

Local government investments 2015



KOMMUNIVEST
Swedish Local Government Debt Office

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FOREWORD

Local government investment builds value

Since the autumn of 2013 Kommuninvest has published reports on the Swedish local government sector's investments and borrowing. The reports form part of Kommuninvest's on-going monitoring and follow-up of the local government sector's financial activities. The data on which the reports are based are unique, since both investment and borrowing are analysed from a consolidated perspective, that is, including local government operations conducted in corporate formats.

Accordingly, the relationship between investment and borrowing in the local government sector is elucidated at both the national and local levels.

The input data have been gathered directly from the annual reports of the municipalities and county councils/regions, and from those of the relevant local government-owned companies. This allows information to be published faster than if official statistics were to be used. Furthermore, the sector's investments are broken down at the group level, both for the municipalities and the county councils/regions.

This year's report highlights the effect of the investments on the local government authorities' balance sheets – primarily the asset side. While the sector's external borrowing certainly increases when investments are financed through external funding, considerable asset values are also amassed. The carrying amount for the local government sector's tangible fixed assets amounts to more than SEK 1,000 billion, or about twice as much as external borrowing. The actual market value of these assets is difficult to assess because the assets are spread across several different asset classes and, in several cases, they neither can nor should be sold. The report highlights the values shared by the local government sector by compiling the surpluses found in some of the largest municipal housing companies. Having an awareness of the sector's major assets is important, particularly when discussing debt within the sector.

As the report shows, investment by the local government sector has continued to increase. The increase is not distributed evenly however – among the municipal category Metropolitan municipalities, the level of investment fell, although it increased substantially in the municipal category Large cities. Half of the total investments were made in property and housing. Given the large-scale investment needs expressed by both municipalities and county councils, investment volumes in the sector are expected continue to increase by about 6 percent over the coming year.



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SEK 116 billion in local government investment

The task of local government

Health, schools and care are social welfare services that are largely financed and produced by the Swedish local government sector and are at the core of the municipalities and county councils/regions' obligations. Additionally, through their companies, both municipalities and county councils engage voluntarily in various forms of business operations, such as public transport and the supply of housing, properties and energy. To be able to perform both their statutory duties, as well as voluntary undertakings, and to thus meet citizens' needs for welfare services, Sweden's municipalities and county councils invest in, for example, pre-schools, schools, hospitals, IT systems, homes for the elderly, libraries, housing, emergency services, public transport, water and sewerage, and district heating.

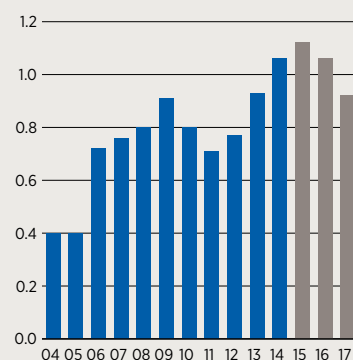
Table 1
The tasks of the municipalities and county councils

Municipalities			County councils	
Compulsory	Voluntary	Shared	Compulsory	Voluntary
Social operations	Leisure and culture	Public transport	Health and care	Culture
Schooling	Technical services		Dental care	Education
Planning and building issues	Energy supply			
Environmental health protection	Streets and roads			
Sanitation and waste	Housing construction			
Water/sewerage	Business development			
Emergency services				
Library services				
Crisis contingency planning				
Housing provision				

Source: "The creditworthiness of the Swedish local government sector," published by Kommuninvest and SALAR.

There is currently a high level of need for welfare investments meeting citizens' needs and demands for social services. There are several reasons for this. Firstly, Sweden is experiencing strong population growth (See Figure 1), increasing the need for social services in general. Secondly, the population is aging, significantly increasing the need for certain types of social services, such as assisted living for the elderly and residential care for those with dementia. Thirdly, the housing stocks and business properties that were built during the record years of 1965–1975 now require either renovation or replacement by new units.

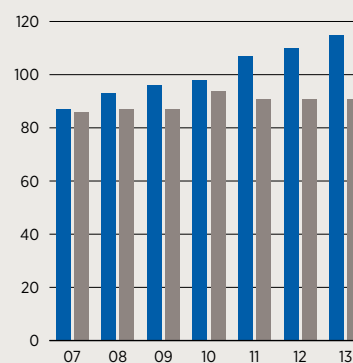
Figure 1
Population growth in Sweden, annual increase, %



Sweden's historically high population growth is expected to increase further during the current term of office. Approximately a quarter can be attributed to higher birth rates and three quarters to immigration.

Source: Statistics Sweden

Figure 2
Central and local government investments, SEK billion



Local government sector
Swedish central government

The local government sector's investments have increased more than those by the central government almost every year during the period 2007–2013.

Source: National Institute of Economic Research and Kommuninvest

Pre-school operations and primary schools can be used to illustrate how investment cycles and demographic changes generate substantial need for investment in the local government sector. For example, until 2010, the need for additional pre-school facilities could partly be offset by diminishing cohorts of children in primary schools, which reduced the need for school premises. Primary schools closed due to declining numbers of pupils could beneficially be remodelled as pre-schools. Since 2010, however, the number of children in both pre-school and primary school has increased. Opportunities to accommodate more children and pupils in existing premises have long been limited, not least in municipalities with population growth. At the same time, the pre-schools and primary schools built in the early 70s are in such condition that they must either be extensively renovated or replaced with new facilities. These circumstances and trends have an impact on municipal investment budgets. Listed below is a selection from some larger municipalities, where the trends often have the clearest impact:

- Malmö is planning for 4,400 new pre-school places between 2015 and 2019.
- Linköping needs to increase pre-school and primary school capacity by 650 to 850 places annually during the current term of office.
- Botkyrka plans to open 14 new pre-schools and schools by 2019.
- Örebro is building some 30 pre-school sections in 2015 and is planning 900 new school places.
- The Municipality of Skellefteå is investing SEK 1 billion over the next three years on remodelling and new construction of primary schools and pre-schools.

The sector's investments in 2013

In 2013, the local government sector's investment volume rose by SEK 5.4 billion to SEK 115.9 billion¹, corresponding to a growth rate of 4.9 percent – the second-highest increase since 2008. In relation to GDP, investments amounted to 3.1 percent. As a comparison, the Swedish state's gross fixed investments amounted to SEK 92 billion in 2013 (see Figure 2).

