

Local government debt 2016



KOMMUNINVEST

CONTENTS

Foreword	3	Appendix 1:	
Investments	4	Borrowing debt per inhabitant and local government authority	14
Local government sector borrowing debt	8	Appendix 2:	
In-depth section 1:		Gross investment per local government authority and inhabitant	16
The market for local government loan financing	12	Appendix 3:	
In-depth section 2:		SALAR's categorisation of municipalities	17
Local government sector debt management	13		

About Kommuninvest's report series

The report series "Local government debt", first published in 2013, portrays the development of local government investment and debt. 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 in the data. 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 a subsidiary.

- Local government sector companies account for half of the sector's investments and the bulk of the external debt.
- The capital-intensive companies in the local government group 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 adequate 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

Extensive investment needs require sustainable financing

The Swedish local government sector faces a new period of large-scale and wide-ranging welfare investment. As investment volumes have increased, so have borrowing needs.

Although investment volumes did not increase more than marginally in 2015 compared with the preceding year, investment needs have increased in both the short and medium term since last year's debt report. In terms of volume, investment growth among the country's local government authorities is driven largely by developments in and around Sweden's metropolitan municipalities and provincial capitals.

In 2015, local government debt increased by nearly SEK 50 billion, the largest increase ever in nominal terms. Although the rate of increase appears to have slowed in 2016, the need to finance investment in the municipal sector with external funds will remain substantial over the coming years.

Increased debt in the local government sector highlights an aspect that Kommuninvest has observed for quite some time – the short period for which capital is tied up in borrowing. Borrowers' preferences for short-term financing entail nearly SEK 250 billion having to be refinanced each year. Unless this behaviour changes, annual borrowing needs will increase in pace with borrowing debt. Under normal circumstances, this is not necessarily a problem, but in the event of a new crisis in the financial markets, liquidity can deteriorate rapidly and refinancing costs can soar. With increased debt, it is increasingly important, from a risk perspective, for additional local government players to extend the period for which capital is tied up.



Tomas Werngren
President, Kommuninvest



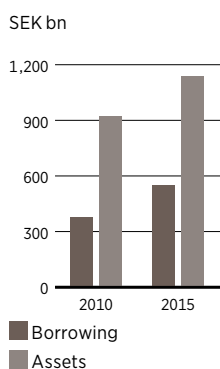
Mattias Bokenblom
Research Manager, Kommuninvest

High rate of investment but little change in 2015

Increased total assets

Between the years 2010 and 2015, the local government sector's total investment amounted to EUR 696 billion. During the same period, borrowing debt increased by SEK 173 billion while the book value of the tangible fixed assets increased by SEK 214 billion. The total book value of the fixed assets was SEK 1,137 billion at the end of 2015.

Figure 1: Borrowing debt and tangible fixed assets, 2010 and 2015



Source: Statistics Sweden and Kommuninvest

The municipalities and county councils/regions bear a comprehensive welfare assignment, with responsibilities including preschools, schools, social services, health care and public transport (see Table 1). Internationally, the Swedish local government sector is distinguished by its large corporate spheres and the major asset values that exist within these companies, see Figure 1. This means that, in addition to their statutory tasks, local government authorities are also involved in supplying housing, properties and energy, while the county councils/regions in addition to dental, health and medical care, and public transport, are also active in culture, education and tourism.

In 2015, combined gross investment by the Swedish local government sector in tangible fixed assets amounted to SEK 133.0 billion¹, which is a marginal increase of SEK 0.5 billion compared with the preceding year. This is the lowest increase for the sector as a whole since Kommuninvest began reviewing investments in tangible fixed assets in 2007.

Of the sector's total investments, the municipal groups accounted for SEK 104.8 billion and the county council/regional groups for SEK 28.2 billion. In turn, SEK 48.4 billion of

the investments by the municipal groups were made by the municipalities, and investments of SEK 56.4 billion were made by municipal companies. The corresponding figures for the county council/regional groups were SEK 18.8 billion under the auspices of the county councils and SEK 9.4 billion through companies owned by the county councils. Accordingly, the distribution of the sector's investments, see Figure 3 was largely identical to that in 2014.

Of the local government groups' investments, 56 percent were attributable to housing and properties. Housing investment includes both renovation and long-term maintenance 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 are also involved in 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

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 ³	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 ²				
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 public library in each municipality.
 3) Dental care for children and adolescents up to 20 years of age.

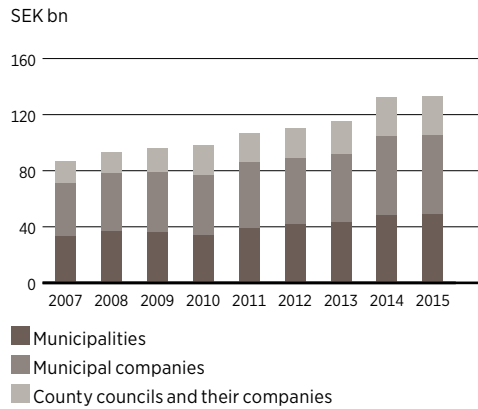
by local government authorities accounted for 11 percent. Hidden under the item “Others” are, among other things, equipment and investments in municipal vehicle fleets, *see Figure 4.*

Over time, the distribution between different areas of investment has not changed more than marginally. However, low energy prices have resulted in decreased investment in local government energy companies.

Changes in investment volumes among county councils and regions are driven largely by the development in Stockholm County Council (scc). Through the construction of the Nya Karolinska Hospital, an extensive upgrading programme for other hospital units and investment in the county’s metro system, scc accounted for half of the county councils and regions’ total investment volume in 2015.

