

Agder Fylkeskommune

Full Rating Report

LONG-TERM RATING

AAA

OUTLOOK

Stable

SHORT-TERM RATING

N1

PRIMARY ANALYST

Anine Gulbrandsen
+4797501657
anine.gulbrandsen@nordiccreditrating.com

SECONDARY CONTACTS

Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.comElisabeth Adebäck
+46700442775
elisabeth.adeback@nordiccreditrating.com

RATING RATIONALE

Our 'AAA' long-term issuer rating on Norway's Agder county reflects its prudent debt management, low debt, and strong liquidity. It also reflects strong operating margins and financial reserves, coupled with a lower proportion of elderly dependants than the domestic local government sector average. We believe Agder will maintain rigorous debt management, despite higher investments, which will most likely be financed by additional debt and readily available funding. We expect costs to remain elevated through the remainder of 2024, constraining operating margins, but believe the county will maintain strong financial management and balanced budgets.

Agder is less diverse than other Norwegian counties in terms of industrial sectors but has a substantial position within the offshore and oil and gas industry. It also receives meaningful revenues from the renewable hydropower sector. Agder occupies a strategic location and plays an integral part in Norway's energy production and self-sufficiency.

Agder benefits from Norway's exceptional creditworthiness, given the country's institutional stability, strong governance, and conservative fiscal performance. Local and regional government institutions are strong thanks to a predictable revenue distribution system and a robust framework that supports strong governance and transparency.

STABLE OUTLOOK

The outlook is stable, reflecting our view that Agder will remain one of the fastest growing regions in Norway with a below-average level of elderly dependants. We expect the county to maintain its relatively low debt levels and control interest expenses, even though it has budgeted for a significant increase in investments this year, while managing liquidity prudently. In addition, we believe Agder has proven capacity to cut costs, if necessary, to ensure a balanced budget. We expect Norway's creditworthiness to remain stable and we expect no material changes to the institutional framework.

POTENTIAL POSITIVE RATING DRIVERS

- As the rating is at the highest level, it cannot be raised.

POTENTIAL NEGATIVE RATING DRIVERS

- Deteriorating operating margins or high capital spending.
- A significant rise in gross debt and interest payments.
- Rising unemployment or weaker demographics than we currently expect.

Figure 1. Key metrics, 2021–2026e

	2021	2022	2023	2024e	2025e	2026e
Population ('000)*	309	311	316	320	322	323
Unemployment rate (%)	2.8	1.8	1.9	2.3	2.4	2.4
Operating revenues (NOKm)	5,932	6,331	7,093	6,940	6,948	6,934
Operating margin (%)	11.0	8.7	11.9	6.5	7.4	7.9
Operating & investment balance (%)	0.5	-3.2	4.6	-4.3	1.0	-0.7
Financial reserves (%)	17.4	15.5	17.2	13.6	12.4	11.8
Gross debt burden (%)	70.9	69.4	63.4	66.2	64.7	65.6
Interest burden (%)	0.99	1.42	2.28	2.93	3.04	2.80

Source: Agder, NCR. e–estimate. All metrics as defined by NCR methodology. *As of 1 January.

ISSUER PROFILE

Agder county was established in 2020 following a merger of the former counties of Aust-Agder and Vest-Agder. Occupying an area of 16,500 sq km, it is the southernmost of Norway's 15 counties and ranks seventh in terms of population with 319,850 inhabitants (1 Jan. 2024). Agder contains 25 municipalities. The two largest cities are the county capital Kristiansand and Arendal.

Since 2010, Agder has been among the most rapidly growing regions in Norway. The population and most businesses are concentrated along the coast. About 60% of the working population is employed in the private sector.

Industrial activity is more concentrated in Agder than in other Norwegian counties. The main industries are retail and construction. Mechanical industries and oil and gas industry supplies are also important sectors.



Source: Wikipedia.