Of the sector's total investments, municipal groups accounted for SEK 92.9 billion and county council/regional groups for SEK 23.0 billion. In turn, SEK 43.3 billion of the investments by the municipal groups were made by the municipalities, and investments of SEK 49.6 billion were made by municipal companies. The corresponding figures for the county council/regional groups were SEK 17.8 billion under the auspices of the county councils/regions and SEK 5.1 billion through companies owned by the county councils/regions. Per capita, the average level of investment was SEK 9,600 for municipalities and SEK 2,400 for county councils/regions.

Developments 2007–2013

The local government sector's combined investment volume has been growing for a long time. Between 2007 and 2013, the sector's annual gross investments in tangible fixed assets increased by 33 percent, from SEK 87.1 billion to SEK 115.9 billion in current prices.

Figure 3
Distribution of local government sector investment in 2013,%

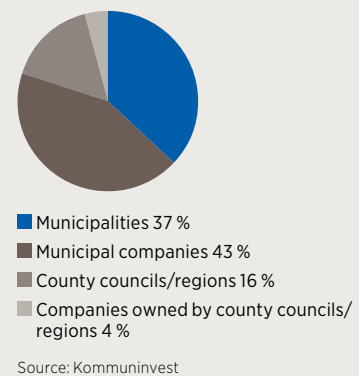
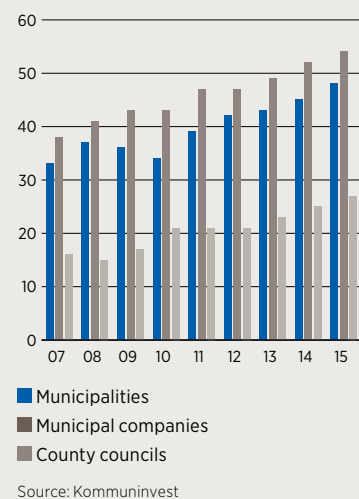


Figure 4
Distribution of local government investment, 2007–2015, SEK bn



¹) The investment volume is underestimated since certain municipalities report net investments in their consolidated statements of cash flows rather than under gross investments.

The combined level of investment by municipal groups rose by 31 percent, corresponding to an annual growth rate of 4.6 percent. For the municipalities as a group, the distribution between investments in the municipalities' operations and the companies owned by the municipalities has remained relatively constant. This is despite the fact that some municipalities have established companies to conduct operations previously conducted under the auspices of the municipality – for example, the operation of homes for the elderly and operational properties. In terms of population, larger municipalities have a greater proportion of company investments than small and medium-sized municipalities.

Investments by county council/regional groups rose by 43 percent, corresponding to an annual growth rate of 6.2 percent. The trend among the county councils is largely explained by Stockholm County Council (SCC) having more than doubled its annual investments, such that in 2013 SCC accounted for almost half of the county councils' total investment volume.

Investments by municipal category in 2013

Kommuninvest uses the division into municipal categories developed by the Swedish Association of Local Authorities and Regions (SALAR). The classification is based primarily on geographic and demographic characteristics. Because each local government authority has its own unique set of political and economic conditions, it is difficult to draw overly far-reaching and general conclusions about trends among individual local government authorities based on the trend at the level of the municipal category. The spread between municipalities within the same municipal category are often greater than between municipal categories (see Table 2).

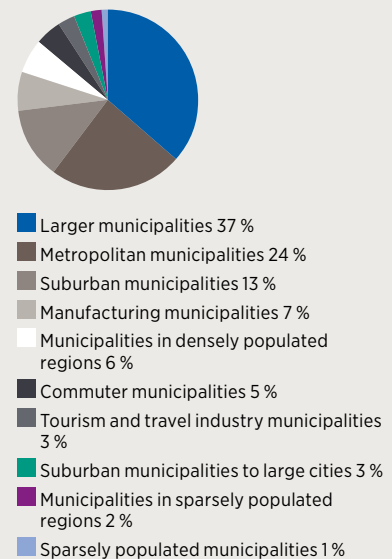
In terms of volume, investment trends in the municipalities are driven by what is happening in and around Sweden's three metropolitan municipalities and in the country's provincial capitals. The municipality categories Metropolitan municipalities, Suburban municipalities and Large cities accounted for 64 percent of the population and 73 percent of total investments in 2013.

Increased and decreased levels of investment, mainly in the municipal categories, Metropolitan municipalities and Large cities have a direct impact on the sector's total investments, which can be seen clearly in Figure 6. In 2013, the municipalities in the Large cities category increased their investments by nearly SEK 4.5 billion, while investments in the Metropolitan municipalities fell by SEK 2 billion. In part, the increase can be attributed to major investments, particularly in some of Sweden's largest municipal energy companies, while the decline is due to delays in a number of major investment projects in the City of Stockholm.

The municipal categories Metropolitan municipalities and Large cities also stand out in terms of their investment level per inhabitant. Figure 7 shows the investment level per inhabitant and municipal category in 2012 and 2013 respectively. The municipal categories are ranked by the level of investment per inhabitant in 2013.

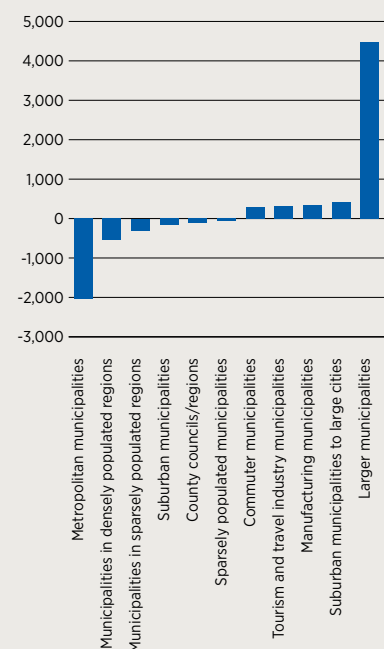
Despite a drop of SEK 2 billion in the investment volume in 2013, corresponding to SEK 1,200 per inhabitant compared with the preceding year, the level of investment per inhabitant is still highest in the municipal cate-

Figure 5
Distribution of municipal groups' investments by municipal category in 2013, %



Source: Kommuninvest

Figure 6
Net change in investment volume in 2013 by municipal category, SEK million



The development of the rate of investment in the municipal categories Metropolitan municipalities and Large cities has had a particular impact on the sector's total investments.