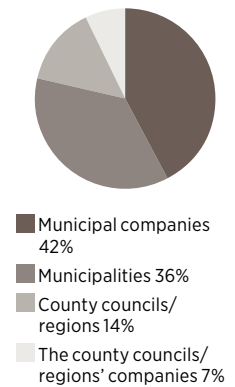
However, several other county councils and regions have either already begun, or plan, to renovate existing hospital buildings or to construct completely new units, including in Helsingborg, Malmö, Uppsala and Linköping. Development is being driven by increased demand for care due to a growing and ageing population, as well as the need to

Figure 2: Investment volume, 2007–2015⁴



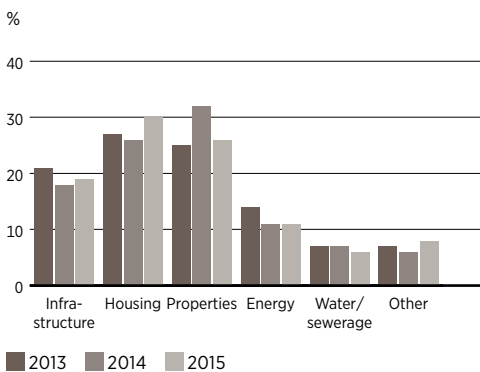
Source: Kommuninvest

Figure 3: Distribution of local government sector investments in 2015



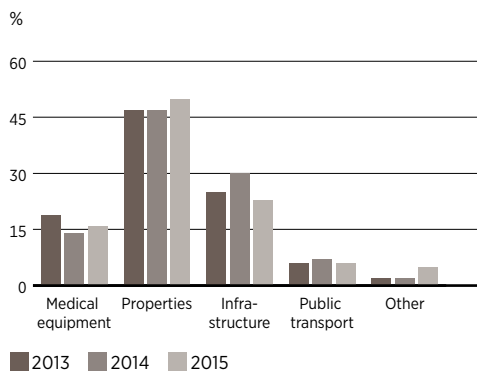
Source: Kommuninvest

Figure 4: Distribution of investment between municipal groups, 2013–2015



Source: Kommuninvest

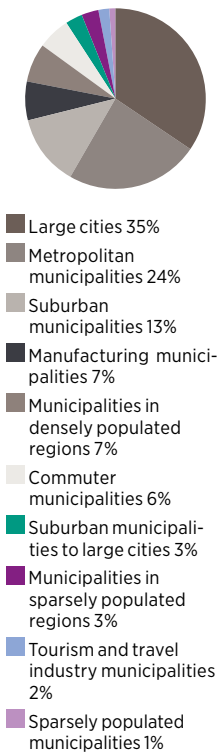
Figure 5: Distribution of investment between county council groups, 2013–2015



Source: Kommuninvest

4) Due to changes in amortisation rules, the results for 2014 and 2015 are not comparable with those for previous years.

Figure 6: Distribution of municipal groups' investments by municipal category in 2015



Source: Kommuninvest

adapt the premises to new treatment methods. In 2015, property investments accounted for half of the county council groups' total investments. SLL's infrastructure projects, including new stretches of metro lines, accounted for 23 percent. New medical equipment accounted for 16 percent of the investment volume, while the remaining 5 percent went to investments in new trains, buses, equipment and IT systems.

Also among counties and regions, the distribution between different areas of investment has been relatively constant over time. As an increasing number of major hospital projects have begun, the proportion of property investment has increased.

Investments by municipal category in 2015

At the overarching, national level, the changes in investment volumes between 2014 and 2015 were very small. The differences remain marginal even when investments are broken down to the level of municipal category.

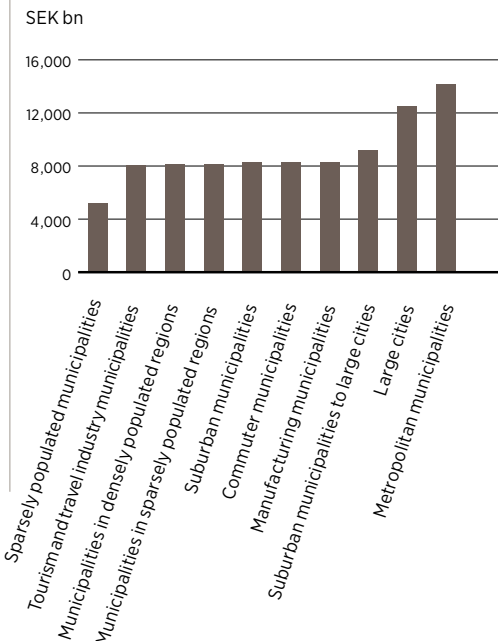
In terms of volume, the investment trend among the country's local government autho-

rities is largely driven by developments in and around Sweden's metropolitan municipalities and its university cities and 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 2015.

The municipal categories Metropolitan municipalities and Large cities also stand out when investment is measured in relation to population, see Figure 7.

Stockholm's high investment rate (see Table 2) contributes to the municipal category Metropolitan municipalities having the highest level of investment of all categories in 2015 at SEK 14,100 per capita. In the municipal category Large cities, investments amounted to SEK 12,500 per capita. The Sparsely populated municipalities had the lowest average level of investment at SEK 5,200. Other municipal categories were between SEK 8,000 and SEK 9,200 per capita.

