

Local government borrowing

2015



KOMMUNINVEST

CONTENTS

Foreword	3	In-depth analysis – Pension liabilities	13
Investments	4	Appendix 1: Borrowing per capita and municipality	14
Local government borrowing	6	Appendix 2: SALAR's classifications of municipalities	16
Financing	9		
Forecast borrowing trend	10		

About Kommuninvest's research reports

Kommuninvest continuously monitors the local government sector's financial activities and publishes two reports annually: Local government sector investment and Local government borrowing. The data on which the reports are based are unique since both investment and debt are analysed from a group perspective. This means that operations conducted under company formats are also included. Accordingly, the relationship between the trend in investment volumes and borrowing in the local government sector is elucidated at both the national and local levels.

The group perspective is important in obtaining an accurate overall picture of a municipality or county council/region's economic and financial position, as:

- An increasing share of local government authorities' operations are being conducted in company form. For example, an increasing number of local government authorities have transferred their service and operations premises to subsidiaries.

- Local government sector companies account for half of the sector's investments and the bulk of the external debt.
- The capital-intensive companies in local government groups often operate in competitive markets, meaning that the municipalities' and county councils' business risks are increasingly borne by the companies rather than the core operations.

The supporting data in this report are based on details gathered directly from the municipalities' and county councils' own annual reports. This is advantageous for two reasons:

- 1) Access to basic data. Borrowing can, in many cases, be separated from other types of debt that are not of a financial nature, and details of the Group's investment volume can be obtained at the municipal and county council level;
- 2) Details, primarily of investments, are published faster than statistics from Statistics Sweden (SCB).



Questions on the contents of this report may be addressed to:

Mattias Bokenblom
Head of Research, Kommuninvest
Tel.: +46 (0)10-470 88 03
E-mail: mattias.bokenblom@kommuninvest.se

2015–2024 – the new record years?

The Swedish local government sector faces a new period of large-scale and wide-ranging welfare investment. There are similarities with the Swedish record years of 1965–1975, when about 1 million homes were built, as well as a large number of hospital buildings, schools, swimming pools, sports facilities and other types of public service and commercial premises. All of these properties have formed a cornerstone in the Swedish welfare system. These ventures were made possible by investment grants and various types of subsidies from the Swedish government.

Today's investments are not being financed by generous contributions from the central government, but by the local government sector under its own auspices. Nor is housing now an equally dominant feature among the investments, despite the substantial need. As investment volumes have increased, so have borrowing needs. However, local government pension commitments have decreased and municipalities have experienced a reduction in annual pension expenditures.



Tomas Werngren
President, Kommuninvest

The greatest need for investment are primarily in municipalities with growing populations. Kommuninvest estimates that the need for new borrowing in the municipal sector over the next ten years will remain very sizeable – our economic forecast indicates that borrowing will double by 2024.

The local government sector currently faces significant economic and financial challenges. The sharp increase in population leads to increased demand for welfare services, and this demand will remain high for years to come. There is also a need to upgrade housing, service and operations premises and other municipal infrastructure, as well as for new construction.

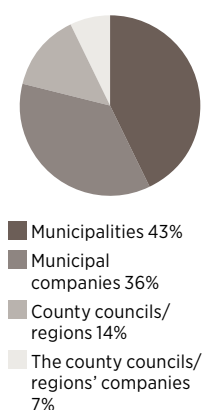
As a result of the significant refugee flows, demand for extended and renovated local government infrastructure is reinforced. Being able to meet current and future investment needs in a sustainable way will be central to the future development of the local government sector.



Mattias Bokenblom
Research Manager, Kommuninvest

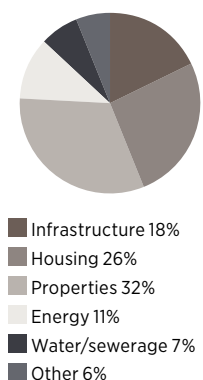
Investments for SEK 131 billion in 2014

Figure 1: Distribution of local government sector investments in 2014



Source: Kommuninvest

Figure 2: Investment account, municipal groups, 2014



Source: Kommuninvest

The municipalities and county councils bear a comprehensive welfare assignment, with responsibilities including preschools, schools, social services, health care and public transport. Beyond their statutory duties, the municipalities and county councils are involved in activities including the supply of housing, properties and energy. Internationally, the Swedish local government sector is distinguished by its large corporate sphere and the major asset values that exists within these companies.

In 2014, combined gross investment by the Swedish local government sector in tangible assets amounted to SEK 131.2 billion¹. This level cannot be compared with the volume of close to SEK 116 billion in 2013 when the accounting regulations for investments were changed (see fact box on page 5).

Of the sector's total investments, the municipal groups accounted for SEK 104.5 billion and the county council/regional groups for SEK 26.8 billion. In turn, SEK 48.3 billion of the investments by the municipal groups were made by the municipalities, and investments of SEK 56.2 billion were made by municipal companies. The corresponding figures for the

county council/regional groups were SEK 17.9 billion under the auspices of the county councils and SEK 8.8 billion through companies owned by the county councils.

Of the local government groups' investments, 58 percent were attributable to housing and properties. Housing investment includes both renovation and long-term maintenance² of existing stocks, as well as new construction, while property investments comprise service and operations premises, such as homes for the elderly, preschools and schools, and sports and bathing facilities. Some municipalities also operate purely commercial properties such as parking garages and industrial facilities. Infrastructure investments in streets, roads, parks, water treatment plants and water and sewage pipelines, ports and airports accounted for 25 percent of total investments, while investments in district heating and electricity in the energy companies owned by local government authorities accounted for 11 percent. Hidden under the item "Others" are, among other things, equipment and investments in municipal vehicle fleets.