Source: Kommuninvest

gory of Metropolitan municipalities at an average SEK 12,400. In the municipal category Large cities, where the investment volume rose sharply, the level of investment increased by slightly less than SEK 1,500 per inhabitant to SEK 11,800. The Sparsely populated municipalities had the lowest average level of investment at SEK 4,900 – a decline of slightly more than SEK 300 per inhabitant compared with 2012. Other municipal categories place within the range of SEK 6,600 to SEK 9,000 per inhabitant.

The relative rate of growth in investment levels is highest in the municipal categories Large cities and Suburban municipalities at 15 and 20 percent respectively, while investments decreased by 9 percent in the municipal categories Municipalities in densely populated regions and Metropolitan municipalities.

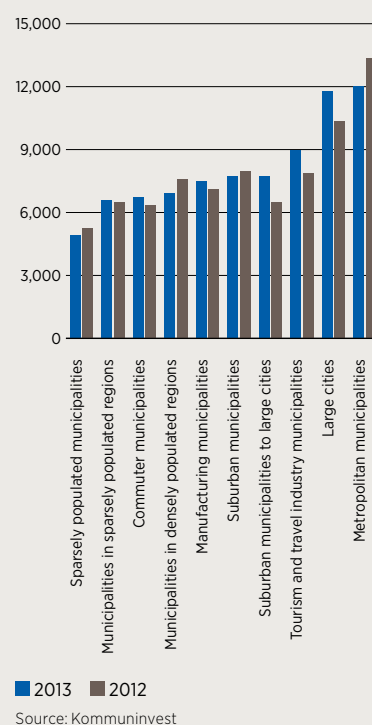
Investments by municipality in 2013

For an individual year, the spread between the municipalities is considerably greater than over a longer period of time since investment levels, particularly in small and medium-sized municipalities tend to vary considerably over time. *Table 2* shows the distribution of municipalities' investment levels between the various municipal categories in 2013 compared with 2012.

The number of municipal groups that had an investment volume exceeding SEK 8,000 per inhabitant and year rose to 111 (96). The ten municipalities that invested most accounted for 38 percent of total municipal investment.

Not unexpectedly, the major cities – Stockholm, Gothenburg, Uppsala and Malmö – are at the top of the list. The four municipalities that invested the most per inhabitant in 2013 were Vimmerby, Karlskoga, Västerås and Lund.

Figure 7
Level of investment per inhabitant by municipal category, SEK



Source: Kommuninvest

Table 2
Investment level per inhabitant in 2013 (2012), by municipal category

Municipal category	<4,000	4,000-5,999	6,000-7,999	8,000-9,999	10,000<	Number
Metropolitan municipalities				0 (1)	3 (2)	3
Suburban municipalities	6 (5)	7 (7)	11 (8)	6 (11)	8 (7)	38
Large cities		1 (3)	3 (6)	7 (4)	20 (18)	31
Suburban municipalities to large cities	4 (6)	6 (6)	4 (4)	2 (3)	6 (3)	22
Commuter municipalities	18 (22)	17 (12)	6 (9)	4 (2)	5 (6)	51
Tourism and travel industry municipalities	2 (2)	3 (3)	3 (3)	2 (5)	9 (6)	19
Manufacturing municipalities	15 (13)	16 (17)	3 (12)	12 (5)	8 (7)	54
Sparsely populated municipalities	10 (7)	5 (8)	4 (3)	0 (1)	1 (1)	20
Municipalities in densely populated regions	7 (7)	7 (8)	7 (8)	10 (5)	4 (7)	35
Municipalities in sparsely populated regions	3 (6)	5 (4)	4 (4)	3 (1)	1 (1)	16
Number	65 (68)	67 (68)	45 (57)	46 (38)	65 (58)	289 ¹

1) Region Gotland is not included in the table

Table 3
Municipalities with largest investment volumes in 2013, SEK million

Municipality	Investment volume, SEK million
Stockholm	12,100
Gothenburg ¹	5,700
Malmö	3,200
Uppsala	3,200
Västerås	2,800
Lund	2,100
Linköping ¹	1,700
Helsingborg	1,500
Jönköping	1,500
Umeå	1,500

¹) Net investment

Municipalities with high investment volumes per inhabitant are distinguished by high levels of investment in operational properties and/or energy production. The rate of investment in individual municipalities tends to vary over time, particularly in small and medium-sized municipalities. Consequently, from year to year, several changes occur in the list of municipalities with the largest investment volumes per inhabitant, see Table 4. Only Trosa and Skellefteå were included in the list of municipalities that invested most per inhabitant in last year's investment report.

Table 4
Municipalities with the highest levels of investment per inhabitant in 2013

Municipality	Level of investment per inhabitant, SEK	Comments
Vimmerby	23,131	Investments in municipal operational premises and the municipal energy company.
Karlskoga	22,551	Investments in municipal operational premises and the municipal energy company.
Västerås	19,932	Investments in the municipal energy company.
Lund	18,785	Investments in municipal operational premises and the municipal energy company.
Skellefteå	18,670	Investments in the municipal energy company.
Munkedal	18,011	Investments in commercial properties.
Sundbyberg	17,940	Investments in operational properties.
Trosa	17,825	Investments in operational properties.
Svedala	17,726	Property investments in the municipal companies.
Ystad	17,175	Investments in operational properties.

Note: for small and medium-sized municipalities, individual major investments, e.g. the construction of a secondary school or a new power and heating plant, has a considerable impact on the level of investment in the group during the construction period. The investments made are often amortised over more than 20 years, meaning that the cost of those investments is distributed over an extended period.

Fact box 1

How can the differences in investment volumes be explained?

