

# RatingsDirect®

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## Region of Skane

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# Region of Skane

## Key Rating Factors

**Issuer Credit Rating**  
AA+/Stable/--

Credit context and assumptions	Base-case expectations
<p>Skåne continues to benefit from its prosperous and diversified economy, ample liquidity, and low indebtedness.</p> <ul style="list-style-type: none"> <li>The institutional framework for Swedish local and regional governments (LRGs) is extremely supportive and predictive, but has been somewhat hampered by structural challenges.</li> <li>Despite an expected contraction in 2020, the Swedish economy remains very wealthy by international standards.</li> <li>Skåne has been politically deadlocked regarding whether to use its taxation autonomy to achieve balanced accounts for several years, but these constraints have eased.</li> </ul>	<p>Central government support will offset the budgetary shortfall stemming from the COVID-19 pandemic.</p> <ul style="list-style-type: none"> <li>We expect that the pandemic will hit Skåne's financial performance in two ways: reducing its tax and fee income and increasing health care costs.</li> <li>That said, extraordinary central government transfers will mitigate the financial pressure.</li> <li>This should help Skåne maintain its exceptional liquidity and low debt levels, despite increasing its level of investment.</li> </ul>

## Outlook

The stable outlook indicates that we expect the central government to compensate for the tax revenue shortfall and increased health care costs associated with the COVID-19 pandemic. We also expect the region to be able to maintain a modest debt burden and sound liquidity.

### Downside scenario

We could lower the rating on Skåne if a weaker economic environment or rapid expenditure growth stemming from the COVID-19 pandemic led to a structural deterioration in financial performance, straining the region's liquidity and causing tax-supported debt to rise above 30% of revenue. We could also lower the rating if the central government failed to provide ongoing systemic support to the LRG sector, despite the increasing demographic burden.

### Upside scenario

We could raise the rating if Skåne demonstrated its ability to maintain a sustainable balance between revenue and expenditure growth, while securing adequate preparedness for pension-related risks. Evidence of this includes

structural compliance with the balanced budget requirement and containing deficits after capital expenditure (capex) so that tax-supported debt remains structurally below 30% of revenue.

## Rationale

Unprecedented support from the Swedish central government will help Skåne to maintain stable financial performance despite higher health care spending and significantly slower tax revenue growth. Our ratings on Skåne remain underpinned by the supportive Swedish institutional framework, the region's prosperous local economy, and its ample liquidity and limited debt burden. However, Skåne's financial performance has recently slipped--it failed to meet the balanced budget requirement for several years due to political deadlock. Although we believe such constraints have eased, and that the government's prospects of gaining sufficient support for its political platform have improved, we will monitor the structural changes that affect the region's capacity to agree a budget.

### **Skåne benefits from Sweden's institutional framework and its wealthy local economy, but we monitor the regional government's ability to adhere to regulatory requirements for a balanced budget**

We consider Sweden's institutional framework for LRGs, which we assess as extremely predictable and supportive, to be a key supporting factor for our assessment of Skåne's creditworthiness. In our view, the equalization system and widespread taxation autonomy--on which LRGs' revenue and expenditure management are based--provide a high degree of institutional stability. However, budgetary performance at many LRGs may weaken in the medium-to-long term if central government compensation mechanisms and LRGs' countermeasures are insufficient to offset the increase in expenditure, which has been accentuated by central government.

In addition, Skåne benefits from Sweden's very strong economic fundamentals. Although we expect the Swedish economy to contract by 5% in 2020 due to the pandemic, it remains very strong by international standards--GDP per capita is estimated at \$51,500. Skåne is Sweden's third-largest regional government, and its main responsibilities are health care and regional transportation. Demographically, Skåne's population growth is in line with Sweden's average, but it has a somewhat younger population. Thanks to the fixed-link toll road between Malmö and Copenhagen, Skåne also benefits from the increasing integration of the Swedish-Danish Öresund region, which supports Skåne's growth prospects and diversification. Nevertheless, unemployment levels in Skåne are higher than the national average (11.2% versus 9.0% in September 2020). Both national and regional unemployment have increased in light of the COVID-19 pandemic.

Skåne has been politically deadlocked on whether to use its taxation autonomy to achieve balanced accounts for several years. Even though the minority government that came into power in 2018 has raised the region's tax rate to restore budgetary performance, we would need it to demonstrate a longer track record of compliance with external and internal policies if we were to raise our assessment of Skåne's political management. For these reasons, we assess Skåne's management as weaker than that of most of its rated Swedish LRG peers. We will continue to monitor the political developments and evaluate their impact on our assessment of Skåne. Skåne's very proactive response to the pandemic likely contributed to it having a lower infection rate than the national average; we view this as positive in assessing its management.