NORWEGIAN SOVEREIGN CREDITWORTHINESS

Sovereign
creditworthiness

In our view, Norway is characterised by excellent institutional stability and strong governance. The economy is resilient and the country's fiscal performance is conservative and well managed. Norway scores strongly in the World Bank's Worldwide Governance Indicators, with an average ranking across indicators in the 97th percentile. GDP per capita is strong, although there was a decline in 2023 due to cyclical oil-related revenue. Inflation rose sharply in 2023 but is projected to decline to under 4% by end-2024. Unemployment is relatively low, with historical levels around 4%. Historically the country has had well balanced budgets, having achieved positive budget balances over the past 20 years, except for a small deficit in 2020. As a result, gross public debt to GDP has remained at low levels.

LOCAL & REGIONAL GOVERNMENT INSTITUTIONS

Local & regional government
institutions

The Norwegian local and regional government framework is supported by a strong and predictable revenue distribution system and effective equalisation. The robust and predictable framework supports strong governance and transparency. Norwegian local and regional governments primarily rely on income taxes and block grants for revenue. National budgets are announced in the third quarter of each year to increase revenue visibility for the next calendar year and enable county governments to plan and maintain balanced budgets. Norway has a far-reaching financial equalisation system that compensates counties with an adverse cost structure or an unfavourable demographic profile. The aim is to even out per capita differences in local tax bases.

The Ministry of Local Government and Modernisation facilitates dialogue between the central government and local and regional governments to ensure nationally stipulated governance principles are followed. County governments are required by law to disclose their annual budget for the upcoming year and a financial plan for the next four years before the end of any given year. Local and regional governments must also establish fiscal targets and financial and debt management plans.

By law, Norwegian local governments cannot become insolvent. The central government takes financial control of municipalities and counties with financial imbalances or which have failed to meet specific deadlines to ensure they meet their obligations. In such cases, we view support from the central government as likely.

ENTITY-SPECIFIC FACTORS

Entity-specific assessment

Our entity-specific assessment reflects Agder's relatively low debt, continual population growth and lower proportion of elderly dependants than the domestic local government sector average. We assess its budgetary performance as above average, due to robust operating margins and readily available

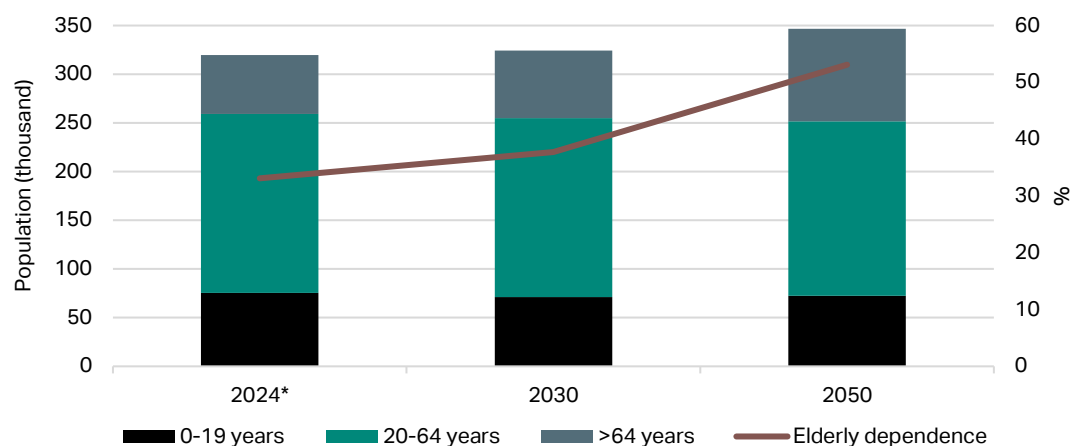
financial reserves. Although we believe operating margins and reserves will decline over the next few years, we think Agder is likely to maintain prudent operating margins and a balanced budget.

Fast growing region with young population

Agder is one of Norway's fastest growing regions. The population increased by an average 1% annually in the 2021-2023 period, mainly in coastal municipalities. According to projections by Statistics Norway (SSB), Agder's population will rise by 11.9% by 2050, slightly surpassing the anticipated national growth rate in the same period. The county has a youthful demographic profile, partly due to the presence of the University of Agder. Consequently, the percentage of elderly dependants is lower than the domestic sector average.