Several county councils and regions have announced plans over the coming years to ren-

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 ⁴	Education
Planning and building issues	Energy supply			Tourism
Environmental health protection	Streets and roads			
Sanitation and waste	Housing construction			
Water/sewerage	Business development			
Emergency services				
Library operations ³				
Crisis contingency planning				
Housing provision				

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

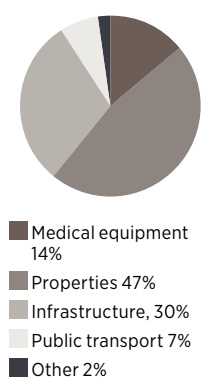
1) The actual value is higher since a number of major municipal groups choose to disclose only net investments, that is, adjusted for divestments during the year.
 2) A result of the change in accounting rules that came into effect on 1 January 2014.
 3) A public library in each municipality.
 4) Dental care for children and adolescents up to 20 years of age.

ovate existing hospital buildings or to replace them with completely new units. Development is being driven by increased demand for care due to a growing and ageing population, as well as the need for improved quality of the care offered. In 2014, property investments accounted for nearly half, 47 percent, of the county council groups' total investments, while infrastructure investment accounted for 30 percent. Investments in healthcare equipment accounted for 14 percent of the investments and the remainder consisted primarily of new trains, buses, equipment and IT systems.

Historically, investments in the municipalities' and county councils' core businesses have largely been financed with proprietary funds. Kommuninvest's previous report (*Local government investments – 2015*) showed that only 12 percent of local government groups' total borrowings were used to finance assets in the local government authorities' core operations. However, this seems to be changing.

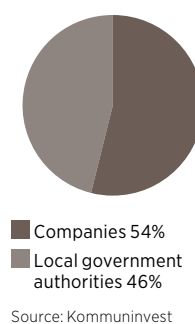
Due to considerable need for expanded service and operations premises, particularly in municipalities with growing populations, the need for external financing of the country's municipalities is increasing. However, the trend defies simple analysis since many larger municipalities with high population growth use both internal banks and separate companies to administrate their buildings. This complicates the analysis of how the municipal group's borrowing is divided de facto between the municipality's core operations and its companies. Municipal companies operating in capital-intensive businesses have a greater need for external borrowing to finance their investments. In 2014, the self-financing rate for the sector as a whole was 66 percent.

Figure 3: Investment account, county council groups, 2014



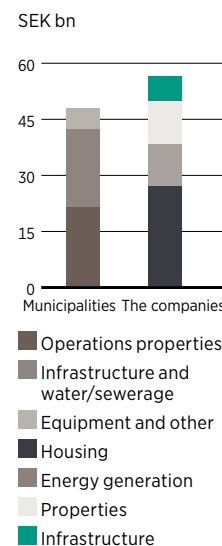
Source: Kommuninvest

Figure 4: Distribution of the local government authorities' investments



Source: Kommuninvest

Figure 5: Distribution of investments



Source: Kommuninvest

New accounting rules increase level of investment

In 2014, the Council for Municipal Accounting updated its Recommendation 11:4 regarding the management of tangible fixed assets. The new wording includes an explicit requirement for primary municipalities to apply component depreciation. The same requirements apply to the larger municipal companies reporting in accordance with the so-called K3 regulations.

Component depreciation means that the different components of a fixed asset have depreciation periods of differing length, based on their expected periods in use. For example, in a residential property, the bathroom, kitchen and window components have a faster rate of depreciation than the façade and the water and sewerage pipes.

The component depreciation method has implications for how long-term maintenance is to be reported. Long-term maintenance is now classified as an investment and not a cost. Consequently, part of the growth in investment in 2014 is attributable to technical accounting changes and not to increased economic activity. In the short term, this also affects earnings. Initially, earnings will increase as the cost of long-term maintenance is no longer included in the income statement but ends up on the balance sheet instead. But as the depreciation associated with maintenance investments increases, the earnings level will gradually decline.

Borrowing passes SEK 500 billion for the first time

The local government sector’s accumulated borrowing is the result of investments, mainly in the capital-intensive municipal companies, partly being financed through external borrowing.

At the end of 2014, the sector’s total borrowing amounted to SEK 501.9 billion, an increase of SEK 33.2 billion or 7.2 percent compared to the end of 2013. In 2013, the growth rate was 6.3 percent. In 2014, average borrowing per inhabitant amounted to SEK 51,500 – SEK 2,900 more than in 2013.

Table 1: Local government borrowing

	2014	2013	2012
Borrowing, SEK billion	501.9	468.7	440.9
Municipal groups	468.2	441.0	414.9
County council groups	33.7	27.7	26.0
Borrowing per inhabitant in SEK	51,500	48,600	46,400
Proportion of GDP, %	12.8	12.4	12.0

Source: Kommuninvest

Change in borrowing at municipal group level, 2014

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.