Kommuninvest's analysis of differences in the levels of investment per inhabitant between municipalities shows that a significant portion of the variation can be explained by differences in the scope of operations in company format within the group, population growth in the municipality and the municipal group's equity/assets ratio. All these factors correlate positively with the scale of the investment level. The greater the assets a municipality owns through its municipal companies, the higher the subsequent level of investment – otherwise capital depreciation risks eroding the group's assets over time. High population growth increases the need for municipal services and thus also for investment. Municipal groups with high equity/assets ratios tend to invest more per inhabitant than municipal groups with lower equity/assets ratios. A high equity/assets ratio indicates that the Group can borrow to invest without undermining the group's financial position. For more information, see the report *Municipal investments – 2014*.

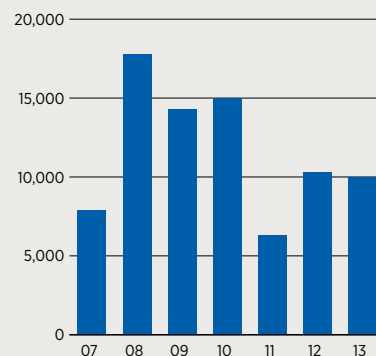
Fact box 2

Divestments finance investments

Selling off tangible fixed assets is a method for providing partial financing for investments in the local government sector. Divestments from public housing stocks in particular in recent terms of office have generated positive cash flows in the tens of billions of kronor.

According to the National Board of Housing, Building and Planning, divestments of public housing decreased marginally in 2013. Combined, 80 housing companies sold 10,000 apartments, a decrease of 300 units compared with the previous year but an increase of nearly 4,000 units compared with 2011. However, compared with the years 2008–2010, when the City of Stockholm in particular allowed rented flats to be converted into tenant-owned flats, the rate of divestment has fallen considerably.

Figure 8
Divestments of publicly owned housing, 2007–2013, number of flats



The reasons for companies selling off parts of their stocks vary. In some instances, there is a desire among politicians to change the relation between the tenant-owned and rental flats in the municipality. Frequently, however, economic reasons appear to be the principal driving force. Divestments free-up liquid funds that can be used to build new flats and/or refurbish existing stocks.

Since new construction in public housing was roughly equivalent to divestments during the period studied, overall stocks remained almost unchanged.

Source: National Board of Housing, Building and Planning

County councils/regions' investments in 2013

Total investments in tangible fixed assets by the county councils/regions and their companies amounted to SEK 23.0 billion – an increase of SEK 2.0 billion compared with 2012. The larger part of the investments, SEK 14.8 billion, was made under the auspices of the county councils/regions, while companies owned by the county councils/regions invested SEK 5.1 billion.

Among the three county councils/regions with the largest populations, total investments rose by SEK 1.5 billion to SEK 15.7 billion. Stockholm County Council increased its investments by SEK 1.8 billion to SEK 11.2 billion, while they were unchanged in the Västra Götaland region and fell by SEK 0.3 billion in Region Skåne.

Among the other county councils/regions, Östergötland County Council and Uppsala County Council stand out by having a high level of investment per inhabitant – SEK 2,850 SEK and SEK 2,540 respectively, *see Table 5*. In 2013, Region Halland, Gävleborg County Council and Kronoberg County Council had an investment level of less than SEK 1,000 per inhabitant.

Table 5
Investment level per inhabitant in the county councils/regions in 2013

County council/region	Investment per inhabitant, SEK
Stockholm County Council	5,169
Region Östergötland	2,977
Uppsala County Council	2,730
Värmland County Council	2,147
Region Västra Götaland	1,744
Dalarna County Council	1,702
Region Örebro County	1,594
Blekinge County Council	1,531
Västernorrland County Council	1,445
Region Gävleborg	1,389
Norrbottn County Council	1,359
Region Skåne	1,355
Västerbotten County Council	1,222
Sörmland County Council	1,198
Kalmar County Council	1,121
Västmanland County Council	1,075
Region Jönköping County	1,060
Region Kronoberg	959
Region Halland	851
Region Jämtland Härjedalen	765

Source: Kommuninvest

Fact box 3

Hospital boom

Many of the Swedish hospitals were built in the 60s and 70s, when the Swedish healthcare system was expanded on a large scale. Several county councils and regions are currently in a period of substantial investment, with hospitals needing to be rebuilt, extended or supplemented. The reason is not only increased demand for healthcare as a result of population growth and a larger proportion of older people, but also to raise the quality of the care being offered:

- Stockholm County Council: In addition to the construction of the New Karolinska Hospital in Solna, renovation and extensions are planned for existing hospitals, such as the Södersjukhuset Hospital in Stockholm and the Karolinska University Hospital in Huddinge.
- Sörmland County Council: plans to develop all four hospital precincts over a ten-year period.
- Östergötland County Council: major investments are planned for the three county hospitals.
- Region Skåne: is investing about SEK 6 billion at the hospital precinct in Malmö over a period of eight years.

Properties and housing account for half of the investments

Investment account – municipalities

Of the municipal groups' total gross investments in tangible fixed assets of SEK 92.9 billion in 2013, the municipalities themselves accounted for SEK 43.3 billion, while the municipal companies accounted for SEK 49.6 billion. To identify the types of investments made in 2013, Kommuninvest had 80 municipalities analysed in detail. The sample included the 50 largest municipalities in terms of population and a random selection of 30 small and medium-sized municipalities. Compiling the investment accounts of these municipalities and their companies enables an assessment of the distribution of the local government sector's investments in six principal categories:

- Infrastructure, including roads, streets, roundabouts, car parks and harbours.
- Water/sewerage
- Properties, including service properties, office and industrial premises, and sports facilities.
- Housing
- Energy companies
- Other investments, including equipment, machinery and vehicles

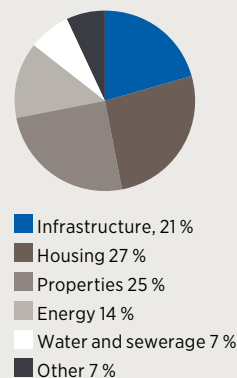
As can be seen in *Table 6*, almost 60 percent of Sweden's population lives in one of the 50 largest municipalities in the country in terms of population. Combined, these municipalities account for 70 percent of total municipal investment and their average investment level, SEK 11,300 per inhabitant, is SEK 4,100 higher than for the small and medium-sized municipalities.