## Central government support mitigates pressure from the pandemic and the revised equalization system, enabling Skåne's liquidity and debt positions to remain healthy

We expect Skåne to incur additional health care costs because of the pandemic. Its tax revenues and fee income will also take a hit from the reduced economic activity. However, we expect most of the revenue shortfall to be offset by higher central government transfers. The central government will also cover direct health care costs arising from the pandemic. As such, we expect Skåne to continue to post strong operating balances, averaging at 5.7% in 2020-2022. Our view is supported by some early signs that Skåne's cost-efficiency plans are gaining ground. For example, net costs are increasing more slowly. At the same time, pension-related expenditure constitutes an increasing portion of the region's budget. In our view, this expenditure is difficult to adjust, crowds out other expenditure, and hampers the region's budgetary flexibility.

We understand that the pandemic has had only a minor impact on capacity in the construction sector, so that investment projects continue broadly as planned and investment levels will remain elevated. The region's investments are largely for property maintenance, major rebuilds, and upgrades of its four largest hospitals, as well as the sizable infrastructure investments of its public transport unit, Skånetrafiken. We project overall capex will average Swedish krona (SEK) 4.9 billion in 2020-2022, versus SEK4.3 billion in 2019. This translates into an average deficit after capital accounts of 3.1% of total revenue in 2020-2022, up from 1.5% in 2019.

Skåne's investment-financing needs in its planning period through 2022 will not be entirely met by cash flow from operations or a drawdown of liquidity. We anticipate that the region will have to rely partly on external loan funding. This will increase Skåne's modest debt burden slightly--we forecast tax-supported debt of about 24.2% of consolidated operating revenue by year-end 2022, up from 16.3% in 2019.

We assess Skåne's liquidity position as exceptionally strong, supported by available cash and committed credit facilities covering 314% of debt service within one year. Furthermore, we expect that the region will maintain its long-term maturity structure and ample liquid assets. Therefore, its liquidity position will remain sound over 2020-2022, although somewhat lower than the current exceptionally high levels. Skåne's liquidity position is further reinforced by the region's strong track record of access to external financing, including bonds, commercial paper, and funding from multilateral institutions. Throughout the pandemic, Skåne and other Swedish LRGs have been able tap the capital markets, despite some volatility in the financial markets.

## Key Statistics

**Table 1**

Region of Skane Selected Indicators						
	--Fiscal year ended Dec. 31--					
Mil. SEK	2017	2018	2019	2020bc	2021bc	2022bc
Operating revenue	46,505	48,909	52,472	54,823	55,286	56,384
Operating expenditures	44,288	46,446	48,987	51,061	52,320	53,560
Operating balance	2,217	2,463	3,485	3,762	2,967	2,824
Operating balance (% of operating revenues)	4.8	5.0	6.6	6.9	5.4	5.0
Capital revenue	115	117	14	6	3	3

Table 1

Region of Skane Selected Indicators (cont.)						
--Fiscal year ended Dec. 31--						
Mil. SEK	2017	2018	2019	2020bc	2021bc	2022bc
Capital expenditures	2,826	4,357	4,289	4,400	5,301	4,997
Balance after capital accounts	(494)	(1,777)	(790)	(632)	(2,331)	(2,170)
Balance after capital accounts (% of total revenues)	(1.1)	(3.6)	(1.5)	(1.2)	(4.2)	(3.8)
Debt repaid	248	232	671	544	1,246	1,048
Gross borrowings	250	1,756	1,208	1,305	3,374	3,218
Balance after borrowings	(408)	258	(690)	129	(203)	0
Direct debt (outstanding at year-end)	5,213	7,025	7,385	8,146	10,274	12,444
Direct debt (% of operating revenues)	11.2	14.4	14.1	14.9	18.6	22.1
Tax-supported debt (outstanding at year-end)	7,112	8,944	8,533	9,342	11,470	13,640
Tax-supported debt (% of consolidated operating revenues)	15.3	18.3	16.3	17.0	20.7	24.2
Interest (% of operating revenues)	0.1	0.1	0.1	0.1	0.1	0.2
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	462,734	477,094	490,830	471,139	496,002	515,648

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. SEK--Swedish krona.

## Ratings Score Snapshot

### Region of Skåne Ratings Score Snapshot

Table 2

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	3
Budgetary performance	3
Liquidity	1
Debt burden	1
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, Oct. 12, 2020. Interactive version 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Institutional Framework Assessments For International Local And Regional Governments, Sept. 25, 2020
- Extra Funding In Sweden's 2021 Budget Will Support LRGs, Sept. 24, 2020
- European Local And Regional Government Risk Indicators, June 30, 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
- Sweden's Local Governments To Get A Slight Boost From 2020 Budget, Sept. 20, 2019

### Ratings Detail (As Of October 23, 2020)\*

#### Region of Skane

Issuer Credit Rating AA+/Stable/--

#### Issuer Credit Ratings History

02-Nov-2015 AA+/Stable/--

\*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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