FRIDAY, 10/01/2025 - Scope Ratings GmbH

Scope has assigned a AAA rating with Stable Outlook to Akershus County Municipality

Resilient budgetary performance, solid liqudity position and strong economic prospects support the rating. Limited flexibility in revenue and expenditure are constraints.

Rating action

Scope Ratings GmbH (Scope) has assigned long-term issuer and senior unsecured debt ratings of AAA to Akershus County Municipality (Akershus) in both local and foreign currencies, with Stable Outlooks. Additionally, Scope has assigned short-term issuer ratings of S-1+ in both local and foreign currencies, also with Stable Outlooks.

Rating rationale

The assignment of Akershus' AAA rating is based on:

- **A strongly integrated institutional framework for Norwegian counties:** The framework ensures financial stability through fiscal equalisation, central grants, and proactive government support, balancing autonomy with oversight to maintain fiscal discipline and address disparities. Counties generally have limited revenue flexibility and depend significantly on central transfers. Scope's evaluation of the institutional framework places Norwegian counties within an indicative rating range spanning from AAA to AA. This assessment reflects their strong integration with the Norwegian sovereign (AAA/Stable).

- **A strong individual credit profile.** The County of Akershus demonstrates prudent fiscal management and resilient budget performance, supported by a robust revenue structure and ample reserves in the form of multiple funds. The county also benefits from ample liquidity which supports its debt profile. Akershus' credit profile is further strengthened by a dynamic economic environment driven by strong population growth, as well as low transition risks and ambitious environmental policies. Challenges are related to limited flexibility in revenue and expenditure.

Key rating drivers

Strong intergovernmental integration with the Norwegian sovereign. Scope's evaluation of the institutional framework places Norwegian counties, including the County of Akershus, within an indicative rating range of AAA to AA, reflecting their strong integration with the Norwegian sovereign (AAA/Stable). This robust framework underpins their financial and operational resilience, effective governance, and proactive central government support. However, Norwegian counties face challenges such as limited revenue flexibility, dependence on central transfers, and the ongoing adaptation to recent equalisation reforms.

A comprehensive fiscal equalisation system mitigates disparities among Norwegian counties by redistributing tax revenues and accounting for demographic and regional cost factors. Recent reforms, including the increase in the number of counties from 11 to 15 and the transition from discretionary to per capita grants, benefit more populous counties such as Akershus, while compensation schemes are in place to support smaller regions. Central government grants typically constitute the majority (on average almost 60%) of operating revenue for 2021–23 for all counties, while revenues from alternative sources, such as service fees and energy concessions, remain limited (around 7% on average).

Norway's sub-sovereign support framework is highly predictable, characterized by proactive interventions from the central government, including supervisory oversight and crisis-response mechanisms such as grants and cost compensation. Fiscal discipline is enforced through the Local Government Act, which mandates an operational budget balance and deficit correction within two years. Counties facing imbalances are monitored through the ROBEK registry. In times of crisis, the government has consistently reinforced stability through grants and cost compensation mechanisms, reflecting a credible history of support.

Norwegian counties maintain substantial autonomy in sourcing funds through banks, bonds, and the state-owned Kommunalbanken (KBN), which offers favourable financing aligned with government policy. This underpins the financial resilience of Norwegian counties.

Finally, Norwegian sub-sovereigns play a significant role in national policymaking through effective coordination with the central government and inter-regional cooperation. Mechanisms like KS (Norwegian Association of Local and Regional Authorities) ensure balanced decision-making and stable governance.

Akershus’ strong individual credit profile is driven by its resilient budgetary performance, favourable debt profile, ample liquidity and strong economic prospects. Limited revenue and expenditure flexibility represent challenges.

Resilient budgetary performance. Akershus benefits from a robust revenue structure, where the main revenue sources of framework grants and tax revenues are complemented by dividend income from shareholdings, mainly Akershus Energi AS. In 2024, tax revenue growth was slower than anticipated, at 1.1% as of August, below the national average of 1.8% and the 5.5% estimate in the government's national revised budget. This was due to lower dividend and ownership income tax revenues, lower revenues from the arrears tax settlement in the first half of 2024, and a central government technical tax adjustment that led to revenue redistribution from the counties to the municipalities.