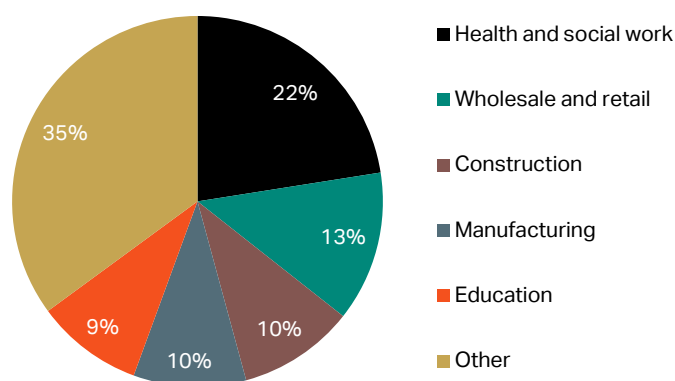
Agder had a median monthly income of NOK 48,910 in 2023, which is around the domestic sector average. The areas in and around the largest urban centres have the highest income. The county is working to increase industrial diversity by 2030 and has identified areas for improvement, such as education completion and employment opportunities. As of 31 Aug 2024, Agder's unemployment rate was 2.1%, an expected increase from end-2023 due to the slowing national economy. However, it is still around its peer group average.

Figure 2. Projections of elderly dependence and population



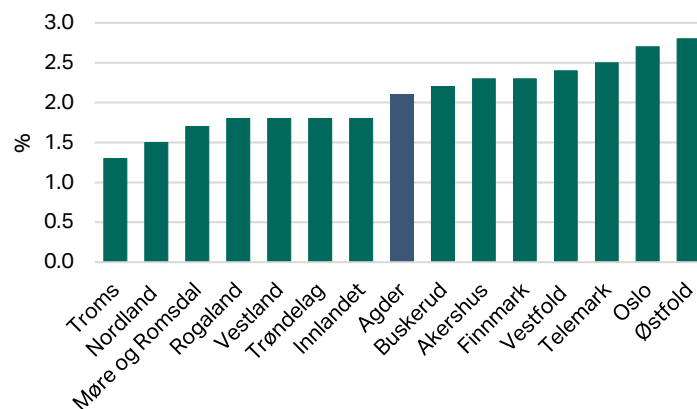
Source: SSB, NCR. *1 January.

Figure 3. Employment by industry, 2023



Source: SSB, NCR.

Figure 4. Norwegian counties' unemployment rate, 31 Aug. 2024



Source: SSB, NCR.

Operating margins and financial reserves strong

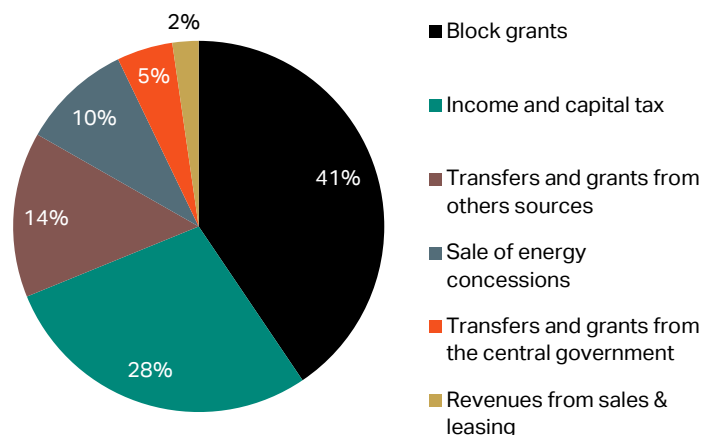
Agder's total operating income increased by 12% in 2023, due to an increase in block grants from the central government and strong contributions from the sale of energy concessions. Block grants from the central government make up 40% of the county's total operating income and are mostly used to pay wages and fund social costs. We expect Agder to revise its budget for 2024 with both income and cost increases. As of 30 Apr. 2024, the largest cost changes were in the areas of transport and property, mostly due to extreme weather. Agder benefits financially from the sale of energy concessions; half of