Figure 7: The municipal groups' per capita level of investment in 2015



Source: Kommuninvest

Municipalities with the highest level of investment

Table 2: Municipalities with the highest level of investment in 2015

Municipality	Investment volume 2015, SEK million	Investment volume 2015, SEK/inhabitant	Investment volume 2014, SEK million	Investment volume 2014, SEK/inhabitant
Stockholm	15,500	16,700	15,500	17,000
Gothenburg	6,000	11,000	6,300	11,700
Malmö	3,900	12,100	3,400	10,800
Örebro	2,600	18,400	2,200	15,700
Linköping	2,500	16,400	2,500	16,600
Helsingborg	2,200	15,800	1,900	13,800
Uppsala	2,000	9,700	3,700	18,000
Västerås	2,000	14,000	2,200	15,400
Skellefteå	1,800	24,600	1,300	18,300
Jönköping	1,600	11,700	1,800	13,300

Source: Kommuninvest

Not surprisingly, it is the country's most populous municipalities that are to be found in *Table 2*. In absolute terms, investment volumes follow, with just a few exceptions, population size. Skellefteå and Örebro are also high on the list of municipalities with the highest level of per capita investment, see in *Table 3*.

Table 3: Municipalities with the highest levels of investment per inhabitant in 2015

Municipality	Investment volumes, SEK/inhabitant	Comments
Mullsjö	24,700	Acquisition of homes for the elderly and renovation of school facilities
Skellefteå	24,600	New construction and renovation of business premises and housing
Askersund	23,700	New construction of Knowledge and Culture Centre
Partille	23,000	Renovation of water treatment plant and infrastructure
Sundbyberg	21,300	New construction and remodelling of business premises and infrastructure
Nybro	20,000	New construction of thermal power plant
Sigtuna	20,000	New construction and renovation of business premises and housing
Kumla	19,700	New construction and renovation of business premises and housing
Örebro	18,400	New construction and renovation of business premises and housing
Skövde	17,800	New construction and remodelling of business premises and infrastructure

Source: Kommuninvest

Sundbyberg and Skellefteå were also on the list in 2014. Sundbyberg is one of Sweden's fastest growing municipalities and has considerable need to develop infrastructure and business properties. Skellefteå has previously maintained a high level of investment due to major investments in its energy company, but is now in a phase of major investments, primarily in housing and business premises. Each year, a few smaller municipalities join the list, mostly because of individual larger-scale investments. Nybro's thermal power plant and Askersund's Knowledge and Culture Centre are two examples of this.

Borrowing debt trend

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 2015, the sector’s total borrowing amounted to SEK 549.6 billion, an increase of SEK 47.7 billion or 9.5 percent compared to the end of 2014. In 2014, the rate of increase was 7.1 percent. In 2015, average borrowing per inhabitant amounted to SEK 55,800 – SEK 4,300 more than in 2014.

Table 4: Local government sector borrowing debt

	2015	2014	2013
Borrowing, SEK billion	549.6	501.9	468.7
Municipal groups	502.2	468.2	441
County council groups	47.4	33.7	27.7
Borrowing per inhabitant in SEK	55,800	51,500	48,600
Proportion of GDP, %	13.2	12.8	12.4

Source: Kommuninvest

Change in borrowing at municipal group level, 2015

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 47.7 billion, the municipal groups accounted for SEK 34.0 billion and the county council/regional groups for SEK 13.8 billion. The increase among the county councils can be attributed to development in Stockholm County Council (SCC), where borrowing rose by SEK 12.4 billion. Just as in the early 2010s, the municipal categories Metropolitan municipalities and Large cities and increased their borrowing most, by SEK 12.0 billion and SEK 10.5 billion respectively. Among other municipal groups, the changes were small. Among the metropolitan municipalities, the City of Stockholm stands out, with an increase in debt of SEK 10.2 billion. Combined, SCC and the City of Stockholm accounted for almost half of the total borrowing increase among municipalities and county councils in 2015. The county councils and metropolitan municipalities also had the greatest relative increase in debt in 2015 – by 41 and 17 percent respectively.

The municipal category Large cities was the municipal category with the highest borrowing per inhabitant in 2015, at SEK 67,000 per inhabitant, precisely the same as in 2014.

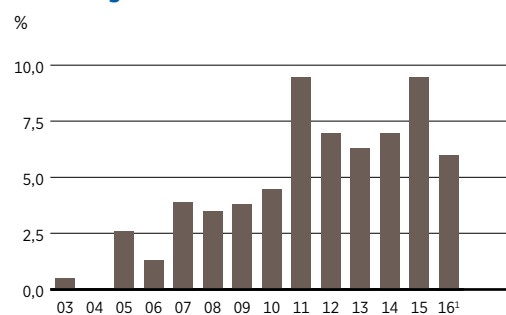
High growth rate in 2015, but a calmer 2016

In the early 2000s, local government borrowing changed only marginally. From 2005, however, the rate at which debt increased began to rise to 3-4 percent annually (despite the fact that the City of Stockholm reduced its debt significantly during this period, see *Figur 9*).

In 2011, the trend shifted again, and the rate of increase has since remained at about 7 percent annually. In nominal terms, the annual increase in debt in 2015 was the highest measured since Kommuninvest began studying local government debt.

Kommuninvest’s assessment is that the rate at which debt is growing will decrease for the current year. At the end of 2015, the municipal sector had high liquidity, reducing the need for external financing in the first half of in 2016. Although some local actors have signalled increased borrowing needs in the second half of 2016, the growth rate for the full year is expected to decline compared with 2015, to a level of 6 percent.

Figure 8: Change in local government sector borrowing 2003-2016



Source: Kommuninvest

1) Forecast

The municipal category Metropolitan municipalities had the highest rate of increase in 2015 at SEK 6,200 per capita, *see Figure 11*. No municipal category was able to show reduced borrowing debt per capita in 2015. Borrowing was lowest in the groups Sparsely populated municipalities and Suburban municipalities with a borrowing debt of SEK 36,200 and SEK 37,000 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 3,500 to SEK 4,800 per inhabitant between 2014 and 2015.