However, Akershus’ reserve fund (totalling NOK 483m in 2024 or around 4% of operating income) enables the county to mitigate potential shortfalls in operating income or finance unforeseen expenses. The county plans to cover the expected revenue shortfall in 2024 with increased dividends (by NOK 65m) from the fully-owned Akershus Energi AS, by reallocating NOK 7.5m of under-consumption from other council areas, and by rebudgeting annual investments by NOK 52.55m.

At the same time, Akershus faces pressures on operating expenditures. These expenditures are driven by several factors, including high personnel costs, increasing service expenditures — particularly in the education and public transportation sectors — and the growth of the population in the county. Additionally, volatile energy costs contribute to these pressures.

Balancing these pressures, Scope expects Akershus' budgetary performance to remain robust in the medium term, resulting in an average operating balance-to-operating revenue of around 6.5% in 2025-28. Tax revenues are expected to be bolstered by wage increases and population growth (estimated at 1.4% in 2024-28 compared to a national average of 0.9%). This will help to compensate for the effect of unfavourable changes in the expenditure equalization system, expected to result in lower framework subsidies for the county of NOK 250m. Simultaneously, prudent budgeting and cost-cutting measures will help to mitigate operating expenditure pressures. For example, resources set aside in the energy equalization fund can mitigate potential increases in energy prices.

Solid liquidity position supports the county's debt profile. Akershus benefits from ample liquidity (NOK 2.7bn as of September 2024, more than 20% of operating revenue) and a demonstrated ability to flexibly re-budget investments, which helps to balance financial expenses and manage refinancing risks. The county's weighted average interest rate on ordinary debt (including bond and certificate loans) is relatively high at 4.3% as of August 2024, through slightly decreasing from 4.6% in January. In addition, the proportion of debt with fixed interest rate remains moderate at 31% as of December 2024, with 69% of debt on floating interest rate. However, following the refinancing of floating interest rate loans to fixed rates in a more advantageous interest rate environment in 2024, the average interest rate fixation period increased to approximately 2.2 years as of August. This further helps to limit the exposure to potential increases in interest rates.

Scope projects that interest payments will remain stable at approximately 2% of operating revenues, despite an increase in debt-to-operating revenue from 45% to 67% by 2028. This will be driven by the county's ambitious investment plan, focused mainly on education and transport. Still, the debt level will remain moderate compared to national peers. The 2025-28 financial plan proposes the allocation of NOK 1.3bn from the operating budget to finance investments, including expected annual NOK 300m dividends from Akershus Energi AS, along with unrestricted investment funds (NOK 137.6m at the beginning of 2025). These measures are expected to contribute to containing borrowing needs and balance financial expenses.

Strong economic prospects. Akershus is the most populous county in Norway, with 738,007 inhabitants as of September 2024 (about 13% of Norway's population). The county has experienced significant population growth in the past two decades, with an increase of 37.5% between 2004 and 2024, primarily driven by domestic migration. This trend is expected to continue, with Statistics Norway projecting a further increase in population by 11.7% by 2034. Akershus' labour market is closely linked with Oslo's, with an increasing number of applicants for upper secondary education and a total of 840,000 job positions in the two counties combined, accounting for one-third of all jobs in Norway. Akershus' population is relatively young, with a growing number of school-age children, high levels of education, and better or aligned with the national average living conditions metrics. The unemployment rate is approximately 2.3% as of 2024, a figure that reflects the county's robust and diversified business sector, which provides employment opportunities for individuals at all educational levels.

Low transition risks and ambitious environmental targets. Akershus has established ambitious goals in its climate budget, with a target of reducing greenhouse gas emissions by 80% by 2030 compared to 2016 levels. The county's robust adaptive capacity is evident in its numerous initiatives to reduce direct emissions from its operations, including the objective of achieving emission-free public transportation by 2030. Akershus is also pursuing indirect emission reductions with the aim of becoming a leader in the circular economy and reducing its own climate footprint. In addition, the county allocates regular resources to the Climate and Environmental Fund (NOK 6.55m) and the Oslofjord Fund (NOK 25m). Akershus is actively addressing national and regional climate and environmental challenges, supporting measures and projects related to agriculture, water management, education, R&D, and innovation, among others.

Credit challenges for Akershus relate to limited flexibility in revenue and expenditure.

Akershus' revenue flexibility is constrained by its substantial reliance on government transfers, which account for approximately 40% of the county's operating revenue. Expenditures are similarly constrained with a 40% share allocated to personnel costs and a substantial portion dedicated to social welfare, particularly education. However, the presence of dividend income and unrestricted reserve funds helps to mitigate the rigidity in the budget structure.