Table 6
Investments in 80 select municipalities, 2013

Municipal category	Population, million (% of total)	Investments in SEK billion (% of total)	Investments per inhabitant in SEK	Company investments as a share of the total
The 50 largest municipalities	5.70 (59)	64.5 (70)	11,300	58
Selection of 30 municipalities	0.46 (5)	3.4 (4)	7,400	44
Other small and medium-sized municipalities	3.48 (36)	25.0 (26)	7,200	42
All municipalities	9.64 (100)	92.9 (100)	9,600	53

Kommuninvest's review shows that the largest municipalities invest relatively more in the category Energy companies and relatively less in the categories Water/sewerage, Housing and Other than the selection of small and medium-sized municipalities. As can be seen in *Figure 9* and *Table 7*, investments in property, housing and infrastructure accounted for half of the local government sector's investments in 2013. Housing investments include both renovation of existing portfolios and new production, while investment in the area of properties consist primarily of

Figure 9
The municipal groups' investments in 2013, broken down by investment category



Source: Kommuninvest. Rounding up/down means that sub-items add up to >100%.

service and operational properties, such as homes for the elderly, pre-schools and schools, but also commercial properties, and sports facilities and swimming pools. Total infrastructure investments in streets, roads, parks, sewage treatment plants and water and sewage mains accounted for a quarter of the total investment, while investments in municipally owned energy companies amounted to a sixth of the combined investment volume. Hidden under the item “Others” are, among other things, equipment and investments in municipal vehicle fleets.

Table 7 shows the distribution of investments between different categories in 2013 compared with 2012. Compared with 2012, the greatest difference is the increase in the proportion of property investments and the decrease in investments under Other¹. For other groups, the differences are marginal.

Table 7
Distribution of municipal investments in 2013 (2012)

Municipal category	Infra-structure	Water/Sewerage	Property	Housing	Energy companies	Other	Total
The 50 largest municipalities	20 (24)	6 (5)	25 (20)	26 (24)	17 (17)	6 (10)	100
Selection of 30 municipalities	21 (18)	11 (10)	25 (18)	28 (27)	5 (11)	10 (19)	100
All municipalities ¹	21 (22)	7 (7)	25 (19)	27 (25)	14 (15)	7 (13)	100

¹) Kommuninvest's calculations. Rounding up/down means that sub-items add up to >100%.

Investment account county councils/regions

Kommuninvest had a review conducted of all of the county councils/regions' investment accounts and, where necessary, the annual reports of companies owned by the county councils. The county councils' total investments in 2013, of SEK 19.9 billion, were categorized according to the following five areas:

- Buildings, hospitals
- Buildings, other
- Public transport
- Medical equipment
- Other (e.g. IT systems)

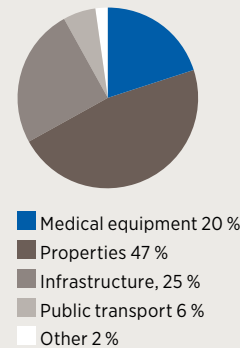
Table 8
Distribution of the county councils/regions' investments, 2013

	Buildings	Infra-structure	Public transport	Medical equipment	Other	Total
Distribution in percent	47	25	6	20	2	100
Investment in absolute terms, SEK million	11,100	5,800	1,400	4,300	500	23,100

The county councils are currently in a period during which many hospitals are either being renovated or are about to be replaced by completely new units, see *Fact box 3*. Property investments also constituted nearly half of the county councils' investments in 2013. Infrastructure investments accounted for a quarter of total investment, which can largely be attributed to Stockholm County Council's investments in improved public transport. Investments in medical equipment accounted for a fifth of the investments. The remaining investments consisted primarily of new trains, buses and IT systems.

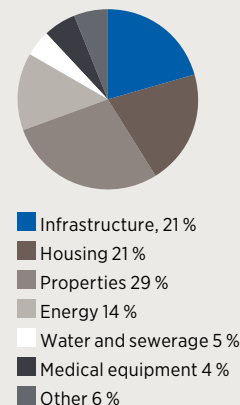
¹) The decline in Other is partially explained by Kommuninvest's process for identifying different categories of investments having improved.

Figure 10
The county council groups' investments in 2013, broken down by investment category



Source: Kommuninvest

Figure 11
The local government sector's total investments in 2013 broken down by investment category



Source: Kommuninvest

FORECAST

Investments continue to increase

Commenting on the future development of investments in the municipal sector is tricky. Firstly, new accounting rules for major municipal and county council-owned companies entail a significant increase in the volume of investments recorded in 2014 and onwards. The increase is caused by the maintenance being recognised as investments under the new regulations. The effect of this change is currently unclear. Secondly, there is currently no continuous data collection regarding investment plans for all local government actors. While the municipalities and county councils do report ensuing years' investment plans for their core business in their budgets, details of planned investments by the companies owned by the municipalities and county councils are often lacking.

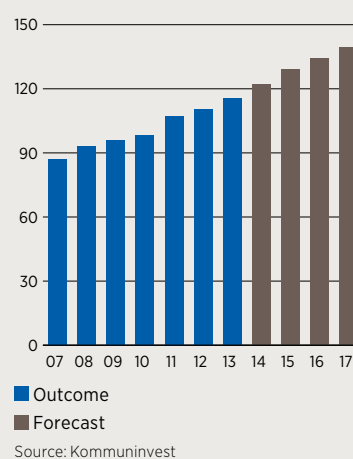
Larger municipalities and county councils show the way

The municipal categories Metropolitan municipalities and Large cities and the county councils/regions will account for the largest share of the growth in investments. Several larger cities have announced that the level of their investment budgets for their core municipal operations will be higher in the future than in recent terms of office. As mentioned previously, several county councils/regions are in a period during which hospital properties are being renovated, extended or replaced. Stockholm County Council's share of total investments is expected to decrease as investment volumes by other county councils/regions increase. Investments among county councils/regions are expected to continue to grow faster than investments among municipalities and municipal companies.

Forecast

For the years 2014 and 2015, investments are expected to increase by 6 percent annually. After that, investments are expected to grow at a somewhat calmer pace – 4 percent annually. A sizeable share of the investments will be borne by the larger, expansive municipalities with strong financial results. However, increased investment volumes, combined with generally lower earnings levels, mean that the demand for external financing in the municipal sector will remain strong. For individual municipalities, with high absolute debt per inhabitant and/or that are highly leveraged, this may entail stricter priorities between different types of investments.