The local government sector's long-term funding needs

Kommuninvest's forecast for the local government sector's long-term funding needs was based on assumptions regarding:

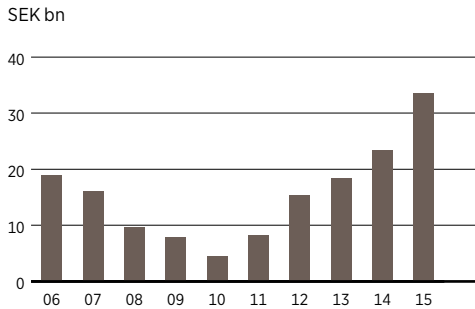
- the need for welfare investments in, for example, preschools, schools, hospitals, municipal rental apartments and homes for the elderly

This is how important Stockholm is

The capital region area is a growth region and this is also reflected in the investment and debt figures.

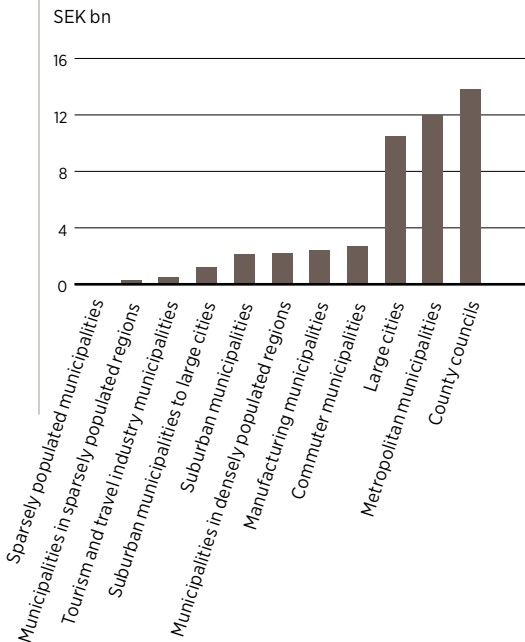
The City of Stockholm has experienced a long trend of steadily increasing investment volumes, while borrowing has had a more roller coaster-like development. During the period 2007-2010, the municipal group invested more than SEK 45 billion, but by including the conversion of a large number of rental apartments into tenant-owner apartments, it has also been possible to pay off borrowings by an amount of slightly less than SEK 15 billion. During the years 2011 to 2015, investments in the group amounted to almost SEK 70 billion while borrowing increased by about SEK 30 billion. Per capita, however, Stockholm's borrowing is considerably lower than the average of other municipal groups.

Figure 9: City of Stockholm's borrowing 2006-2015



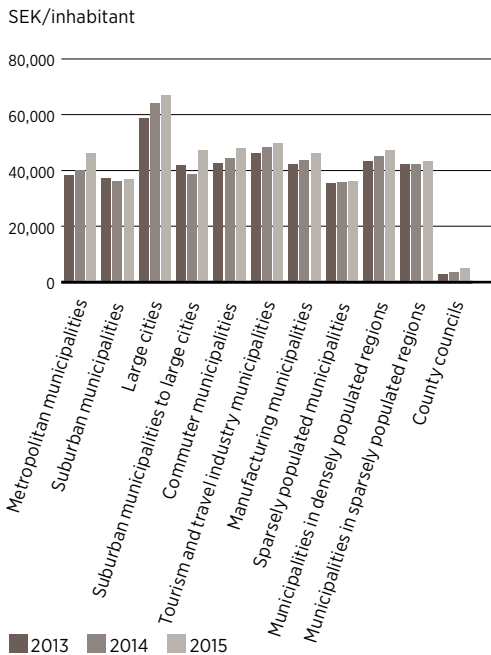
Source: Kommuninvest's compilation

Figure 10: Increase in borrowing by municipal category in 2015



Source: Kommuninvest

Figure 11: Borrowing among municipal categories and county councils/regions, 2013-2015



Source: Kommuninvest

- the local government sector’s capacity for self-financing in the form of profit before depreciation and disposals of tangible fixed assets

Although investment volumes did not increase more than marginally in 2015 compared with the preceding year, investment needs have increased in both the short and medium term since last year. Demographic changes, in the form of a population that is both growing and aging, are contributing to increased demand for the services that municipalities and county councils/regions provide, driving up the rate at which welfare infrastructure needs to be expanded and are also contributing to increased cost pressures in the local government authorities’ core operations.

To meet these increasing costs, in their financial reports, Sweden’s municipalities and county councils (SALAR) have identified a need to increase taxes by SEK 2 in the local government sector up until 2019 to reach a profit level of 1 percent of taxes and central government allocations.

What ultimately determines how much the increase in borrowing will actually be in the future is the extent to which municipalities and county councils/regions will allow the liability and asset sides of the balance sheet to grow in a situation strained financial results. The alternative to increased debt is either less ambitious investment plans or asset disposals.

Continued low level of self-financing increases the need for external financing

The level of self-financing, defined as the ratio between the sum of amortisation, earnings and net investments, remains

at a low level, which contributes to the need for external financing remaining high.

Table 5: Level of self-financing 2007–2015

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Profit, SEK billion	25	16	24	28	11	31	19	21	26
Amortisation, SEK billion	39	41	43	45	49	50	53	56	60
Gross investments, SEK billion	87	93	96	98	107	110	116	132	133
Sales of tangible fixed assets, SEK billion	24	24	22	23	13	9	15	12	12
Level of self-financing, %	101%	84%	90%	97%	63%	80%	72%	64%	71%

Source: Kommuninvest

Sales of tangible fixed assets, such as social housing, provide a relatively small and declining, contribution to the self-financing rate. It is easy to gain the opposite impression, since such sales arouse strong feelings among citizens and, accordingly, attract a great deal of attention, particularly in the local media. The statistics do not support claims that a wave

of sales of housing and business properties is in progress.