Of the total increase in borrowing of SEK 33.2 billion in 2014, the municipal groups accounted for SEK 27.2 billion and the county council/regional groups for SEK 6.0 billion. The increase among the county councils can be attributed to development in Stockholm County Council (SCC), where borrowing rose by SEK 5.8 billion. Just as in previous years during the 2010s, the municipal groups Large cities and Metropolitan municipalities increased their borrowing, which was up by SEK 17.4 billion and SEK 4.1 billion respec-

Figure 6: Municipal categories’ contributions to the local government sector’s increase in borrowing in 2014

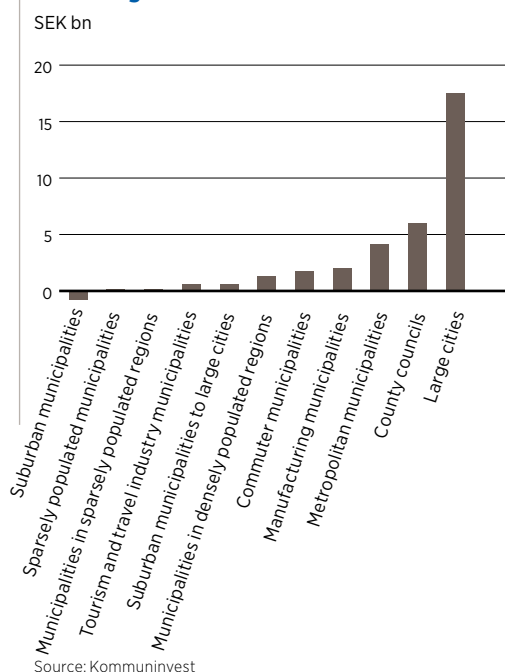
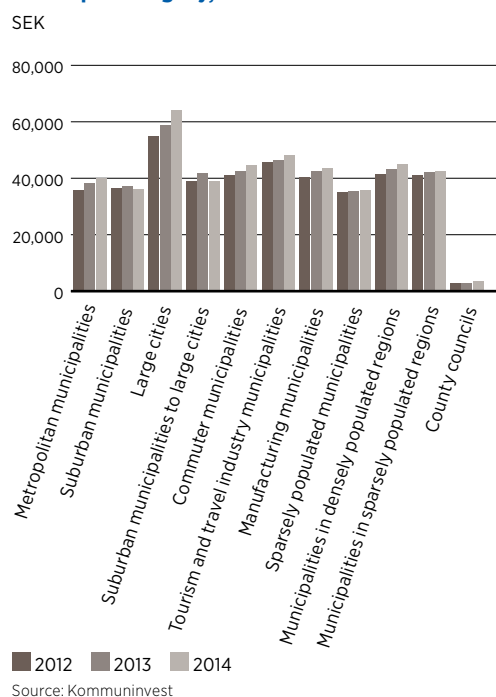


Figure 7: Borrowing per inhabitant and municipal category, 2012–2014



tively. Among other municipal groups, the changes were small. In the group Suburban municipalities, borrowing fell in absolute terms.

The greatest relative increase in debt was among the group Large cities and County Councils with an increase of 10 and 19 percent respectively.

The municipal group Large cities was the municipal group with the highest borrowing per inhabitant in 2014, at SEK 64,000 per inhabitant, and the highest rate of increase, SEK 5,400 per inhabitant, see Figure 7. Suburban and Metropolitan municipalities had reduced their borrowing per inhabitant.

Borrowing was lowest in the groups Sparsely populated municipalities and Suburban municipalities with borrowing amounting to SEK 35,900 and SEK 36,200 per inhabitant respectively. Other municipal categories ranged from SEK 40,000 to SEK 49,000 per inhabitant.

The county councils/regions' borrowing increased from SEK 2,400 to SEK 2,800 per inhabitant between 2013 and 2014.

Decreased interest expenses, despite increased borrowing

Increasing investment volumes, lower sales of tangible fixed assets and declining results have contributed to increased borrowing in the sector. Between 2008 and 2014, borrowing rose by 45 percent, equivalent to slightly more than

SEK 160 billion in nominal terms. However, due to sharply declining interest rates, the absolute cost was 37 percent lower in 2014 than in 2008 (see Figure 8). The trend of decreasing interest expenses has continued in 2015, since the sector's players have been able to refinance and raise new loans, sometimes at

Refugee flows – how is local government sector debt affected?

In October 2015, due to the accelerating situation since the summer, the Swedish Migration Agency (SMA) sharply raised its forecast for the number of asylum seekers in Sweden. In 2015, 160,000 people are expected to apply for asylum in Sweden and next year a further 135,000 people. This represented almost a doubling compared to the SMA's forecast in July.

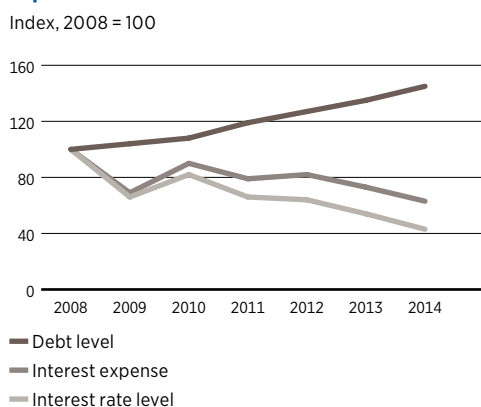
A sharply increasing number of asylum seekers exerts pressure not only on the SMA's reception system, but also the municipalities and county councils/regions' operations. The increase in 2015 and 2016 alone corresponds to the population of just over eight average Swedish municipalities.

During the autumn, there have been reports of, for example, schools where increasing student numbers have resulted in acute overcrowding, a serious shortage of both mother-tongue language teachers and teachers of Swedish as a second language, and of a lack of care and accommodation homes due to the exponential increase in unaccompanied refugee children. Queues to the Swedish Public Dental Service are getting longer as demand for emergency dental care increases.

The growing number of asylum seekers reinforces both the short and long-term trends detailed elsewhere in this report. An increased need for welfare services is depressing earnings levels in the sector, while the need for more service and operations properties is further increasing investment levels. Individual municipalities face great uncertainty as to whether population growth is long term or temporary in nature. Previously, periods of population growth in the municipalities outside the metropolitan regions have been followed by periods of sharp decline in the population.