Rating-change drivers

The **Stable Outlook** reflects Scope's view that risks to the ratings are balanced over the coming 12 to 18 months.

Downside scenarios for the rating and Outlooks are (individually or collectively):

1. The Kingdom of Norway's ratings/Outlooks were downgraded.
2. Reforms to the institutional framework materially weakened regions' integration in institutional arrangements.
3. Akershus' individual credit profile weakened significantly.

Qualitative Scorecards (QS1, QS2)

Scope's institutional framework assessment determines the intergovernmental integration between sub-sovereigns and their rating anchor, which is the sovereign or a higher-tier government. To perform this assessment, Scope applies the Institutional Framework scorecard (QS1), centred on six analytical components: i) extraordinary support and bailout practices; ii) ordinary budgetary support and fiscal equalisation; iii) funding practices; iv) fiscal rules and oversight; v) revenue and spending powers; and vi) political coherence and multilevel governance.

Scope considers the institutional framework under which the Norwegian counties operate to display 'strong' integration for extraordinary support and bailout practices, funding practices, fiscal rules and oversight, and political coherence and multilevel governance. The system displays 'full' integration for ordinary budgetary support and fiscal equalisation, and revenue and spending powers. Consequently, Scope's assessment of the institutional framework establishes an indicative minimum rating of 'aa' for Norwegian counties.

Furthermore, Scope assesses the individual credit profile based on quantitative and qualitative analysis of four risk categories: i) debt and liquidity; ii) budget; iii) economy; and iv) governance. These are further complemented by additional adjustments for environmental and social factors & resilience.

The outcome of these assessments, as reflected in the application of the Individual Credit Profile scorecard (QS2), is an individual credit profile score for Akershus of 75 out of 100.

The mapping of this score to the range defined by the Institutional Framework assessment results in an indicative rating of 'aaa' for Akershus.

The review of potential exceptional circumstances that cannot be captured by the Institutional Framework and Individual Credit Profile scorecards did not lead to further adjustments to Akershus' indicative rating.

As such, the final rating corresponds to the indicative rating of AAA.

Environment, social and governance (ESG) factors

ESG factors material to Akershus' credit quality are captured by Scope's rating approach through several analytical areas.

Scope's assessment of Norway's sovereign credit quality includes an appraisal of ESG risks as detailed in Scope's Sovereign Rating Methodology.

Governance considerations are material to Akershus' rating and are included in Scope's institutional framework assessment and its assessment of the county's individual credit profile. These assessments highlight the robust quality of governance alongside the administration's practices of sound liquidity and prudent budgetary planning.

The institutional framework assessment captures governance factors under political coherence and multilevel governance assessed as 'strong integration' for the Norwegian counties. This reflects extensive inter-regional cooperation that fosters policy coordination and a balanced, stable government structure.

The individual credit profile captures governance factors under the quality of governance and financial management, where Akershus is assessed as 'stronger', mostly reflecting the county's: i) build-up of budgetary funds and reserves, as well as substantial liquidity resources; and ii) clear definition of policy objectives in its strategic plans.

Social considerations are included in Scope's assessment of Akershus' 'economy and social profile', highlighting favourable demographics, a high level of education, a dynamic labour market and a diversified business sector.

Long-term environmental developments play a direct role in Akershus' credit quality assessment, as the county presents a high level of climate-transition readiness supported by low transition risks and ambitious emission reduction goals.

Rating committee

The main points discussed by the rating committee were: i) institutional framework for Norwegian counties, ii) Akershus' individual credit profile including debt, budget, economy and ESG components; and iii) peer comparison.

Methodology

The methodology used for these Credit Ratings and/or Outlooks, (Sub-Sovereigns Rating Methodology, 11 October 2024), is available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Credit Ratings were not requested by the Rated Entity or its Related Third Parties. The Credit Rating process was conducted:

With Rated Entity or Related Third Party participation YES

With access to internal documents YES

With access to management YES

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. Scope Ratings notes that the Credit Ratings are based on limited historical data, only due to a discontinuity in the time series given the change in the number of Norwegian counties in 2020 (from 17 to 11) and in 2024 (from 11 to 15). The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlooks and the principal grounds on which the Credit Ratings and/or Outlooks are based. Following that review, the Credit Ratings and/or Outlooks were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlooks are UK-endorsed.

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The Credit Ratings/Outlooks were first released by Scope Ratings on 10 January 2024.

Potential conflicts

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