S&P Global Ratings

Research

Uppsala (City of)

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Primary contact

Erik A Karlsson
Stockholm
46-8-440-5924
erik.karlsson
@spglobal.com

Secondary contact

Carl Nyrerod
Stockholm
46-8-440-5919
carl.nyrerod
@spglobal.com

Analytical group contact

EMEA Sovereign and IPF
SovereignIPF
@spglobal.com

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
--Sweden's extremely predictable and supportive institutional framework supports our ratings on Uppsala.	--Operating budgetary performance is set to weaken on the back of high inflation and large temporary costs in preparation for tram investments.
--The resilient Swedish economy, and strong local fundamentals, support Uppsala's tax revenue growth.	--S&P Global Ratings estimates the city's capex will remain stable through 2025, driven by investments in school properties, resulting in moderate deficits after capital accounts.
--Strong budget discipline offsets risks from rising spending amid macroeconomic challenges and large capital expenditure (capex) needs.	--Although debt in nominal terms is set to increase, we expect the city's debt burden in relation to revenue will remain stable.

Large infrastructure-related expenses will weigh on the City of Uppsala's operating performance. Before the large public transportation project can start, Uppsala needs to undertake preparatory works, including moving pipes and cables in the ground. Since the city itself does not own these assets directly, it needs to compensate the owners, including private companies and subsidiaries of the city, for the related damage. We estimate these costs will weigh on the city's operating performance through 2026.

Capex remains contained due to lower-than-projected population growth and high inflation. Consequently, we forecast Uppsala's, including its companies', capex through 2025 will remain fairly in line with the previous two years, driven primarily by school property investments carried out by fully owned subsidiary Uppsala Kommun Skolfastigheter AB (Skolfastigheter). We therefore think the city's debt-to-revenue ratio will remain fairly stable through 2025.

That said, capex is set to increase on investments related to public transportation beyond 2025. These projects, which include a tramway network, will intensify from 2026 and likely result in wider deficits after capital accounts and higher debt levels.

Outlook

The positive outlook reflects our view that Uppsala could contain macroeconomic pressures and large capex needs such that its budgetary performance persistently improves beyond our current expectations. The outlook also reflects our view that the city will further sharpen its control of the budget, and those of its companies, which could lead us to reassess our view on management.

Downside scenario

We would revise the outlook to stable if Uppsala's budgetary performance doesn't improve, reflected in operating balances persistently below 5% of revenue, due to a failure to contain spending. We could also revise the outlook to stable if management displays less prudence in its steering and oversight of the city's and its companies' finances.

Upside scenario

We could raise the ratings within the next 12 months if Uppsala demonstrates solid budgetary discipline, counterbalancing rising cost pressures and increasing capex, resulting in persistently improved budgetary performance, including strengthened operating performance of above 5% of revenue and contained deficits after capital accounts. We could also consider an upgrade if the city's management strengthens further, illustrated for instance by a tighter grip on Uppsala's and its companies' financial positions.

Rationale

Uppsala's wealthy economy and budgetary discipline support its public finance sustainability

We regard the political situation in Uppsala as stable. Since elections last year, the city has been governed by a left-green minority administration, benefitting from passive support from local party Utvecklingspartiet Demokraterna (UP). In recent years, political debate has been focused on the city’s expansion, including a large tramway network project. We understand the administration secured support from UP partly by agreeing to a referendum initially targeting the tramway but later watered-down to being about the city expansion in broader terms. The referendum will take place in June 2024 and we don't expect any major policy change as a result. In general, we have observed strong consensus regarding long-term plans, with sound commitment to budgetary discipline at both the managerial and political leadership levels, reflecting a strong track record in this respect. We regard Uppsala's financial management as prudent, and the city adheres to conservative risk policies.

Uppsala's economy is supported by Sweden's comparably high wealth levels, as seen by our estimated 2023 GDP per capita of close to $56,000. The city is the fourth largest in the country, benefiting from its close integration to the greater Stockholm area, in terms of labor market, for example. This, combined with a well-educated work force, supports relatively high income and unemployment roughly on par with the national average (6.4% in October 2023).

We assess Sweden's institutional framework as 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. Central government support for the sector was displayed, for instance, during the COVID-19 pandemic, where it implemented direct and indirect support packages to boost municipalities' operating performance.

Infrastructure-related spending will weigh on Uppsala's budgetary performance

We expect somewhat weaker operating performance for Uppsala over the next two years. Strong revenue growth and contained operating expenditure (opex), excluding noncash items such as provisions, will support strong performance in 2023. In 2024, preparation work related to the tramway project will start, totaling almost Swedish krona (SEK)1.6 billion through 2026. In combination with high inflation and rising employee-related costs, we expect this will weigh on Uppsala's operating performance. Balancing this is our expectation that nominal tax revenue growth will remain strong, supported by the resilient Swedish economy, and additional general grants provided to the sector from the state as of 2024, amounting to about SEK160 million for Uppsala. Although we expect Uppsala will post weak accrual-based net performance in 2023-2024, owing to large pension expenditure, its operating cashflow will remain strong (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).

