S&P Global
Ratings

RatingsDirect®

Orebro (Municipality of)

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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 Örebro.	Operating performance is set to normalize on the back of rising costs.
Strong local fundamentals and the resilient Swedish economy support tax-revenue growth.	Although interest expenditure will increase through 2024, we believe Örebro will pass these costs on to its companies, supporting performance.
Macroeconomic factors, alongside increasing pension costs, will push up expenditure growth.	Owing to rising costs, we expect Örebro's companies will defer investments, resulting in slower debt accumulation.

Rising costs will weigh on the Municipality of Örebro (Örebro)'s operating performance. S&P Global Ratings forecasts operating costs will rise in the coming years, stemming from macroeconomic headwinds, high energy prices, and increasing pension expenditure, which will weigh on Örebro's operating performance in 2023 and 2024.

Örebro can absorb the effects of rising interest rates. Owing to high inflation and tighter monetary policy, we expect borrowing costs will increase through 2024. Although Örebro is one of the most indebted Swedish local and regional governments (LRGs) we rate, all its debt is related to its companies. Therefore, we think rising interest costs will mainly be serviced by the companies, alleviating pressure on the municipality's own financial position.

Capital expenditure (capex) will be deferred on the back of rising costs. Although Örebro's investments--including those of its companies--will remain high through 2024, we expect some capex will be postponed owing to rising construction and interest costs, mainly related to the housing company.

Outlook

The stable outlook reflects our view that Örebro will balance cost pressures and uphold stable, yet gradually weakening, operating performance through 2024. We expect Örebro's debt burden will increase, notably to fund company-sector investments.

Downside scenario

We could consider a negative rating action if Örebro, including companies it controls, fails to contain expenditure stemming from, for instance, demographic challenges or economic-related risks, leading to recurring and notable deficits after capital accounts and a weaker liquidity position. In such a scenario, we could also consider reassessing our view of the municipality's management.

Upside scenario

We could consider an upgrade if Örebro's management implements more conservative debt policies, resulting in a marked reduction in the municipality's debt burden, including on-lent debt to its subsidiaries, to below 120% of operating revenue.

Rationale

The supportive framework for Swedish LRGs balances the sector's structural challenges

We regard the political situation as stable and have observed consensus regarding long-term strategies across the political spectrum. Therefore, we don’t expect any major disruptions to the municipalities' long-term strategies, despite a national government having yet to be formed following early September 2022 elections. In our view, Örebro's budgetary control is in line with that of comparable Swedish peers. We expect management will remain committed to budgetary discipline and undertake necessary measures to comply with the balanced budget requirement. Örebro's debt and liquidity management are centralized through the in-house bank, which is responsible for the funding needs of the municipality and its companies. In our view, the treasury adheres to prudent financial policies.

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. Since the start of the COVID-19 pandemic, the central government has remained supportive of the LRG sector, implementing both direct and indirect support packages to boost operating performance for Swedish municipalities. Although structural challenges remain and budgetary performance could weaken somewhat as extraordinary support is phased out, we regard the risk of a significant deterioration of the sector's financial stability as limited.

Örebro benefits from Sweden's high wealth levels and strong economic fundamentals, reflected in our estimate of 2022 national GDP per capita at about $56,300. Örebro is a regional growth center, with a dynamic and well-diversified local economy. Unemployment rates and income levels are roughly in line with national averages.

Inflation and rising pension costs will weigh on Örebro’s performance

We continue to forecast Örebro's operating performance will weaken below 5% of operating revenue through our forecast period, compared to the strong levels seen in 2020 and 2021. We think tax-revenue growth will remain fairly strong through 2024 on the back of the resilient Swedish economy, which will contribute to strong performance in 2022 since operating expenditure (opex) has been restrained because of the pandemic. However, we forecast weaker operating margins in 2023-2024 as demand for welfare services returns to normal and high energy prices and inflation spur expenditure growth. We anticipate Örebro’s employee-related costs, accounting for more than 50% of opex, will notably increase from 2023 as wage agreements are renegotiated. In addition, the new pension agreement for public employees, which includes increased contributions from LRGs, will push up pension costs from 2023. Although in our forecast we assume Örebro will comply with the balanced budget requirement through 2024, we note that the municipality has reserved funds (Resultatutjämningsreserv) from previous years' surpluses, which can be used to bridge regulatory deficits should the need arise.