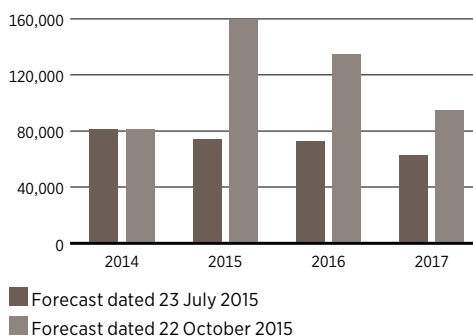
For the time being, Kommuninvest is not revising its long-term forecast for local government sector borrowing needs over the next ten years. However, the situation gives increasing cause believe that borrowing needs will continue to increase at a historically high rate.

Figure 8: Debt, interest rates and interest expenses



Source: Kommuninvest

Figure 9: Forecast number of asylum seekers



Source: Swedish Migration Agency

negative interest rates. From an international perspective, the periods for which capital is tied up and interest rates are fixed are short in the Swedish local government sector and this has contributed to costs being able to fall

as quickly as they have. On the other hand, there is a risk that a future rise in interest rates could lead to rapidly increasing costs.

Municipalities with the highest debt

The table on this page ranks the municipal groups with the highest nominal borrowing and the highest borrowing per inhabitant. It should be noted that comparisons give an incomplete picture of the financial circumstances of individual municipalities, since debt levels should be considered in relation to assets. High debt is usually an indication that there are significant assets in, for example, property,

housing and energy generation. This means that the municipality with the highest debt per capita in a county may also be the municipality with the greatest net assets per capita.

Although the overall debt level is interesting in itself, the change in debt levels is generally more representative of economic activity in a municipal group.

Table 2: Municipalities with the highest borrowing in 2014, SEK bn

	Borrowing, 2014, SEK bn	Percentage change, 2014, %	Borrowing, 2013, SEK bn (rank)	Borrowing, 2012, SEK bn (rank)
1 Gothenburg	38.1	-3	39.3 (1)	37.5 (1)
2 Stockholm	23.4	26	18.5 (2)	15.4 (2)
3 Linköping	15.5	2	15.2 (3)	15.2 (3)
4 Uppsala	11.9	29	9.2 (6)	6.8 (9)
5 Örebro	11.1	46	7.6 (8)	6.8 (8)
6 Södertälje	10.4	-5	11.0 (4)	11.7 (4)
7 Umeå	9.7	3	9.4 (5)	9.3 (5)
8 Malmö	9.4	3	9.1 (7)	8.3 (6)
9 Jönköping	8.8	21	7.3 (11)	6.8 (10)
10 Lund	7.8	3	7.6 (9)	6.4 (12)

Source: Kommuninvest

What distinguishes the 2014 ranking is that Södertälje, after a period of high investment and increased borrowing, is in a consolidation phase with declining borrowing. Sales of housing and service premises have helped reduce debt by SEK 1.3 billion since 2012.

Örebro, Uppsala and Stockholm are the municipalities whose debt has increased most in 2014. The City of Stockholm has had a high and rising level of investment for a long time and debt has risen by almost SEK 20 billion since 2010. Its debt per capita is however well below the national average.

Table 3: Municipalities with the highest borrowing per capita in 2014, SEK thousands

	Borrowing per capita 2014, SEK thousands	Percentage change, 2014, %	Borrowing per capita 2013, SEK thousands (rank)	Borrowing per capita 2012, SEK thousands (rank)
1 Södertälje	112.8	-7	121.0 (1)	130.8 (1)
2 Linköping	101.9	0	101.5 (2)	102.6 (3)
3 Vimmerby	100.5	53	65.9 (34)	45.4 (101)
4 Skellefteå	99.7	1	98.9 (3)	81.1 (3)
5 Lessebo	93.8	-4	97.7 (4)	103.1 (2)
6 Berg	93.0	11	83.8 (6)	80.8 (9)
7 Östersund	91.7	-1	93.0 (5)	92.2 (5)
8 Växjö	88.5	10	80.1 (10)	72.4 (16)
9 Strömstad	87.8	8	81.2 (9)	80.0 (8)
10 Kumla	87.6	6	82.3 (8)	79.0 (9)

Source: Kommuninvest

In 2013 and 2014, Vimmerby implemented some of the largest investments in the municipality's history. Investing in a combined power and heating plant has caused the group's borrowing to increase by SEK 55 thousand per inhabitant since 2012. Lessebo and Södertälje distinguish

themselves by having declining borrowing. In Östersund, which had Sweden's highest level of investment per capita in 2007–2012, the rate of increase has declined, and borrowing is at an unchanged level. Following several years of increased investment volumes, Växjö is new to the list.

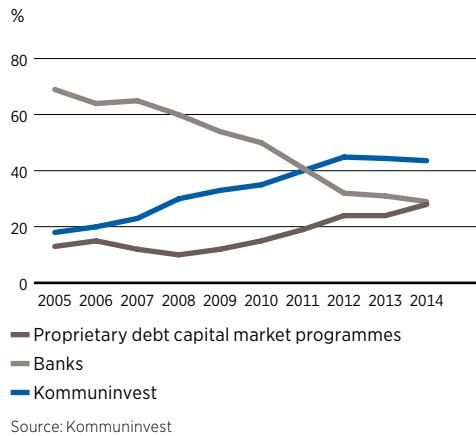
Proprietary funding is gaining ground while the banks fall behind

The external financing of the Swedish municipal sector has undergone major changes in the past decade. In 2005, the banks accounted for almost 70 percent of the sector's funding but have since sharply reduced their market share to 28 percent by the end of 2014. The decline has been accentuated since the financial crisis of 2008/09. Instead, borrowing, mainly via Kommuninvest, but also through proprietary capital markets funding has replaced bank borrowing. At the end of 2014, the banks accounted for 28 percent of the local government sector's loan financing, Kommuninvest for 44 percent and proprietary capital market programmes for 28 percent.