The reason that so-called “sale-and-lease-back agreements” for town halls, sheltered housing and schools, for example, attract so much attention is that they are still relatively rare.

Municipalities with the highest borrowing

The tables in this section rank 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 the individual municipalities, since debt levels should be considered in relation to assets. A high level of debt usually indicates significant asset values in, for example, property, housing

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

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 6: Municipalities with the highest borrowing in 2015

	Borrowing, 2015, SEK bn	Percentage change, 2015, %	Borrowing, 2014, SEK bn (ranking)	Borrowing, 2013, SEK bn (ranking)
1 Gothenburg	38.5	1	38.1 (1)	39.3 (1)
2 Stockholm	33.6	44	23.4 (2)	18.5 (2)
3 Linköping	15.9	3	15.5 (3)	15.2 (3)
4 Örebro	12.7	14	11.9 (5)	7.6 (8)
5 Uppsala	12.6	6	11.1 (4)	9.2 (6)
6 Malmö	10.9	16	9.4 (8)	9.1 (7)
7 Södertälje	10.1	7	10.4 (6)	11.0 (4)
8 Umeå	10	3	9.7 (7)	9.4 (5)
9 Jönköping	9.4	7	8.8 (9)	7.3 (11)
10 Västerås	8.5	13	7.5 (12)	6.5 (15)

Source: Kommuninvest

Distinguishing for the 2015 report was that Södertälje continued its consolidation phase. After a period of high investment in the late 00's, debt peaked in 2011 at SEK 11.7 billion. Södertälje has subsequently amortised its debt, partly as a consequence of sales of housing and service premises. This

has helped reduce borrowing by SEK 1.6 billion from 2011 to 2015. The opposite trend applies to other municipalities on the list. Stockholm, Malmö, Örebro and Västerås were the municipalities on the list that increased their debt most in percentage terms during 2015.

Table 7: Municipalities with highest borrowing per inhabitant in 2015

	Borrowing per inhabitant, 2015, SEK, thousands	Percentage change, 2015, %	Borrowing per inhabitant, 2014, SEK, thousands (ranking)	Borrowing per inhabitant, 2013, SEK, thousands (ranking)
1 Södertälje	108.9	-3	112.8 (1)	121.0 (1)
2 Vimmerby	106.0	5	100.5 (3)	65.9 (34)
3 Linköping	104.0	2	101.9 (2)	101.5 (2)
4 Kumla	93.4	7	87.6 (10)	82.3 (8)
5 Strömstad	92.2	5	87.8 (9)	81.2 (9)
6 Växjö	91.4	3	88.5 (8)	80.1 (10)
7 Trollhättan	90.8	5	86.5 (11)	59.5 (51)
8 Skellefteå	90.1	-10	99.7 (4)	98.9 (3)
9 Lessebo	89.8	-4	93.8 (5)	97.7 (4)
10 Berg	88.3	-6	93 (6)	83.8 (6)

Source: Kommuninvest

Notably, Södertälje's per capita borrowing continued to decrease. In Vimmerby, after two years of rapid increase in debt, the debt trend decelerated as a result of major investments in a thermal power plant, among other things.

A new municipality on the list is Trollhättan, which showed increasing debt, particularly in 2014 but also in 2015. The rapid rate of increase is largely due to major

investments in renovations of existing buildings and new construction of housing and municipal business premises.

Skellefteå, Lessebo and Berg are reducing their per capita debt. In Skellefteå's case property sales are behind the decline in borrowing, despite the municipal group being in an investment-intensive phase.

Borrowing market trend

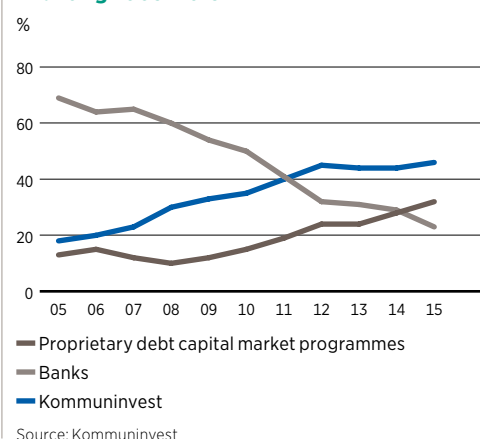
How Swedish municipalities and county councils/regions manage their external financing has undergone major changes in the past decade. In 2005, the banks accounted for almost 70 percent of the sector's external debt financing. Since then, the proportion has fallen sharply to 22 percent at the end of 2015. It was also the year when the municipalities' own borrowing through market programmes first exceeded their borrowing through the banks. Overall, borrowing through market programmes accounted for 32 percent of the municipalities' and county councils/regions' external borrowing. Kommuninvest's market share was 46 percent.

Since a relatively large part of the loan debt is concentrated to a small number of municipal categories, the aggregated values for the various funding options do not reflect the whole picture of how rapid the trend has been and how tangibly divided the market has become.

A more detailed analysis, *see Table 8* shows that the market programmes' share has increased from 33– percent to 62 percent of the financing of the very largest municipal groups (with debt exceeding SEK 6 billion). In this category, Kommuninvest's market share was 21 percent in 2015, compared with 73 percent among other municipalities.

The differences can only partly be explained by membership in Kommuninvest being more common among small municipalities than large ones, because Kommuninvest's market share among its own members in the category of larger municipal groups was 32 percent.

Figure 12: Market share of alternative forms of financing 2005–2015



Another way of illustrating the trend towards a divided borrowing market is to identify the primary financing channel in each municipal group. Between 2010 and 2015, the number of municipal groups where Kommuninvest was the largest financing channel rose from 185 to 255. At the same time, the number of municipal groups where the banks together comprised the largest financing channel fell from 98 to 17. Borrowing via market programmes constituted the largest financing channel for 18 municipal groups in 2015 – 12 more than five years earlier.