Figure 12
Investment volume 2007–2017,
SEK billion



Source: Kommuninvest

Sector leverage: 44 percent

IN-DEPTH ANALYSIS: DEBT, ASSET VALUES AND FINANCIAL CAPACITY

In recent years, increased investment volumes have contributed to increases in both assets and liabilities in the municipal sector. In absolute terms, debt has increased, particularly among companies – historically, the municipalities and county councils/regions themselves have maintained a very high degree of self-financing for investments in municipal infrastructure, healthcare, schools and care. Accordingly, the need for external financing has been low and many municipalities and county councils/regions remain completely debt-free.

According to Kommuninvest's assessment, the municipalities have together borrowed about SEK 50 billion, or 12 percent of the municipal groups' combined debt, to fund investments in core municipal operations (see *Figure 14*). The remaining debt is therefore borne by the municipal companies. There is, however, reason to believe that the municipalities' loan volumes will increase moving forward. Many larger municipalities have signalled a need for external financing for major welfare investments that they are carrying out or plan to carry out.

Financial conditions in the local government sector can be measured using a number of key figures. This in-depth analysis highlights the leverage ratio, that is, borrowing in relation to the sector's assets as well as interest expense as a percentage of total revenue. The leverage ratio indicates the extent to which the group's assets are financed by external debt. High leverage may indicate limited scope for financing additional investments, while interest expense as a percentage of total revenue indicates the capacity of the group concerned to service the financial costs of its borrowing.

For Sweden's 290 municipal groups, the leverage ratio was 44 percent in 2013. With a leverage ratio of 29 percent, the Metropolitan municipalities were the least leveraged municipal category. This was also the only municipal category that was below the national average. Among the other municipal categories, leverage lay within an interval of 11 percentage points. The highest level of debt in relation to the book values of assets was among the municipal category Suburban municipalities to larger cities, with a 59 percent leverage ratio, see *Figure 15*.

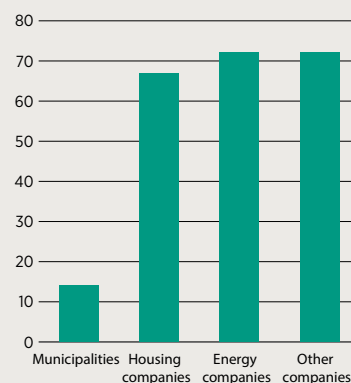
Fact box 4

Combined, the local government sector owns

- 730,000 flats through some 300 public housing companies
- Water and sewer mains covering a distance equivalent to four trips around the equator.
- 41,600 km of roads and streets with almost 3,000 roundabouts
- 300,000 hectares of forest
- 7,000 pre-schools, 4,500 primary schools and 139 energy companies

Source: Swedish Association of Public Housing Companies, Swedish Water & Wastewater Association, Swedish Transport Administration, Swedish National Agency for Education, Swedish Forest Agency and Kommuninvest

Figure 13
Leverage per player in the local government sector in 2013, %



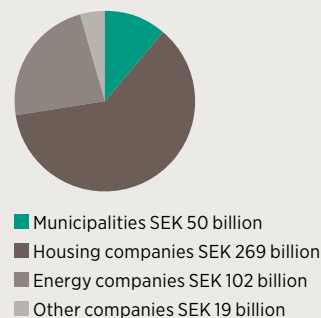
In 2013, the municipalities' leverage averaged 14 percent. The companies' leverage amounted to between 67 and 72 percent. For the municipal groups as a whole, leverage was 47 percent.

Source: Kommuninvest

As interest rates have fallen, the local government sector's total interest expenses have fallen, despite increased debt. In 2013, interest expenses as a share of the local government sector's total revenue amounted to 1.5 percent. The lowest proportion of revenue accounted for interest expense in the group of municipalities Sparsely populated municipalities, on average, 1.0 percent of revenue. The highest percentage of revenue, 1.7 percent, consisted of interest expenses in the municipal category Larger municipalities, see *Figure 16*.

As a whole, the Swedish local government sector has a loan to value ratio of more than 50 percent, and the interest expenses on externally borrowed capital amount to less than 2 percent of total revenue. The trend of declining interest rates since the financial crisis of 2008/09 has of course made it easier for the municipalities and county councils/regions to finance parts of their investments with external funds. Total interest expenses in 2014 were lower than in 2007 despite debt being about 50 percent higher. A return to the interest rate environment that prevailed prior to the financial crisis would entail interest expenses increasing by SEK 7–8 billion annually given current debt.

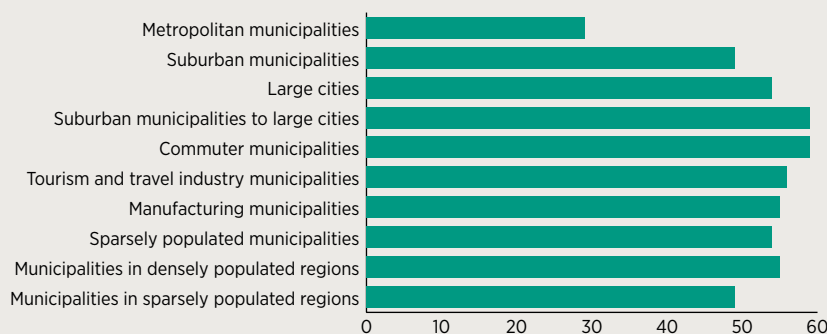
Figure 14
Municipal groups' external debt in 2014, SEK billion



At the end of 2014, Sweden's 290 municipal groups had combined borrowing of about SEK 440 billion. Kommuninvest estimates that approximately SEK 50 billion has been used to finance investments in operations that are the direct responsibility of the municipalities and not conducted under company formats. The major share of the total debt, approximately SEK 390 billion, finances investments in the municipal companies, particularly in the housing and energy sectors.