In ten years, the volume of commercial papers and bonds issued by municipalities, municipal companies and other local government actors (excluding Kommuninvest) has grown by almost SEK 100 billion, from SEK 41 billion to SEK 139 billion. Currently, 25 municipalities and county councils/regions and about ten municipal companies have active market programmes, double the number compared to before the financial crisis. One reason is lower direct borrowing costs on the Swedish money and bond markets.

Kommuninvest experienced high growth both during and after the financial crisis of 2008/2009. Additional member municipalities and low competition from the banking sector contributed to the trend. In 2013 and 2014, growth slowed and Kommuninvest's market share fell for the first time this century, as a result of increased lending margins to strengthen the capital base. From the end of 2014, Kommuninvest's capital build-up model has changed and lending margins have decreased. This has strengthened Kommuninvest's competitiveness and lending increased sharply in the final months of the year.

Figure 10: Market share, 2005-2014



Performance during the first half of 2015

At mid-year 2015, Kommuninvest estimates that its market share had risen to 48 percent. However, this estimate is based solely on the growth of Kommuninvest's lending during the first six months of the year and available market data regarding municipal debt capital market programmes. Complete data in the form of the municipal groups' annual accounts were not available. The municipalities' proprietary funding activates on debt capital markets also continued to increase and is estimated to account for about SEK 150 billion at mid-year. The banks' lending is decreasing in both absolute and relative terms and is estimated to account for less than a quarter of local government borrowing as per 30 June 2015.

Local government sector debt to double by 2024

The forecast for the development of local government borrowing is based on three parts:

- historical trend for external financing,
- future investment needs,
- opportunities for self-financing.

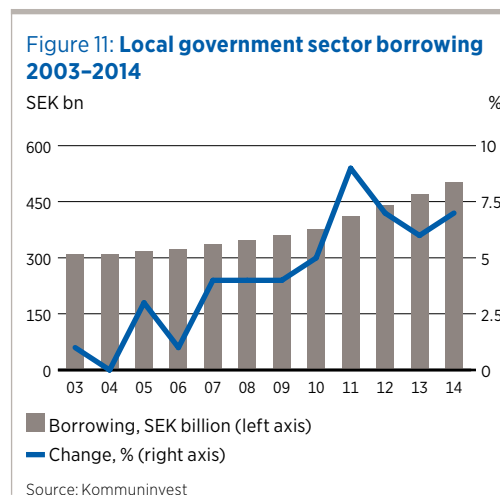
The forecast period covers the years 2015–2024.

Historical trend for external financing

Figure 11 shows the development of local government debt from 2003 to 2014. Early in the first decade of the new century, the growth rate of outstanding debt seldom exceeded 1 percent annually, and borrowing as a share of GDP continued to decline until 2008. This indicates that the sector had favourable capacity for self-financing, that is, financing its investments with internally generated funds. From 2007, the need for external financing increased and debt rose by 3 to 4 percent annually. Since 2011, the growth rate for outstanding debt has further increased, and now exceeds 6 percent annually. Over the past four years, local government borrowing has increased by SEK 125 billion, or about 33 percent.

Future investment needs

The local government sector's future investment needs are dependent on the scope of reinvestment into existing assets that is required and by needs to further build out welfare infrastructure.



Upgrading

There is a great need to upgrade housing, service and business premises, as well as other local government infrastructure, such as water and sewerage networks.

Of slightly more than 800,000 units of public housing, almost half of which was built between 1961 and 1975, some 300,000 apartments need to be renovated. The cost estimates range from SEK 100 billion and up.

Other local government assets, such as operational facilities, road and street networks, and water and sewerage networks, have suffered from inadequate maintenance for far too long. Lack of maintenance is manifested, among other things, in problems with mould and moisture damage at preschools and schools, pot holes in streets and roads, and increased problems with leaks in water mains (see fact box on page 11).

New investments

Statistics Sweden estimates that Sweden's population will increase by almost 1.2 million people from 2015 to 2024. Today's 9.7 million inhabitants will increase to 10.9 million. The increase over this ten-year period, corresponds to the entire Swedish population increase from 1975 to 2010. Statistics Sweden's main scenario is that the birth surplus will contribute 350,000 new inhabitants and immigration 800,000 new inhabitants.

This sharp increase in population will inevitably lead to increased demand for welfare services. The need to expand the number of places in the areas of education, health-care and social care will remain substantial for many years to come. The number of children of preschool and primary school age is predicted to increase by about 100,000 and 200,000 individuals respectively; the number of inhabitants aged over 85 will rise from today's 218,000 individuals to 244,000.

A rising population also puts pressure on the municipal companies, since water, sewerage and district heating networks need to be extended and more homes completed.

The county councils are also feeling the pressure of a larger and older population. Many county councils have far-reaching plans

to remodel existing hospitals or build entirely new units to be able to meet current and future demand for healthcare services.

If future demographic trends follow historical patterns, it is in the country's already growing municipalities that the majority of the population increase will occur (see Figure 12).

Given the extensive renovation and new construction needs that prevail, it is Kommuninvest's assessment that investment volumes will continue to rise by 5 to 6 percent annually.

Level of self-financing: Gradually decreasing

The local government sector's level of self-financing⁶, that is, its capacity to finance investments with internally generated funds, had declined since the middle of the first decade of the new century⁷. As shown by Table 4, the principal reason is that gross investment volumes have grown faster than results in the sector, despite having risen for several years due to temporarily higher government grants and repayments of health insurance premiums, so-called AFA funds.

At the same time, the municipalities and county councils' sales of tangible fixed assets

Maintenance deficit

Local media often report on neglected maintenance and extensive renovation needs. Here is a selection.