In the short term, much speaks in favour of Kommuninvest and the market programmes continuing to grow as financing options.

Table 8: Market shares of various financing options 2015 (2010)

	Number of municipalities	Aggregate borrowing	Market share, Kommuninvest	Market share, market programmes	Market share, banks
Borrowing < SEK 6 billion	271	SEK 275 billion (SEK 208 billion)	73% (50%)	4% (1%)	23% (49%)
Borrowing > SEK 6 billion	19	SEK 226 billion (SEK 155 billion)	21% (18%)	62% (33%)	16% (32%)

Table 9: Foremost financing options 2015 (2010)

	Principal source of financing- Kommuninvest	Principal source of financing- Market programmes	Principal source of financing- Banks
Borrowing < SEK 6 billion	249 (180)	5 (0)	17 (91)
Borrowing > SEK 6 billion	6 (5)	13 (6)	0 (7)

Capital tied up and borrowing costs

Since 2010, Kommuninvest has actively monitored developments in local government borrowing down to the group level. However, a lack of data has hampered the analysis of key ratios related to borrowing, such as the average time for which capital is tied up and interest rates are fixed. Thanks to the web-based debt management tool KI Finans that Kommuninvest launched in the spring of 2014, data is now available at the transaction level, making it possible to ascertain how local government actors actually manage their borrowing.

The data on which the analysis below are based comprise 4,500 loans valued at a combined SEK 325 billion and 1,750 derivative contracts whose underlying loan amount equals SEK 195 billion.

Capital tied up

As per 30 June 2016, the average period for which capital was tied up was 2.5 years. As shown by *Figure 13*, 34 percent of the loan portfolio matures within a year. In turn, about a fifth of that volume consists of shorter-term loan products, such as certificates, which are extended three to four times annually. A further 22 percent of the loan portfolio matures within two years and 10 percent has a remaining maturity of more than five years. For the sector as a whole, the short period for which capital is tied up means that the annual refinancing need alone amounts to about SEK 250 billion, with an additional for new borrowing of SEK 30 to 50 billion annually.

The analysis shows that, as per 30 June 2016, 57 percent of local government sector borrowing was linked to a floating interest rate base, generally 3M Stibor. The average period of fixed interest on the actual financing was 1.2 years, and the combination of the short periods for which capital is tied up and interest is fixed gave an average interest rate of 0.67 percent. By using derivatives, the average period of fixed interest is extended from 1.2 to 2.9 years, and the average interest rate increases by slightly more than one percentage point to 1.71 percent.

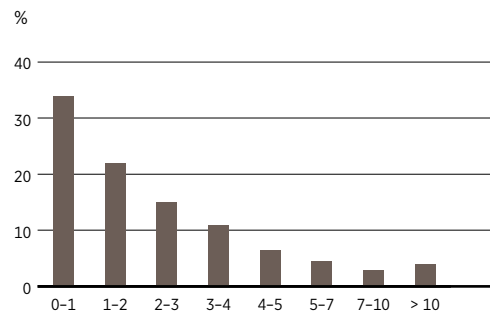
Interest expenses

Due to the relatively short period for which its capital is tied up and interest fixed, the local government sector has benefited from the fall

KI Finans

KI Finans provides users an overview of their financial position, contains reporting features and permits simulations, stress testing and market valuations. In mid-September 2016, some 160 municipal groups and regions/county councils had begun using the system and the database of financial transactions is growing continuously. Before the data are analysed, both borrowers and lenders are rendered anonymous and no details are published that risk of individual transactions or borrowers being identified. <http://kommuninvest.se/for-kunder/ki-finans/>

Figure 13: Maturity structure for local government borrowing



Source: Kommuninvest

Figure 14: Local government average interest rates

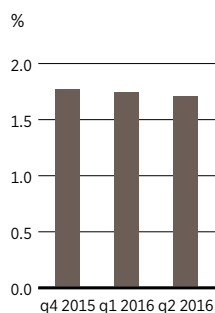
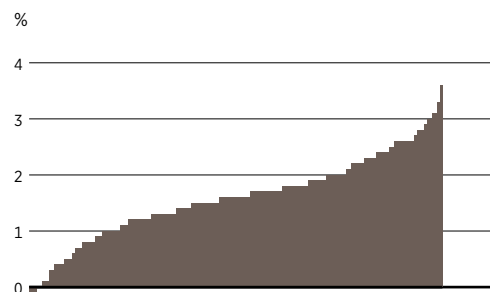


Figure 15: Distribution of municipal groups' average interest rates



in interest rates in recent years. Today, about 20 percent of borrowing is also at a negative rate, helping push down interest costs further.

As previous borrowing at higher interest rates is replaced with loans at lower interest rates, the average interest rate for local government borrowing continues to be pushed down. During the first half of 2016, the average interest rate fell from 1.77 to 1.71 percent. The lower interest level corresponds to about SEK 300 million in lower interest costs per year.

As shown in *Figure 15*, the spread of average interest levels among local government groups is relatively large.

Of the groups, 20 percent have an average interest rate below 1 percent, 53 percent are between 1 and 2 percent, and 26 percent are paying an interest rate of more than 2 percent.