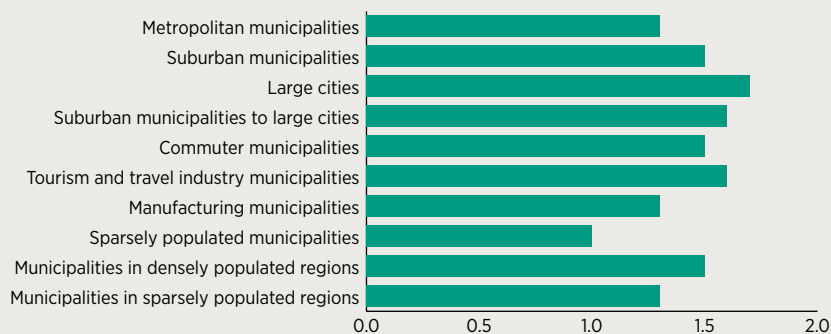
Source: Kommuninvest

Figure 15
Leverage by municipal category 2013, %



Source: Kommuninvest

Figure 16
Interest expense as a percentage of total revenue by municipal category 2013, %



Source: Kommuninvest

30 companies, SEK 200 bn in excess of book value

IN-DEPTH
ANALYSIS: MARKET
VALUES IN PUBLIC
HOUSING

Effective from 2014, property companies following the K3 accounting standard are to report the market values of their property portfolios. There are a number of different methods for estimating the market value of a rental property. The two most common methods are the local market price method and the present value method.

The local market price method derives the market value from sales data from other rental properties sold in the vicinity. The quality of the assessment depends on relevant comparison material being available, making it possible to take into account the differences in the properties' characteristics, such as location, year of construction and standard.

The present value method derives the market value of the property from the sum of the property's expected future returns. The quality of the assessment depends on the reliability of the data on rental revenues and operating and maintenance costs.

Kommuninvest has analysed the annual reports of the public housing companies in the 50 largest municipalities in terms of population.

Table 9 shows the 30 companies that reported both book and market values. The total reported book value amounted to SEK 152.4 billion, with an estimated market value of SEK 348.2 billion. Accordingly, the excess values in these 30 companies' property portfolios amounts to nearly SEK 200 billion.

Table 9
Public housing companies' book value and market value in 2013

Municipality	Companies	Book value in SEK billion	Market value in SEK billion	Municipality	Companies	Book value in SEK billion	Market value in SEK billion
Gothenburg	Framtiden	25.5	65.9	Järfälla	Järfällahus	1.7	5.5
Stockholm	Svenska Bostäder	15.9	38.3	Karlstad	Karlstads Bostads AB	2.3	4.3
Stockholm	AB Stockholmshem	14.2	33.2	Eskilstuna	Kommunfastigheter	2.5	3.9
Stockholm	Familjebostäder	10.6	26.6	Mölnadal	Mölnalsbostäder	1.9	3.6
Malmö	MKB	7.7	21.6	Skellefteå	Polaris	2.7	3.4
Örebro	Örebro Bostäder	6.8	16.2	Tyresö	Tyresö Bostäder	1.8	3.1
Linköping	Stångåstaden	5.2	13.7	Varberg	Varbergs Bostads AB	1.2	3.0
Uppsala	Uppsalahem	7.3	12.8	Östersund	Östersundshem	1.4	2.8
Helsingborg	Helsingborgshem	4.1	10.5	Karlskrona	Karlskronahem	1.7	2.6
Sundbyberg	Fastighets AB Förvaltaren	3.9	10.2	Kalmar	Kalmarhem	1.8	2.2
Umeå	Bostaden i Umeå	4.9	9.8	Trelleborg	Trelleborgshem	0.9	1.3
Västerås	Mimer	4.9	7.9				
Sollentuna	Sollentunahem	3.5	7.9				
Norrköping	Hyresbostäder i Norrköping	4.1	7.4				
Halmstad	Halmstad Fastighets AB	2.8	6.7				
Botkyrka	Botkyrkabyggen	2.5	6.5				
Gävle	Gavlegårdarna	4.1	6				
Linköping	Lejonfastigheter	3.2	5.7				
Solna	Signalisten	1.3	5.6				

Comments: All of the housing companies in the table are to be found in municipalities with strong or relatively strong population growth. Increased demand for housing in these municipalities is driving up the market values of properties, meaning that the municipalities hold considerable excess values in their housing companies. Somewhat simplified, it can be argued that the municipalities that account for much of the sector's rising borrowing are also those with the greatest excess values in their companies. In regions with depopulation, the situation sometimes appears diametrically different. In some companies with high vacancy rates and/or extensive renovation needs, it may be necessary to recognise impairment in the values of the properties.

APPENDIX

Investment levels in Sweden's 290 municipalities

The tables below list the gross investments in tangible fixed assets in each municipality, per inhabitant and year for 2013. The data is derived from the municipalities and county councils/ regions' compiled cash flow statements.

Certain municipal groups only account for investments on a net basis. If a major external divestment of tangible fixed assets has taken place during the year, the difference between the gross investment volume and the reported net investment will be substantial.