In 2012, the combined maintenance deficit for the Municipality of Sundsvall was estimated at SEK 1.2 billion.

The Municipality of Örebro has renovated schools for SEK 200 million annually in recent years.

In 2014 there were 21 schools in the City of Gothenburg that either needed to be renovated within the next five years or to be demolished.

The City of Västerås maintenance deficit for the city's streets and roads amounts to SEK 170 million.

The renovation needs among schools in the Municipality of Uppsala are estimated at SEK 150 million annually over five years.

Table 4: Level of self-financing in the local government sector

SEK bn	2007	2008	2009	2010	2011	2012	2013	2014
Results	25	16	24	28	11	31	19	21
Depreciation and amortisation	39	41	43	45	49	50	53	56
Gross investments	87	93	96	98	107	110	116	129
Sales of tangible fixed assets	24	24	22	23	13	9	15	12
Level of self-financing, %	101	84	90	97	63	80	72	66

Source: Kommuninvest

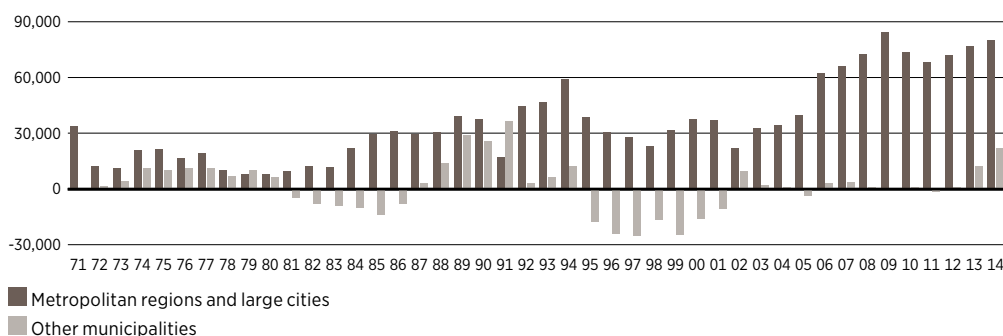
Uneven population growth

Population growth in Sweden has historically occurred primarily in and around the larger cities, primarily in the 70 municipalities that, according to SALAR's classification are included in the municipal group Metropolitan municipalities, Suburban municipalities and Large cities. In the country's remaining 220 municipalities, the total population was only marginally higher in 2014 than it was in 1975.

Figure 12 also show that the individual periods of population growth outside the major population centres, such as during the "Green Wave" and the "Whole of Sweden strategy", have always been followed by a recoil in the popula-

tion. As a result of increasing immigration in 2014, many municipalities experienced a rise in population for the first time in many years. Considering historical migration patterns, new arrivals' preferences in where to settle and the limited employment opportunities available in municipalities with a surplus of apartments, it is reasonable to believe that population growth beyond the country's major population centres over the coming years will be temporary. Instead, growth will primarily take place in the metropolitan regions and the large cities, that is, in the municipalities that are already growing rapidly.

Figure 12: Population growth in Sweden, 1975–2014



Source: Statistics Sweden

6) Level of self-financing = net investment / (depreciation + earnings)

7) Kommuninvest's data on investments, borrowing and sales of tangible fixed assets at the group level extends back to 2007.

have decreased, influenced heavily by declining reorganisation of rental accommodation as tenant-owner housing in the City of Stockholm. The effect has been a deteriorating capacity for earnings and depreciation to cover the local government sector’s net investments.

Due to changed accounting rules, data on gross investments, earnings levels and thus the level of self-financing for 2014 are not comparable with previous years’ data.

Borrowing needs in 2024

How local government evolves over the coming years will depend partly on the size of the investments and partly on the local government actors’ ability to fund these investments with their own resources.

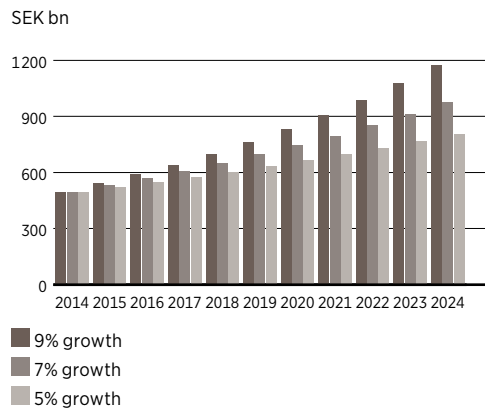
The level of self-financing in the local government sector depends in part on the earnings trend, and in part on the extent to which tangible fixed assets are sold to fund new investments. Demographic changes exert growing cost pressure in the core operations of the municipalities and county councils and is expected to depress the sector’s earnings trend in the future. Sales of tangible fixed assets have remained at a relatively constant level in recent years and although major sales in individual municipalities attract attention in the local media, there are no signs of sales volumes increasing substantially in the future.

The combination of higher investment volumes and depressed earnings levels in the municipalities and county councils’ core operations suggests a substantial continued need for external financing. Kommuninvest’s basic scenario is that borrowing will continue to increase at the same rate as in 2010–2014, that is, by 7 percent annually. This represents a doubling of the nominal debt by 2024, to nearly SEK 1,000 billion. A lower rate of increase at 5 percent annually would entail a borrowing debt of about SEK 800 billion by 2024.

Assuming nominal GDP growth of 4 percent annually⁸, the local government sector debt will increase from today’s 13 percent of GDP to 17 percent in 2024. As a comparison,

central government debt amounted to 36 percent of GDP in 2014, while, at the same time, household and corporate debt amounted to 78 and 107 percent of GDP respectively (see Figure 14).

