

# Municipality of Lund

Month xx, 202x

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 underpins the ratings on the municipality.	Inflation and higher pension costs will result in weaker operating surpluses.
Lund's strong economic fundamentals and Sweden's resilient economy support tax-revenue growth	However, Lund will post robust performance metrics through 2025 as resilient tax revenue growth absorbs inflationary pressure on expenditure.
Strong budgetary discipline, coupled with cost-containment measures, will mitigate operating cost pressures from higher inflation through to 2025.	We believe Lund can contain debt growth in the coming years since it plans to reduce capital spending in the current macroeconomic environment.

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**The 'AAA' rating reflects S&P Global Ratings' view of the high predictability and supportiveness of the institutional framework under which the Swedish municipality of Lund operates.** It also reflects the solid local economy and management's commitment to a generally risk-averse financial policy.

**We expect the municipality's budgetary performance to remain solid through to 2025, albeit weaker than in 2021-2022.** We expect that inflationary pressure on interest rates, operating expenses, and pension costs, alongside demographic challenges, will be offset by steady tax revenue growth over the forecast period.

**We expect somewhat slower debt accumulation, due to reduced capital spending as Lund reprioritizes its investment needs.** That said, weaker cash flow generation in the coming years will contribute to sustained deficits after capital accounts.

## Outlook

The stable outlook reflects our view that, despite risks stemming from high inflation and increasing interest rates, Lund's management can contain spending. We expect this will keep operating balances above 5% of operating revenue on a structural basis. We believe the municipality will limit debt growth through 2025 while maintaining its exceptional liquidity position.

### Downside scenario

We could lower the ratings if Lund were unable to satisfy Sweden's regulatory balanced-budget requirements. We could also lower the ratings if Lund accumulated higher debt than we currently expect, due to higher-than-expected investment needs, or if its liquidity position weakened.

## Rationale

**We do not expect last year's change in political leadership to influence Lund's long-term strategy, while the strong local economy and Sweden's robust institutional framework will continue to underpin the rating.**

We consider Lund's financial management team has sufficient experience and competency to handle macroeconomic challenges facing the municipality. In our view, the municipality remains committed to conservative budgeting and disciplined expenditure management, which we believe will result in a sound operating performance and address structural demographic changes. Overall, we have observed a track record of consensus on long-term strategies throughout the terms of Lund's previous coalition governments, even though ideological differences exist. We expect the new leadership to continue focusing on financial sustainability and maintain its current strategy regarding surplus targets, debt limits, and investments.

We regard the institutional framework for Swedish municipalities as extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the local and regional government (LRG) sector's revenue and expenditure management are 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 LRG sector, supports our view. Although demographic challenges persist and we expect the LRG sector's budgetary performance to weaken as extraordinary support is phased out, we see limited risk of a material deterioration of financial stability.

Lund benefits from relatively high wealth in the local economy. The municipality is home to one of Sweden's top universities and, owing to its highly educated population and proximity to the city of Malmö/Öresund region, has a net inflow of commuters that work there.

**Resilient tax-revenue growth and management action will lead to a slowdown of debt increases.**

We expect that, like other Swedish LRGs, Lund will continue to post a solid operating performance, albeit weaker than its extraordinarily strong results over the past two years. We expect continued strong tax-revenue growth, coupled with cost-efficiency measures, will support Lund's operating performance. Over the coming two years, we expect a greater impact from inflation and structural demographic challenges on operating cost items, notably personnel--which represents about 50% of operating expenditure--following higher wage increases.

In our forecast, we factor in that higher pension costs will also burden the LRG sector from 2023 as a result of a new pension agreement. In addition, pension provisions will increase due to inflationary effects on outstanding liabilities, since these are indexed to inflation. However, these provisions will not reduce operating cash flow in the near term (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).

We also expect Lund to decrease capital spending, thereby providing additional relief to its operating finances. We forecast modest deficits after capital accounts of 2.5% on average for 2023-2025, following an expected deficit in 2023 of 3%. We expect the municipality will use debt funding, increasing tax-supported debt to around 75% of consolidated operating revenue by 2025. In addition, the partly owned water utility company VA Syd is undertaking relatively high investments at the moment. Considering Lund's expanding and ageing population, we foresee future large investment needs, both in traditional municipal infrastructure, as well as in water and sewer infrastructure. Beyond our forecast period, we therefore expect higher capital expenditure. However, Lund's housing company LKF will likely put investments in new development on hold for the next one to two years, leading to overall lower investment needs for the municipal companies.