Demographics

Budget performance

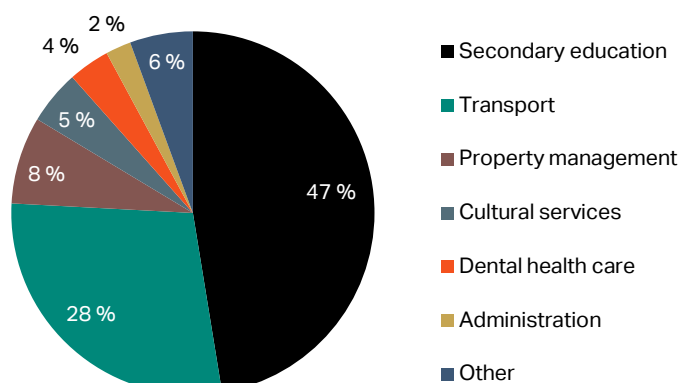
Norway's power surplus originates from renewable hydropower resources located in the county. The resulting income constituted 9.6% of total operating income in 2023.

Figure 5. Sources of revenues, 2023



Source: SSB, NCR.

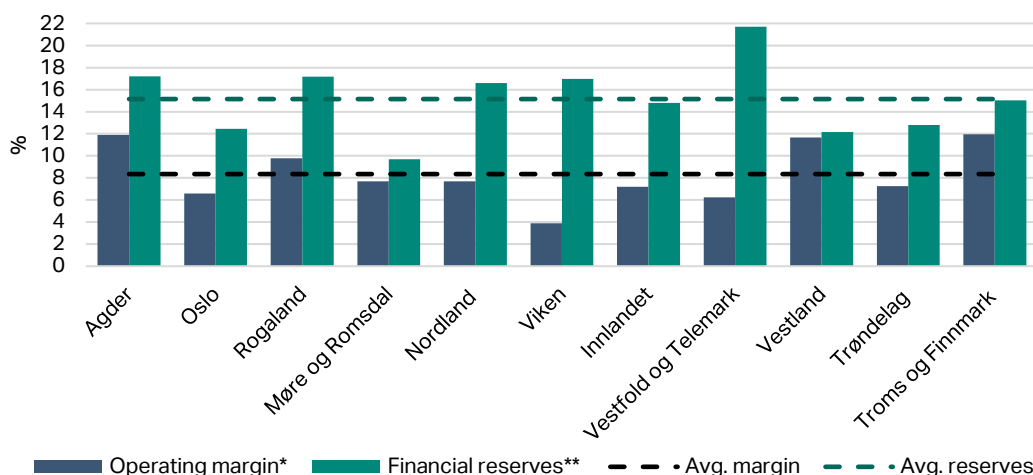
Figure 6. Spending breakdown, 2023



Source: SSB, NCR.

Agder's operating margins increased to 11.9% in 2023, bringing the level above its peer and sector average. We expect operating margins to decrease by end-2024 due to continuing inflation and high wage and price increases. We forecast Agder will maintain prudent operating margins, despite the expected decrease. In 2023, Agder's financial reserves stood at 17.2% of total operating revenues, which was in line with those of the wider sector. We see Agder's healthy financial reserves as a positive asset that can provide stability during challenging times.

Figure 7. Norwegian counties' operating margins and financial reserves as a share of operating income, 2023



Source: SSB, NCR. *Excludes depreciation and interest costs. **Includes general funds and accumulated operating results.

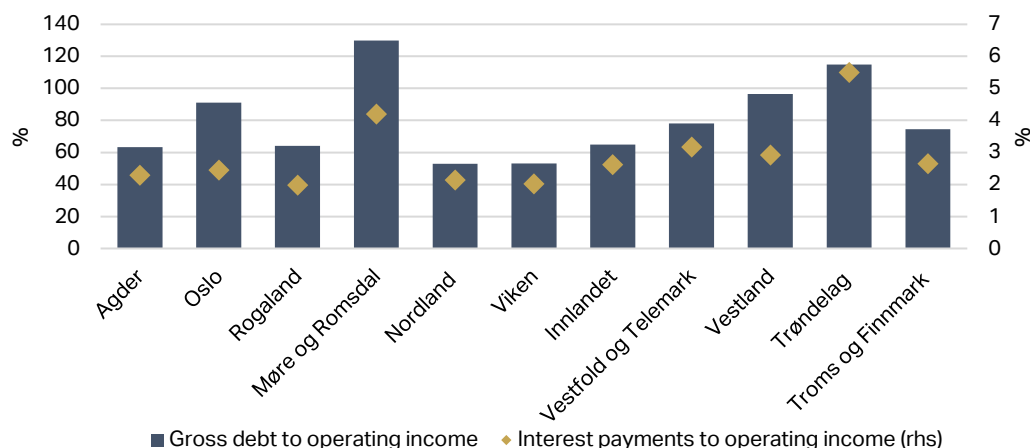
Agder managed to turn its operating and investment balance from deficit to surplus in 2023, reducing the need for borrowing. We expect the county's operating and investment balance to decrease by end-2024 due to high investment spending coupled with a lower operating balance.