Despite a sizeable investment program, we think the city can contain its deficit after capital accounts, at least through 2025, thanks to strong cash generation. Uppsala's own investments are mainly related to the city's expansion, such as local infrastructure and strategic land acquisitions. In 2025, the construction of the tramway network will start, which will gradually increase the city's capex in subsequent years, potentially pushing up its deficit after capital accounts. In addition, we expect the fully owned school property company, Skolfastigheter, will undertake sizeable investments, which we reflect in the city's capital accounts. We estimate the company will borrow SEK700 million on average through 2025. However, we expect its investments will decrease toward the end of our forecast period as the need for new schools has diminished due to less dynamic population growth projections.

In addition to the city (including Skolfastigheter), its subsidiaries carry notable investments, requiring on-lending from the treasury. This is mainly related to housing company Uppsalahem AB and water and waste company Uppsala Vatten & Avfall AB. We note that Uppsalahem focuses its investments mainly on existing assets, because rising build costs make new development currently less viable, which has a dampening effect on its investment levels. On average, we forecast the companies, excluding Skolfastigheter, will borrow close to SEK850 million annually through 2025.

We continue to expect Uppsala's debt-to-revenue ratio will remain stable through 2025. More than 50% of the city's debt has been lent to Uppsalahem and Uppsala Vatten & Avfall. Adjusted for this on-lending, we estimate Uppsala's direct debt at about 45% of revenue. We consider this a mitigating factor in our assessment of the city's debt burden, given the solid business risk profiles and strong financial positions of these companies. Furthermore, we continue to regard the city's contingent liabilities, including its joint and several guarantee to Kommuninvest, as limited.

Although we expect Uppsala's interest payments will increase by more than 3x through 2025 compared to 2022, the impact on the city's budget is manageable. Like other Swedish LRGs, Uppsala has a short-dated debt profile, with an average maturity of 2.39 years at the end of August. However, the entire debt stock has been on-lent to its companies, and we expect higher interest payments will be accompanied by higher interest income as the companies service the debt, mitigating the effect on the city's operating performance. Still, we expect internal companies, such as Skolfastigheter, will manage the rising interest by increasing the city's rents, pushing up Uppsala's opex. We expect companies with commercial revenue, such as Uppsalahem, can absorb increasing interest payments without owner support.

We expect Uppsala's liquidity will remain solid due to its ample contracted facilities and strong access to capital markets. We estimate that available cash and committed bank lines cover

131% of maturing debt over the next 12 months. The city primarily uses committed credit facilities from banks to handle its liquidity needs and reduce refinancing risk. In our calculation, we include close to SEK6.5 billion of cash and committed and available facilities, SEK220 million of expected funding needs for the city, and SEK4.6 billion of maturing debt and interest.

City of Uppsala Selected Indicators

Mil. SEK	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	16,147	16,814	17,788	18,574	19,567	20,560
Operating expenditure	15,202	15,775	16,519	17,439	18,497	19,655
Operating balance	945	1,039	1,269	1,135	1,070	905
Operating balance (% of operating revenue)	5.9	6.2	7.1	6.1	5.5	4.4
Capital revenue	487	718	132	73	176	284
Capital expenditure	841	1,298	2,197	1,618	1,937	1,926
Balance after capital accounts	591	459	(796)	(410)	(692)	(738)
Balance after capital accounts (% of total revenue)	3.6	2.6	(4.4)	(2.2)	(3.5)	(3.5)
Debt repaid	2,845	3,230	4,020	4,070	4,250	3,350
Gross borrowings	3,680	4,300	4,736	4,220	5,990	4,900
Balance after borrowings	774	577	46	(920)	(5)	4
Direct debt (outstanding at year-end)	15,750	16,820	17,100	17,250	18,990	20,540
Direct debt (% of operating revenue)	97.5	100.0	96.1	92.9	97.1	99.9
Tax-supported debt (outstanding at year-end)	16,554	17,623	17,703	17,850	19,590	21,140
Tax-supported debt (% of consolidated operating revenue)	90.9	92.4	87.4	82.2	86.0	88.6
Interest (% of operating revenue)	0.8	0.8	1.2	1.7	2.3	3.2
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	52,970.2	61,633.8	56,560.5	55,929.3	57,607.1	62,886.5

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.

City of Uppsala Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	3
Liquidity	1
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

City of Uppsala Ratings Score Snapshot

Key rating factors	Scores
"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, Oct. 30, 2023

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's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise, Sept. 14, 2023
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., March 22, 2023
- Most Rated Swedish LRGs Can Absorb Higher Interest Costs, Sept. 12, 2022
- Southern Swedish LRGs Bear The Brunt Of Surging Electricity Prices, July 20, 2022
- Swedish Local Governments Are Holding Up Against Cyber Attacks, Jan. 26, 2022
- Swedish Municipalities And Counties, Dec. 13, 2021

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 Detail (as of November 22, 2023)*

Uppsala (City of)

Issuer Credit Rating	AA+/Positive/A-1+
Nordic Regional Scale	--/--/K-1
Commercial Paper	
Local Currency	A-1+
Senior Unsecured	AA+

Issuer Credit Ratings History

25-Nov-2022		AA+/Positive/A-1+
06-Dec-2013		AA+/Stable/A-1+
02-Dec-2011		AA+/Positive/A-1+
31-Dec-1998	*Nordic Regional Scale*	--/--/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.