Municipality	Gross investments per inhabitant, SEK				
Ale	4,168	Filipstad	3,086	Högsby	5,894
Alingsås	13,511	Finspång	5,880	Hörby	2,950
Alvesta	4,564	Flen	1,845	Höör	4,406
Aneby	2,682	Forshaga	6,279	Jokkmokk	4,145
Arboga	8,108	Färgelanda	2,485	Järfälla	8,313
Arjeplog	3,893	Gagnef	2,863	Jönköping	10,795
Arvidsjaur	2,117	Gislaved	5,450	Kalix	8,824
Arvika	7,007	Gnesta	4,535	Kalmar	7,285
Askersund	9,490	Gnosjö	4,816	Karlsborg	4,425
Avesta	4,912	Gotland	6,730	Karlshamn	11,576
Bengtstors	5,822	Grums	3,059	Karlskoga	22,551
Berg	13,324	Grästorp	2,092	Karlskrona	6,212
Bjurholm	4,844	Gullspång	3,047	Karlstad	11,175
Bjuv	3,642	Gällivare	8,119	Katrineholm	4,018
Boden	9,616	Gävle	9,131	Kil	10,042
Bollebygd	2,499	Gothenburg	11,943 ¹	Kinda	6,325
Bollnäs	6,293	Götene	3,661	Kiruna	9,950
Borgholm	13,061	Habo	8,036	Klippan	4,074
Borlänge	9,032	Hagfors	1,499	Knivsta	11,759
Borås	9,593 ¹	Hallsberg	5,469	Kramfors	3,702
Botkyrka	5,349 ¹	Hallstahammar	2,970	Kristianstad	13,847
Boxholm	7,787	Halmstad	11,150	Kristinehamn	4,660
Bromölla	10,344	Hammarö	12,084	Krokom	4,794
Bräcke	2,180	Haninge	4,373	Kumla	14,069
Burlöv	5,025	Haparanda	6,615	Kungsbacka	12,159
Båstad	11,881	Heby	736	Kungsör	2,838
Dals-Ed	1,962	Hedemora	3,595	Kungälv	6,809
Danderyd	3,501	Helsingborg	11,039	Kävlinge	2,601
Degerfors	5,084	Herrljunga	6,254	Köping	8,602
Dorotea	6,130	Hjo	8,007	Laholm	5,477
Eda	4,973	Hofors	4,079	Landskrona	6,995
Ekerö	6,116	Huddinge	6,547	Laxå	5,233
Eksjö	7,471	Hudiksvall	4,602	Lekeberg	5,652
Emmaboda	5,812	Hultsfred	4,239	Leksand	5,278
Enköping	9,480	Hylte	5,889	Lerum	7,304
Eskilstuna	10,789	Håbo	7,427	Lessebo	2,643
Eslöv	13,506	Hällefors	2,177	Lidingö	6,005
Essunga	5,388	Härjedalen	10,894	Lidköping	6,235
Fagersta	917	Härnösand	7,989	Lilla Edet	6,548
Falkenberg	8,012	Härryda	9,333	Lindesberg	3,469
Falköping	8,272	Hässleholm	8,145	Linköping	11,018
Falun	11,352	Höganäs	8,268	Ljungby	9,495

Municipality	Gross investments per inhabitant, SEK				
Ljusdal	11,325	Skurup	5,125	Vaxholm	2,583
Ljusnarsberg	1,005	Skövde	10,150	Vellinge	6,061
Lomma	10,131	Smedjebacken	6,230	Vetlanda	8,755
Ludvika	11,287	Sollefteå	3,287	Vilhelmina	2,265
Luleå	15,774	Sollentuna	9,889	Vimmerby	23,131
Lund	18,785	Solna	7,351	Vindeln	2,171
Lycksele	3,096	Sorsele	2,775	Vingåker	1,234
Lysekil	7,161	Sotenäs	15,244	Vårgårda	4,510
Malmö	10,166	Staffanstorps	10,855	Vänersborg	5,748
Malung-Sälen	15,307	Stenungsund	3,706	Vännäs	3,973
Malå	8,494	Stockholm	13,537	Värmdö	5,588
Mariestad	5,417	Storfors	5,713	Värnamo	13,117
Mark	3,727	Storuman	5,173	Västervik	12,783
Markaryd	9,280	Strängnäs	8,476	Västerås	19,932
Mellerud	2,924	Strömstad	11,170	Växjö	14,390
Mjölby	6,879	Strömsund	2,745	Ydre	1,216
Mora	7,501	Sundbyberg	17,940	Ystad	17,175
Motala	4,501	Sundsvall	9,718	Ämål	4,653
Mullsjö	7,331	Sunne	5,303	Änge	4,902
Munkedal	18,011	Surahammar	1,444	Äre	4,357
Munkfors	8,206	Svalöv	6,638	Ärjäng	7,998
Möndal	10,788	Svedala	17,726	Åsele	5,287
Mönsterås	9,259	Svenljunga	2,214	Åstorp	4,214
Mörbylånga	6,292	Säffle	4,890	Ätvidaberg	3,962
Nacka	6,227	Säter	3,716	Älmhult	10,629
Nora	4,318	Sävsjö	5,652	Älvdalen	15,093
Norberg	1,569	Söderhamn	4,033	Älvkarleby	6,428
Nordanstig	2,845	Söderköping	8,609	Älvsbyn	4,016
Nordmaling	2,712	Södertälje	8,565	Ängelholm	6,730
Norrköping	7,155	Sölvesborg	6,661	Öckerö	1,352
Norrtälje	8,678	Tanum	8,884	Ödeshög	10,108
Norsjö	10,012	Tibro	3,868	Örebro	8,826
Nybro	4,223	Tidaholm	3,319	Örkelljunga	3,750
Nykvarn	6,910	Tierp	4,999	Örnsköldsvik	4,874
Nyköping	13,155	Timrå	5,282	Östersund	12,030
Nynäshamn	9,863	Tingsryd	10,875	Österåker	8,421
Nässjö	5,255	Tjörn	8,412	Östhammar	11,671
Ockelbo	2,230	Tomelilla	4,011	Östra Göinge	5,523
Olofström	3,782	Torsby	4,737	Överkalix	6,170
Orsa	5,899	Torsås	1,555	Övertorneå	5,309
Orust	6,511	Tranemo	4,579		
Osby	5,530	Tranås	12,700		
Oskarshamn	5,234	Trelleborg	9,998		
Ovanåker	8,217	Trollhättan	11,078		
Oxelösund	7,708	Trosa	17,825		
Pajala	6,985	Tyresö	4,907		
Partille	9,282	Täby	11,178		
Perstorp	11,052	Töreboda	3,225		
Piteå	12,312	Uddevalla	9,958		
Ragunda	7,457	Ulricehamn	5,523		
Robertsfors	2,404	Umeå	13,626		
Ronneby	4,442	Upplands Väsby	7,829		
Rättvik	2,285	Upplands-Bro	11,464		
Sala	6,803	Uppsala	15,736		
Salem	1,237	Uppvidinge	3,381		
Sandviken	8,376	Vadstena	5,093		
Sigtuna	14,463	Vaggeryd	5,095		
Simrishamn	2,195	Valdemarsvik	6,632		
Sjöbo	5,934	Vallentuna	3,277		
Skara	8,149	Vansbro	4,131		
Skellefteå	18,670	Vara	8,059		
Skinnskatteberg	1,043	Varberg	11,252		

1) Botkyrka, Borås, Linköping and Gothenburg report their investments on a net basis, that is, adjusted for divestments made during the year.

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