Low debt supports financial profile

In 2023, Agder's gross debt burden was among the lowest in the sector at 63.8%, a decrease of 5.6pp from 2022. As of 31 Aug. 2024, gross debt stood at NOK 4.7bn, which includes lending to municipal companies and financing agreements with municipalities (NOK 274m). Agder expects its net debt ratio to be lower at end-2024 than originally budgeted, while its debt level is projected to be similar to that of end-2023 (NOK 4.5bn) due to repayments during the year.

Debt burden & liquidity

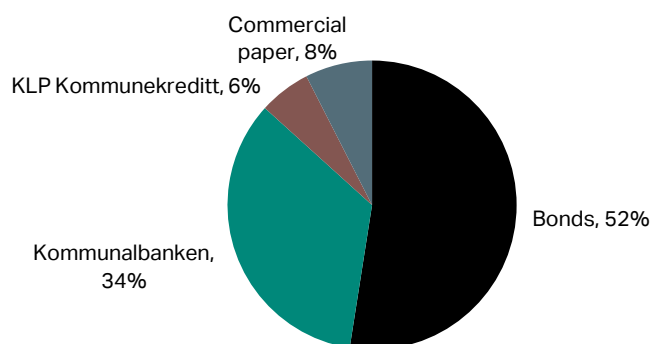
Figure 8. Gross debt and interest payments as a share of operating income, 2023



Source: SSB, NCR.

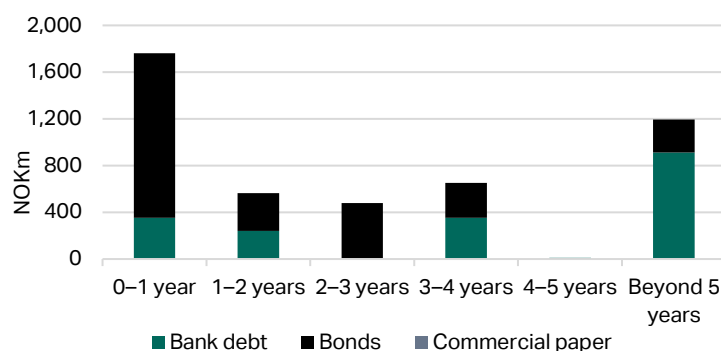
Agder's gross debt has an average time to maturity of 3.2 years, with about 38% maturing before 31 Aug. 2025. We expect most of the debt maturing within one year to be refinanced. We assess overall refinancing risk as low, as the county has cash and cash equivalents of around NOK 2.5bn and could repay all debt maturing in the next year, if necessary. Agder continually monitors liquidity and projected cash flows. The county's debt is well spread among various counterparties, and we view its ready access to funding as positive.

Figure 9. Debt profile, 31 Aug. 2024



Source: Agder, NCR.

Figure 10. Debt maturity profile, 31 Aug. 2024



Source: Agder, NCR

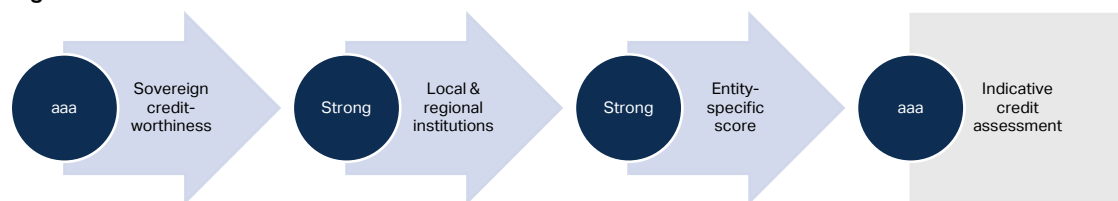
Agder's interest payments as a percentage of total operating revenues (2.3% in 2023) are lower than the sector average. We expect the county's interest costs to increase in 2024 and 2025 before receding due to reduced inflationary pressure and lower interest rates. Net interest is likely to remain at a low level given Agder's high proportion of interest income from low-risk investments and large cash balances. In addition, the county's interest payments are partly absorbed by municipalities and municipal companies. As of 31 Aug. 2024, about 29% of the county's debt carried fixed interest rates, effectively reducing the impact of interest rate fluctuations.