Lund will likely use the proceeds of its borrowing to lend to the municipal companies, thereby funding much of these investments. This leads us to expect Lund's tax-supported debt will increase modestly over the next two years. The municipal companies' debt and liquidity are coordinated and managed via the city treasury, except for that of Krafringen Energi AB (publ) (A-/Stable/A-2), which funds itself; and LKF, some of whose borrowings come from guarantee-supported loans from public-sector funding agency Kommuninvest i Sverige AB. Furthermore, we regard Lund's contingent liabilities, including its pro rata ownership share of Krafringen's debt, LKF's external loans, and Lund's extended joint and several guarantee for its Kommuninvest membership, as limited, with no negative impact on our assessment of Lund's debt. Moreover, we consider that Lund's lending to LKF mitigates Lund's overall debt burden, thanks to the company's strong financial business profile. We also consider Lund's lending to regulated water utility company VA Syd a mitigating factor for Lund's debt burden, since we view VA Syd's enterprise risk as limited because of the company's legal right to adjust user fees to fully cover costs. Adjusted for these two companies' debt, Lund's tax-supported debt would decrease to about 37% of consolidated revenue. As a further result of Lund lending a large portion of its borrowing proceeds to municipal companies, interest income from those companies as part of their debt service will mitigate the impact of higher interest rates on Lund's own interest expenses.

We expect interest expenditure to increase in the coming years but remain comfortably below 5% of revenue. Like that of the wider Swedish LRG sector, Lund's debt has a short average duration, meaning that rising interest rates take effect more quickly. However, interest rates are increasing from very low levels, and we expect a stabilization of new borrowing costs from around 2025.

Lund's liquidity position remains very strong, supported by ample contracted facilities, checking accounts, and financial assets. We estimate the ratio of liquidity sources to debt service at close to a solid 140%. Moreover, in line with other rated Swedish LRGs, Lund has a track record of reliable access to external financing, even in times of financial stress. It has a wide range of funding sources, including commercial paper and medium-term note programs, along with borrowings from Kommuninvest.

### Municipality of Lund--Selected Indicators

Mil. SEK	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	9,062	9,414	9,996	10,600	11,004	11,461
Operating expenditure	8,244	8,544	9,216	10,047	10,432	10,801
Operating balance	818	870	780	553	572	659
Operating balance (% of operating revenue)	9.0	9.2	7.8	5.2	5.2	5.8

## Municipality of Lund--Selected Indicators

Capital revenue	136	91	92	100	100	100
Capital expenditure	879	1,025	1,301	975	975	975
Balance after capital accounts	75	(64)	(429)	(322)	(303)	(216)
Balance after capital accounts (% of total revenue)	0.8	(0.7)	(4.3)	(3.0)	(2.7)	(1.9)
Debt repaid	1,800	1,550	2,000	2,350	2,700	1,900
Gross borrowings	1,700	2,190	2,250	2,731	3,373	2,596
Balance after borrowings	75	(72)	(88)	(111)	0	(0)
Direct debt (outstanding at year-end)	6,000	6,950	7,200	7,581	8,254	8,950
Direct debt (% of operating revenue)	66.2	73.8	72.0	71.5	75.0	78.1
Tax-supported debt (outstanding at year-end)	6,213	7,263	7,462	7,843	8,516	9,212
Tax-supported debt (% of consolidated operating revenue)	63.5	71.3	68.7	68.0	71.2	74.0
Interest (% of operating revenue)	0.5	0.2	0.5	1.8	1.9	2.9
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	52,970.2	61,358.3	56,058.3	58,300.6	63,514.3	69,150.7

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 Lund--Ratings Score Snapshot

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

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, July 10, 2023. An interactive version is available at [spglobal.com/sri](https://spglobal.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 National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings Detail (as of October 04, 2023)\*

### Lund (Municipality of)

Issuer Credit Rating	AAA/Stable/A-1+
<i>Nordic Regional Scale</i>	--/--/K-1
Commercial Paper	
<i>Local Currency</i>	A-1+
<i>Nordic Regional Scale</i>	K-1

### Issuer Credit Ratings History

28-Sep-2010	AAA/Stable/A-1+
28-Sep-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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