Borrowing debt per inhabitant and local government authority

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

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

SEK 20,000-39,999 per inhabitant

Ale	Hallstahammar	Laholm	Skara	Vadstena
Bjurholm	Halmstad	Leksand	Sollefteå	Vaggeryd
Bjuv	Haninge	Lerum	Sollentuna	Vansbro
Boden	Haparanda	Lomma	Solna	Vaxholm
Botkyrka	Herrljunga	Lycksele	Stockholm	Vilhelmina
Bräcke	Hudiksvall	Malmö	Storuman	Vindeln
Burlöv	Hylte	Mark	Sunne	Vårgårda
Eda	Hällefors	Mellerud	Svenljunga	Vänersborg
Ekerö	Härryda	Motala	Säffle	Ydre
Falkenberg	Hässleholm	Mönsterås	Söderhamn	Åsele
Falkenberg	Hörby	Nordanstig	Tibro	Åstorp
Filipstad	Jokkmokk	Nordmaling	Tidaholm	Åtvidaberg
Forshaga	Karlsborg	Norsjö	Timrå	Älvkarleby
Färgelanda	Kinda	Nässjö	Tomelilla	Älvsbyn
Gnosjö	Krokom	Osby	Tranemo	Örkelljunga
Gotland	Kungälv	Ovanåker	Ulricehamn	Östra Göinge
Hagfors	Köping	Perstorp	Upplands Väsby	Överkalix

SEK 40,000-59,999 per inhabitant

Aneby	Hedemora	Lindesberg	Partille	Tyresö
Arjeplog	Helsingborg	Ljungby	Piteå	Uddevalla
Arvidsjaur	Hofors	LJUSDAL	Ragunda	Upplands-Bro
Avesta	Hultsfred	Ljusnarsberg	Sala	Uppsala
Bengtstors	Härjedalen	Ludvika	Sandviken	Varberg
Bollebygd	Härnösand	Luleå	Simrishamn	Vellinge
Bollnäs	Högsby	Malå	Sjöbo	Vetlanda
Borås	Höör	Mariestad	Skurup	Vingåker
Boxholm	Järfälla	Mjölby	Skövde	Värmdö
Båstad	Kalmar	Mora	Sorsele	Värnamo
Dals-Ed	Karlshamn	Munkedal	Stenungsund	Västervik
Dorotea	Karlstad	Munkfors	Storfors	Västerås
Eksjö	Katrineholm	Möndal	Svalöv	Åmål
Enköping	Kil	Nora	Svedala	Ånge
Eslöv	Kiruna	Norrårlje	Sävsjö	Åre
Finspång	Knivsta	Nykvarn	Söderköping	Årjäng
Flen	Kramfors	Nyköping	Sölvesborg	Älmhult
Gagnef	Kristinehamn	Nynäshamn	Tanum	Älvdalen
Grums	Kungsbacka	Ockelbo	Tierp	Ängelholm
Gällivare	Kungsör	Orsa	Tjörn	Ödeshög
Habo	Landskrona	Oskarshamn	Torsby	Österåker
Hammarö	Lekeberg	Oxelösund	Torsås	Östhammar
Heby	Lidköping	Pajala	Trelleborg	Övertorneå

SEK 60,000-79,999 per inhabitant

Alingsås	Eskilstuna	Karlskoga	Norrköping	Sundsvall
Alvesta	Falun	Karlskrona	Nybro	Surahammar
Arboga	Gnesta	Kristianstad	Olofström	Tingsryd
Arvika	Gävle	Laxå	Orust	Tranås
Askersund	Göteborg	Lilla Edet	Ronneby	Vännäs
Borgholm	Hallsberg	Lund	Sigtuna	Öckerö
Borlänge	Huddinge	Lysekil	Smedjebacken	Örnsköldsvik
Bromölla	Håbo	Malung-Sälen	Sotenäs	
Degerfors	Jönköping	Mullsjö	Staffanstorps	
Emmaboda	Kalix	Mörbylånga	Strängnäs	

SEK 80,000- per inhabitant

Berg	Rättvik	Södertälje	Vimmerby	Östersund
Kumla	Skellefteå	Trollhättan	Växjö	
Lessebo	Strömstad	Trosa	Ystad	
Linköping	Sundbyberg	Umeå	Örebro	