We expect Örebro will post surpluses after capital accounts, since we forecast lower investments related to school property company Futurum. In our view, Futurum, which is a fully owned subsidiary of the municipality, provides a core service. We therefore reflect its borrowing needs in the municipality’s capital accounts. The company has completed a large refurbishment program at the same time as the need for new construction has diminished due to lower expected population growth over the coming decade. Consequently, we do not forecast Futurum will have any material borrowing needs through 2024, which supports Örebro's after-capital-accounts balance.

Furthermore, we understand that fully owned housing company Örebrobostäder AB (ÖBO), which is the largest borrower among the municipal companies, is postponing investments due to rising construction costs. Therefore, we now expect the companies will borrow less than Swedish krona (SEK) 1 billion (about $94 million) annually through 2024, which will be on-lent through the in-house bank. We continue to view on-lending to the housing company as a mitigant to our overall assessment of Örebro's debt. The company's financial profile is strong, underpinned by stable noncyclical operating cash flows on the back of high demand for rental housing in the city of Örebro. Adjusting for on-lending to this entity, Örebro's direct debt falls to 70% of operating revenue. We continue to regard the municipality's contingent liabilities, including its joint and several guarantee to Kommuninvest, as limited.

We forecast Örebro’s interest expenditure will more than double through 2024 on the back of rising interest rates. However, the entire debt burden has been on-lent to its companies, leading us to expect higher interest expenditure will be accompanied by higher interest income as the companies service the debt, mitigating the effect on the municipality’s budget. Although we think internal companies, such as Futurum, will receive higher contributions through increased fees and rents from its owner, we expect companies with commercial revenue, such as ÖBO, can absorb increasing interest expenditure without owner support.

Örebro's liquidity position remains solid, and we estimate the weighted debt-service coverage ratio at 160% as of September 2022. Although we expect a somewhat weaker coverage ratio, as operating performance normalizes compared to the past two years, we forecast Örebro will remain comfortably above the 120% threshold. The liquidity position is supported by ample reserves of cash holdings, financial assets (to which we applied haircuts based on the underlying credit quality of the security), committed facilities, and strong access to external liquidity. Örebro's funding sources are diversified through a SEK12 billion medium-term note program, a SEK5.0 billion commercial paper program, and borrowings from Kommuninvest and the Nordic Investment Bank. We expect Örebro will maintain its relative share of commercial paper as part of the debt portfolio, prioritizing long-term funding. Overall, we expect relatively stable debt repayments through 2024.

Municipality of Orebro Selected Indicators

Mil. SEK	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	11,603	11,976	12,367	12,818	13,234	13,802
Operating expenditure	11,299	11,361	11,390	11,904	12,710	13,240
Operating balance	304	615	977	914	524	562
Operating balance (% of operating revenue)	2.6	5.1	7.9	7.1	4.0	4.1
Capital revenue	520	258	196	250	200	200
Capital expenditure	1,005	881	917	886	751	753
Balance after capital accounts	(182)	(8)	256	278	(27)	9
Balance after capital accounts (% of total revenue)	(1.5)	(0.1)	2.0	2.1	(0.2)	0.1
Debt repaid	4,558	5,513	4,400	4,237	4,514	4,457
Gross borrowings	4,758	6,355	5,450	5,137	5,514	5,367
Balance after borrowings	(49)	0	55	(22)	(171)	(3)
Direct debt (outstanding at year-end)	15,008	15,850	16,900	17,800	18,800	19,710
Direct debt (% of operating revenue)	129.4	132.4	136.7	138.9	142.1	142.8
Tax-supported debt (outstanding at year-end)	15,747	16,597	17,630	18,518	19,516	20,439

Municipality of Orebro Selected Indicators

Tax-supported debt (% of consolidated operating revenue)	111.4	114.8	118.7	120.5	123.3	124.3
Interest (% of operating revenue)	2.1	2.2	2.0	2.2	3.2	4.0
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	52,186.7	52,970.2	61,243.5	56,334.8	57,530.2	63,555.4

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.

Ratings Score Snapshot

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

Sovereign Risk Indicators, July 11, 2022. An interactive version is available at 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

- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- 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
- Sweden, May 2, 2022
- Swedish Local Governments Are Holding Up Against Cyber Attacks, Jan. 26, 2022
- Swedish Municipalities And Counties, Dec. 13, 2021

Ratings Detail (as of September 29, 2022)*

Orebro (Municipality of)		
Issuer Credit Rating		AA+/Stable/A-1+
Nordic Regional Scale		--/--/K-1
Senior Unsecured		AA+
Issuer Credit Ratings History		
02-Apr-2021		AA+/Stable/A-1+
03-Apr-2020		AA+/Negative/A-1+
18-May-2010		AA+/Stable/A-1+
18-May-2010	*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.