due to demographic challenges. Despite this, we believe Huddinge will continue complying with the balanced budget requirement in the coming years.

In line with our previous base case, we anticipate increasing investments during our forecast period through 2023, largely related to infrastructure. With increasing investments, alongside a gradually decreasing operating balance, we expect deficits after capital accounts of about 4% on average over 2021-2023. We consider investments carried out by the municipal property company, Huddinge Samhällsfastigheter AB, as core to municipal services and a substitute to direct municipal investment.

We expect municipal housing company, Huga Bostäder, and Huddinge Samhällsfastigheter to be the main drivers of debt during our forecast period, given their upcoming investments. Although we expect the tax-supported debt ratio will increase steadily in the coming years, Huddinge lends all proceeds of new debt to its companies. This implies that Huddinge has the capacity to absorb a larger debt portfolio, since the companies generate cash flow to service the debt. We adjust the debt position for debt lent to Huga, which we believe is in a very strong position to service its debt without any municipal support.

We assess Huddinge's liquidity as strong, based on its solid debt-service coverage ratio, which we estimate at 109%. This ratio reflects cash and committed facilities as a share of maturing debt and financing needs for investments. Huddinge uses credit facilities from banks to handle its liquidity needs and reduce refinancing risk. Furthermore, we note that management actively oversees the municipality's debt portfolio to ensure the liquidity ratio stays above 80%. Moreover, in line with other rated Swedish LRGs, Huddinge has a strong track record of reliable access to external financing.

Key Statistics

Table 1

Municipality of Huddinge Selected Indicators						
	--Year ended Dec. 31--					
Mil. SEK	2018	2019	2020e	2021bc	2022bc	2023bc
Operating revenues	7,341	7,520	8,022	8,063	8,217	8,374
Operating expenditures	7,069	7,204	7,486	7,672	7,901	8,059
Operating balance	272	316	536	391	315	315
Operating balance (% of operating revenues)	3.7	4.2	6.7	4.8	3.8	3.8
Capital revenues	44	55	26	0	0	0
Capital expenditures	390	719	704	748	700	646
Balance after capital accounts	(75)	(349)	(142)	(358)	(385)	(331)
Balance after capital accounts (% of total revenues)	(1.0)	(4.6)	(1.8)	(4.4)	(4.7)	(4.0)
Debt repaid	1,220	1,200	1,868	1,875	1,700	1,500
Gross borrowings	1,318	1,454	1,709	2,254	2,355	2,056
Balance after borrowings	0.2	0.3	0.3	0.0	0.0	0.0
Direct debt (outstanding at year-end)	5,402	5,761	5,603	5,981	6,636	7,192
Direct debt (% of operating revenues)	73.6	76.6	69.8	74.2	80.8	85.9
Tax-supported debt (outstanding at year-end)	6,114	6,440	6,264	6,643	7,298	7,854
Tax-supported debt (% of consolidated operating revenues)	69.1	71.1	65.7	69.0	74.4	78.6

Table 1

Municipality of Huddinge Selected Indicators (cont.)						
Mil. SEK	--Year ended Dec. 31--					
	2018	2019	2020e	2021bc	2022bc	2023bc
Interest (% of operating revenues)	0.8	1.0	1.0	1.0	1.0	1.0
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	491,200	479,449	497,941	518,171	537,124

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

Municipality of Huddinge Rating Score Snapshot	
Key rating factors	
Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	3
Liquidity	2
Debt burden	2
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, April 12, 2021; a free interactive version is available at <http://www.spratings.com/sri>

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, April 13, 2021
- Local And Regional Governments Outlook 2021: Gradual Recovery Will Test Rating Resilience, Dec. 10, 2020
- Default, Transition, and Recovery: 2019 Annual International Public Finance Default And Rating Transition Study, Dec. 8, 2020
- Extra Funding In Sweden's 2021 Budget Will Support LRGs, Sept. 24, 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

Ratings Detail (As Of May 10, 2021)*

Huddinge (Municipality of)

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

Issuer Credit Ratings History

20-Aug-2010	<i>Foreign Currency</i>	AA+/Stable/A-1+
13-Feb-2013	<i>Local Currency</i>	AA+/Stable/A-1+
13-Feb-2013		AA+/Stable/--
20-Aug-2010	<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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