Figure 13: Local government sector borrowing trend, 2014–2024

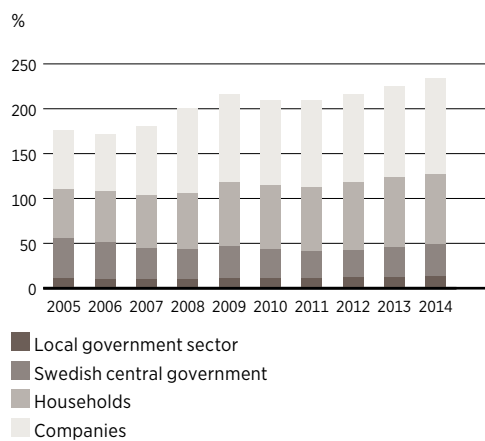


Source: Kommuninvest

Debt in different sectors

Over the past ten years, debt in relation to GDP has increased from 181 percent of GDP in 2005 to 233 percent in 2014. Public sector debt has fallen throughout period, while private sector debt rose by about 75 percentage points.

Figure 14: Debt by sector as a share of GDP, 2005–2014



Source: Kommuninvest and Statistics Sweden

⁸) The assumption is based on historical real GDP growth in Sweden (about 2 percent) and the Riksbank’s long-term inflation target (2 percent).

Reduced costs for pension payments

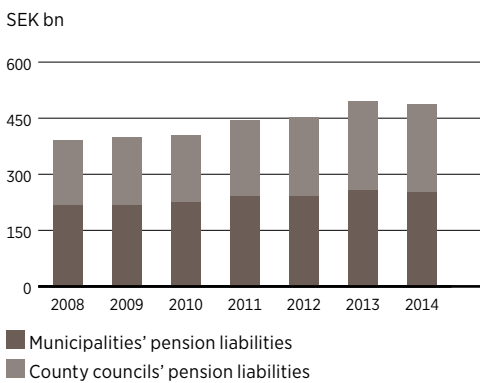
From time to time, the local government pension liability attracts attention, usually with the focus being on the scope of the debt. However, in the day-to-day operations of the municipalities and county councils/regions, the pension payments trend, that is to say, the amortisation of the debt, is a more important issue as this has a direct impact on earnings and liquidity and threatens to displace welfare initiatives.

At the end of 2014, was the local government sector's pension and borrowing debts were of roughly equal scale. Pension liabilities amounted to almost SEK 490 billion, of which the municipalities accounted for just over SEK 250 billion and the county councils/regions for just under SEK 240 billion. The distribution of the borrowing debt of slightly

more than SEK 500 billion was considerably less even, with the municipalities accounting for close to SEK 470 billion and the county councils/regions accounting for just over SEK 30 billion.

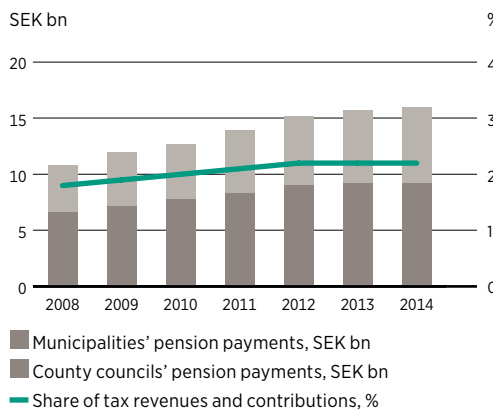
Pension liabilities increased by nearly SEK 100 billion between 2008 and 2014. Most of the increase can be attributed to the lowering of the RIPS-rate in 2011 and 2013, which increased the present value of expected future pension payments. Over the same period, annual pension payments increased by more than SEK 5 billion, from SEK 10.8 billion in 2008 to SEK 16.0 billion by 2015. However, the rate of increase has declined and the proportion of taxes and government contributions that the pension payments represented was marginally higher in 2014 than in 2008.

Figure 15: Pension liabilities, 2008-2014



Source: Statistics Sweden

Figure 16: Pension payments in SEK bn and as a share of taxes and contributions, 2008-2014



Source: Statistics Sweden

Borrowing per capita and municipality

Borrowing in the municipal group SEK 0-19,999 per inhabitant

Danderyd	Gullspång	Markaryd	Skinnskatteberg	Valdemarsvik
Essunga	Götene	Nacka	Strömsund	Vallentuna
Fagersta	Hjo	Norberg	Säter	Vara
Gislaved	Höganäs	Robertsfors	Täby	
Gnesta	Kävlinge	Salem	Töreboda	
Grästorps	Lidingö	Skara	Uppvidinge	

SEK 20,000-39,999 per inhabitant

Ale	Hallstahammar	Laholm	Ragunda	Vaggeryd
Bengtstors	Halmstad	Lerum	Skövde	Vansbro
Bjurholm	Haninge	Lidköping	Sollefteå	Vaxholm
Bjuv	Helsingborg	Lomma	Sollentuna	Vellinge
Boden	Herrljunga	Lycksele	Solna	Vilhelmina
Bollebygd	Hofors	Malmö	Stenungsund	Vindeln
Botkyrka	Hudiksvall	Mark	Stockholm	Värgårda
Bräcke	Hultsfred	Mellerud	Storuman	Vänersborg
Burlöv	Härryda	Motala	Sunne	Åsele
Eda	Hässleholm	Munkedal	Svenljunga	Åstorp
Ekerö	Hörby	Mönsterås	Säffle	Åtvidaberg
Eslöv	Jokkmokk	Nordanstig	Söderhamn	Älvkarleby
Falköping	Järfälla	Nordmaling	Tibro	Älvsbyn
Filipstad	Karlsborg	Norrtälje	Tidaholm	Ängelholm
Flen	Kinda	Norsjö	Timrå	Örkelljunga
Forshaga	Klippan	Nyköping	Tomelilla	Östra Göinge
Färgelanda	Kristinehamn	Nässjö	Torsås	Överkalix
Gnosjö	Krokom	Osby	Tranemo	
Gotland	Kungsör	Ovanåker	Ulricehamn	
Habo	Kungälv	Partille	Upplands Väsby	
Hagfors	Köping	Perstorp	Vadstena	