INDICATIVE CREDIT ASSESSMENT

Indicative credit assessment

The combination of 'aaa' sovereign creditworthiness, a 'strong' local & regional government institutions assessment, and a 'strong' entity specific assessment leads to a 'aaa' indicative credit assessment.

Figure 11. Indicative credit assessment



ADJUSTMENT FACTORS

Adjustment factors

Adjustment factors are assessed as neutral and have no effect on the final rating.

Contingent liabilities and guarantees

Contingent liabilities and guarantees

As of 31 Dec. 2023, Agder had guaranteed debt limits totalling NOK 27.4bn, of which NOK 7bn was outstanding. Most of the guarantees were given to Ferde AS, a domestic toll-road operator established by Agder and the counties of Rogaland and Vestland to finance major roads in southwestern Norway. The guarantees have long maturities and typically remain valid until the associated project debt is repaid. We believe state support is likely for toll-road companies and/or counties in the event of non-payment, especially if this puts the county in a distressed financial situation. This view is supported by ongoing state involvement in road-building projects (based on political priorities) and the fact that Norwegian counties' guaranteed obligations can be eased by a central government guarantee of up to 50% (on investments exceeding NOK 1bn).

Figure 12. Guarantees

Recipient	Purpose	Guarantee limit (NOKm)	Maturity
Ferde AS	E39 Ytre ringvei	1,801*	26 years**
Ferde AS	Samferdselpakke Kristiansand 3	2,000*	22 years**
Ferde AS	E18 Vige-Lyngdal	9,719*	2051
Ferde AS	E18 Dørdal - Tvedestrand	3,166*	26 years**
Ferde AS	E39 Lyndag vest - Ålgård	5,211*	2054
Ferde AS	E18 Tvedestrand - Arendal	3,000*	2039
Sørlandsbadet IKS	Sørlandsbadet	11	2036

*Excludes additional 10% in interest costs and other expenses. **from first drawdown.

Sustainability concerns

Sustainability concerns

We see no sustainability concerns that could have a material effect on Agder's creditworthiness or pose an immediate risk. However, climate change and extreme weather represent a threat to the wider local government sector. Specifically, Agder is obliged to cut greenhouse gas emissions to help Norway meet its obligations under the Paris Agreement. Transport, particularly roads, accounts for most of the county's emissions. Agder targets reducing vehicle emissions by at least 45% by 2030, while cutting emissions generated by the county itself by 63% over the same period.

ISSUE RATINGS

Our rating on Agder's unsecured senior debt is in line with the 'AAA' issuer rating. The county had outstanding senior unsecured bonds of NOK 2.5bn as of 30 Aug. 2024. We do not anticipate the issuance of junior debt or other subordinate instruments.

SHORT-TERM RATING

The 'N1' short-term rating reflects Agder's liquidity profile relative to the 'AAA' long-term issuer rating.

Figure 13. NCR's adjustments to financial metrics, 2021–2026e

NOKm	2021	2022	2023	2024e	2025e	2026e
Operating revenue	5,932	6,331	7,093	6,940	6,948	6,934
Operating spending	5,635	6,165	6,663	6,489	6,436	6,390
Operating balance	654	549	843	451	512	544
Operating margin (%)	11.0	8.7	11.9	6.5	7.4	7.9
Interest payments	59	90	162	203	211	194
Interest burden (%)	1.0	1.4	2.3	2.9	3.0	2.8
Investment income	272	294	307	393	544	509
Investment spending	897	1,048	825	949	715	848
Operating and investment balance	29	204	326	753	443	594
Operating and investment balance (%)	0.5	-3.2	4.6	-4.3	0.9	-0.7
Gross debt	4,206	4,394	4,495	4,593	4,493	4,550
Gross debt burden (%)	70.9	69.4	63.4	66.2	64.7	65.6

Source: Agder, NCR.