Gross investment per local government authority and inhabitant

Ale	12,532	Götene	6,254	Lekeberg	9,713	Piteå	13,950	Trosa	9,619
Alingsås	7,032	Habo	10,700	Leksand	5,657	Ragunda	8,446	Tyresö	5,119
Alvesta	7,901	Hagfors	1,861	Lerum	4,415	Robertsfors	2,533	Täby	9,607
Aneby	6,944	Hallsberg	4,030	Lessebo	4,122	Ronneby	9,074	Töreboda	7,151
Arboga	11,712	Hallstahammar	3,200	Lidingö	5,473	Rättvik	5,845	Uddevalla	11,646
Arjeplog	3,086	Halmstad	10,727	Lidköping	7,537	Sala	5,929	Ulricehamn	8,560
Arvidsjaur	3,428	Hammarö	11,886	Lilla Edet	4,803	Salem	4,694	Umeå	12,478
Arvika	12,128	Haninge	0	Lindesberg	7,113	Sandviken	12,531	Upplands Väsby	16,727
Askersund	23,663	Haparanda	4,193	Linköping	16,396	Sigtuna	19,971	Upplands-Bro	5,788
Avesta	6,243	Heby	2,699	Ljungby	9,729	Simrishamn	4,427	Uppsala	9,723
Bengtstorsfors	7,698	Hedemora	4,555	LJUSDAL	7,747	Sjöbo	11,035	Uppvidinge	5,188
Berg	11,960	Helsingborg	15,779	Ljusnarsberg	3,247	Skara	8,386	Vadstena	6,178
Bjurholm	3,971	Herrljunga	6,018	Lomma	5,741	Skellefteå	24,628	Vaggeryd	5,182
Bjuv	4,265	Hjo	8,817	Ludvika	3,835	Skinnskatteberg	4,877	Valdemarsvik	2,834
Boden	8,067	Hofors	3,466	Luleå	13,855	Skurup	4,291	Vallentuna	4,497
Bollebygd	11,365	Huddinge	8,778	Lund	12,428	Skövde	17,778	Vansbro	3,889
Bollnäs	5,068	Hudiksvall	6,964	Lycksele	4,081	Smedjebacken	7,989	Vara	3,831
Borgholm	5,771	Hultsfred	8,162	Lysekil	6,734	Sollefteå	3,134	Varberg	10,554
Borlänge	8,920	Hylte	5,060	Malmö	12,075	Sollentuna	10,149	Vaxholm	4,578
Borås	12,333	Håbo	9,501	Malung-Sälen	6,513	Solna	6,666	Vellinge	9,911
Botkyrka	9,264	Hällefors	1,798	Malå	2,556	Sorsele	2,798	Vetlanda	7,598
Boxholm	6,995	Härjedalen	16,122	Mariestad	7,936	Sotenäs	7,304	Vilhelmina	3,733
Bromölla	11,868	Härnösand	11,526	Mark	7,836	Staffanstorps	5,839	Vimmerby	10,759
Bräcke	1,828	Härryda	11,334	Markaryd	7,412	Stenungsund	10,389	Vindeln	1,676
Burlöv	6,655	Hässleholm	6,508	Mellerud	5,115	Stockholm	16,737	Vingåker	1,519
Båstad	6,693	Höganäs	7,786	Mjölby	6,334	Storfors	5,753	Vårgårda	4,541
Dals-Ed	8,064	Högsby	3,259	Mora	7,216	Storuman	5,985	Vänersborg	7,887
Danderyd	7,483	Hörby	4,394	Motala	6,679	Strängnäs	8,005	Vännäs	16,164
Degerfors	10,031	Höör	4,878	Mullsjö	24,701	Strömstad	17,232	Värmdö	7,590
Dorotea	4,901	Jokkmokk	2,977	Munkedal	5,811	Strömsund	4,192	Värnamo	12,285
Eda	7,102	Järfälla	14,250	Munkfors	3,422	Sundbyberg	21,297	Västervik	10,491
Ekerö	0	Jönköping	11,695	Mölnadal	9,498	Sundsvall	14,068	Västerås	14,027
Eksjö	7,683	Kalix	7,619	Mönsterås	10,157	Sunne	3,051	Växjö	11,917
Emmaboda	6,788	Kalmar	10,692	Mörbylånga	10,166	Surahammar	2,686	Ydre	2,869
Enköping	11,267	Karlsborg	9,429	Nacka	4,143	Svalöv	11,124	Ystad	14,266
Eskilstuna	13,320	Karlshamn	9,546	Nora	5,989	Svedala	5,752	Åmål	7,761
Eslöv	8,789	Karlskoga	6,026	Norberg	3,730	Svenljunga	3,379	Ånge	2,886
Essunga	3,449	Karlskrona	6,149	Nordanstig	4,193	Säfte	5,472	Åre	3,662
Fagersta	3,422	Karlstad	9,605	Nordmaling	1,686	Säter	10,809	Årjäng	15,527
Falkenberg	7,148	Katrineholm	5,545	Norrköping	11,056	Sävsjö	13,011	Åsele	4,944
Falkenberg	7,881	Kil	7,501	Norrköping	6,630	Söderhamn	5,914	Åstorp	4,370
Falun	9,625	Kinda	6,696	Norsjö	4,676	Söderköping	14,859	Åtvidaberg	5,092
Filipstad	5,732	Kiruna	16,045	Nybro	20,035	Södertälje	9,927	Älmhult	10,634
Finspång	2,906	Klippan	3,635	Nykvarn	9,010	Sölvesborg	8,248	Älvdalen	9,546
Flen	14,307	Knivsta	13,343	Nyköping	8,278	Tanum	10,597	Älvkarleby	3,430
Forshaga	5,510	Kramfors	4,450	Nynäshamn	6,142	Tibro	3,169	Älvsbyn	3,890
Färgelanda	4,314	Kristianstad	10,633	Nässjö	6,121	Tidaholm	7,678	Ängelholm	10,252
Gagnef	5,053	Kristinehamn	7,886	Ockelbo	12,579	Tierp	9,275	Öckerö	3,154
Gislaved	3,945	Krokom	5,215	Olofström	7,160	Timrå	5,671	Ödeshög	8,176
Gnesta	15,965	Kumla	19,750	Orsa	12,348	Tingsryd	10,604	Örebro	18,362
Gnosjö	3,763	Kungsbacka	9,913	Orust	14,670	Tjörn	7,548	Örkelljunga	6,876
Gotland	10,812	Kungsör	2,873	Osby	8,785	Tomelilla	11,270	Örnsköldsvik	5,416
Grums	1,875	Kungälv	9,792	Oskarshamn	6,870	Torsby	3,530	Östersund	9,598
Grästorp	3,352	Kävlinge	7,195	Ovanåker	8,632	Torsås	8,457	Österåker	9,727
Gullspång	6,285	Köping	11,766	Oxelösund	11,418	Tranemo	9,665	Östhammar	3,840
Gällivare	14,783	Laholm	5,530	Pajala	4,667	Tranås	9,382	Östra Göinge	8,071
Gävle	13,444	Landskrona	11,205	Partille	22,995	Trelleborg	6,128	Överkalix	4,713
Göteborg	11,002	Laxå	4,250	Perstorp	4,230	Trollhättan	12,539	Övertorneå	13,682

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 50 percent of the night-time population commutes to work in another municipality. The most common commuter destination should be one of the large cities in group 3.
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 partnership, 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.

Ten counties/regions and 274 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 office is located in Örebro. With some SEK 370 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