SEK 40,000-59,999 per inhabitant

Aneby	Hammarö	Leksand	Pajala	Uddevalla
Arjeplog	Haparanda	Lindesberg	Piteå	Uppsala
Arvidsjaur	Heby	Ljungby	Sala	Varberg
Arvika	Hedemora	Ljusdal	Sandviken	Vetlanda
Askersund	Hylte	Ljusnarsberg	Simrishamn	Vingåker
Avesta	Hällefors	Ludvika	Sjöbo	Vännäs
Bollnäs	Härjedalen	Luleå	Skurup	Värmdö
Borås	Härnösand	Malå	Smedjebacken	Värnamo
Boxholm	Högsby	Mariestad	Sorsele	Västervik
Båstad	Höör	Mjölby	Staffanstorps	Västerås
Dals-Ed	Kalmar	Mora	Storfors	Ydre
Degerfors	Karlshamn	Mullsjö	Svalöv	Åmål
Dorotea	Karlstad	Munkfors	Svedala	Ånge
Eksjö	Katrineholm	Mölnadal	Sävsjö	Åre
Enköping	Kil	Nora	Söderköping	Årjäng
Eskilstuna	Kiruna	Norrköping	Sölvesborg	Älmhult
Falkenberg	Knivsta	Nykvärn	Tanum	Älvdalen
Finspång	Kramfors	Nynäshamn	Tierp	Ödeshög
Gagnef	Kristianstad	Ockelbo	Tingsryd	Österåker
Grums	Kungsbacka	Orsa	Torsby	Östhammar
Gällivare	Landskrona	Oskarshamn	Trelleborg	Övertorneå
Hallsberg	Lekeberg	Oxelösund	Tyresö	

APPENDIX 1

SEK 60,000-79,999 per inhabitant

Alingsås	Gävle	Laxå	Orust	Surahammar
Alvesta	Gothenburg	Lilla Edet	Ronneby	Tjörn
Arboga	Huddinge	Lund	Rättvik	Tranås
Borgholm	Håbo	Lysekil	Sigtuna	Upplands-Bro
Borlänge	Jönköping	Malung-Sälen	Sotenäs	Ystad
Bromölla	Kalix	Mörbylånga	Strängnäs	Öckerö
Emmaboda	Karlskoga	Nybro	Sundbyberg	Örebro
Falun	Karlskrona	Olofström	Sundsvall	Örnsköldsvik

SEK 80,000- per inhabitant

Berg	Linköping	Södertälje	Umeå	Östersund
Kumla	Skellefteå	Trollhättan	Vimmerby	
Lessebo	Strömstad	Trosa	Växjö	

SALAR's classification of municipalities

	Quantity	Description
Metropolitan municipalities	3	Municipalities with a population exceeding 200,000 inhabitants
Suburban municipalities	38	Municipalities where more than 50 percent of the night-time population commutes to work in another municipality. The most common commuter destination should be one of the metropolitan municipalities.
Large cities	31	Municipalities with 50,000–200,000 inhabitants and an urbanisation level exceeding 70 percent.
Suburban municipalities to large cities	22	Municipalities where more than 40 percent of the night-time population commutes to another municipality.
Commuter municipalities	51	Municipalities where more than 40 percent of the night-time population commutes to another municipality.
Municipalities that attract tourism and visitors	20	Municipalities where the number of nights spent by guests at hotels, hostels and campsites exceeds 21 per inhabitant, or where the number of leisure homes exceeds 0.20 per inhabitant.
Manufacturing municipalities	54	Municipalities where 34 percent or more of the night-time population between the ages of 16 and 64 are employed in manufacturing and extraction, energy and the environment, or building operations (SNI2007)
Sparsely populated municipalities	20	Municipalities with an urbanisation level of less than 70 percent and less than eight inhabitants per square kilometre.
Municipalities in densely populated regions	35	Municipalities with more than 300,000 people within a radius of 112.5 kilometres.
Municipalities in sparsely populated regions	16	Municipalities with less than 300,000 people within a radius of 112.5 kilometres.

Source: Swedish Association of Local Authorities and Regions (SALAR)



ABOUT KOMMUNINVEST Kommuninvest finances welfare. We are a local government finance cooperation, working for efficient and sustainable financing of housing, infrastructure, schools and hospitals, etc.

We secure better loan terms together than individually. Since its inception in 1986, the partnership has saved billions of kronor for its members in the form of lower interest rates.

The Swedish local government sector is strong, including through its constitutionally protected right to levy taxes. This fact, along with the joint and several guarantee issued by its members, helps ensure that Kommuninvest secures the highest credit ratings from both Moody's and Standard & Poor's.

Eight counties/regions and 272 municipalities are now members of this voluntary partnership. The operations are owned and democratically governed by the members, who also share any financial surpluses. The head office is located in Örebro. With some SEK 350 billion in total assets, we are Sweden's sixth largest credit institution.



KOMMUNINVEST

The Swedish Local Government Debt Office

Postal address: P.O. Box 124, SE-701 42 Örebro, Sweden. Visitors: Fenixhuset, Drottninggatan 2, Örebro.
Telephone: +46 (0)10-470 87 00. Telefax: +46 (0)19-12 11 98. E-mail: name.surname@kommuninvest.se
www.kommuninvest.org