METHODOLOGIES USED

- (i) [Local & Regional Government Rating Methodology](#), 14 Feb. 2024.
- (ii) [Sovereign Credit Assessment Methodology](#), 26 Mar. 2024.
- (iii) [Rating Principles](#), 14 Feb. 2024

RELEVANT RESEARCH

- (i) [Norwegian counties face financial strain amid rising costs](#), 15 Feb. 2024.
- (ii) [Norwegian municipal finances weakened by high interest rates and inflation](#), 16 May 2024.

Figure 14. Agder rating scorecard

Step	Analysis	Score
1	Sovereign creditworthiness	aaa
2	Local and regional government institutions	Strong
3	Entity-specific assessment	Strong
4a	Standard notching	0
4b	Indicative credit assessment alternatives	aaa
5a	Higher or lower alternative	–
5b	Indicative credit assessment	aaa
6	Other adjustments	0
7	Issuer rating	AAA

Figure 15. Agder entity-specific assessment scorecard

Subfactors	Impact	Score
Average income	30.0%	3
Population growth	30.0%	1
Old age burden	20.0%	1
Unemployment	20.0%	3
Demographics calibration	-	0
Demographics weighed score	33.3%	2.00 (Strong)
Operating margin	60.0%	2
Operating and investment balance	20.0%	3
Financial reserves	20.0%	3
Budget performance calibration	-	0
Budget performance weighed score	33.3%	2.40 (Above average)
Gross debt burden	60.0%	1
Interest burden	40.0%	2
Debt burden and liquidity calibration	-	0
Debt burden and liquidity weighed score	33.3%	1.40 (Strong)
Weighted average entity-specific scoring	100.0%	1.93 (Strong)

Figure 16. Capital structure ratings

Seniority	Rating
Senior unsecured	AAA

DISCLAIMER

Disclaimer © 2024 Nordic Credit Rating AS (NCR, the agency). All rights reserved. All information and data used by NCR in its analytical activities come from sources the agency considers accurate and reliable. All material relating to NCR's analytical activities is provided on an "as is" basis. The agency does not conduct audits or similar warranty validations of any information used in its analytical activities and related material. NCR advises all users of its services to carry out individual assessments for their own specific use or purpose when using any information or material provided by the agency. Analytical material provided by NCR constitutes only an opinion on relative credit risk and does not address other forms of risk such as volatility or market risk and should not be considered to contain facts of any kind for the purpose of assessing an issuer's or an issue's historical, current or future performance. Analytical material provided by NCR may include certain forward-looking statements relating to the business, financial performance and results of an entity and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. Forward-looking statements contained in any analytical material provided by NCR, including assumptions, opinions and views either of the agency or cited from third-party sources are solely opinions and forecasts which are subject to risk, uncertainty and other factors that could cause actual events to differ materially from anticipated events. NCR and its personnel and any related third parties provide no assurance that the assumptions underlying any statements in analytical material provided by the agency are free from error, nor are they liable to any party, either directly or indirectly, for any damages, losses or similar, arising from use of NCR's analytical material or the agency's analytical activities. No representation or warranty (express or implied) is made as to, and no reliance should be placed upon, any information, including projections, estimates, targets and opinions, contained in any analytical material provided by NCR, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained in any analytical material provided by the agency. Users of analytical material provided by NCR are solely responsible for making their own assessment of the market and the market position of any relevant entity, conducting their own investigations and analysis, and forming their own view of the future performance of any relevant entity's business and current and future financial situation. NCR is independent of any third party, and any information and/or material resulting from the agency's analytical activities should not be considered as marketing or a recommendation to buy, sell, or hold any financial instruments or similar. Relating to NCR's analytical activities, historical development and past performance does not safeguard or guarantee any future results or outcome. All information herein is the sole property of NCR and is protected by copyright and applicable laws. The information herein, and any other information provided by NCR, may not be reproduced, copied, stored, sold, or distributed without NCR's written permission.

NORDIC CREDIT RATING AS

nordiccreditrating.com