

# City of Milan

## Rating Review Annex



### Credit strengths

- Supportive institutional framework
- Sound financial management
- Ample liquidity
- Wealthy socio-economic profile

### Credit challenges

- Large debt stock
- Limited revenue flexibility
- Sizeable, though low-risk, contingent liabilities

### Ratings and Outlook

#### Foreign & local currency

Long-term issuer rating BBB+/Stable  
 Senior unsecured debt BBB+/Stable  
 Short-term issuer rating S-2/Stable

### Rating rationale and Outlook:

The City of Milan' (Milan) BBB+ rating is driven by:

- An integrated institutional framework, which results in a close alignment of the Italian cities' creditworthiness with the Italian central government's BBB+/Stable ratings. This includes conditional financial assistance mechanisms, restrictions on cities' debt and liquidity management and sovereign on-lending through the state-owned promotional bank Cassa Depositi e Prestiti. Also, budgetary support measures have been made available to cities during shocks, such as the Covid-19 pandemic.
- A strong individual credit profile, characterised by Milan's conservative debt and liquidity management, reflected in a robust debt profile and ample cash reserves, which, together with the city's sound budget management, supports debt reduction. The credit also benefits from a dynamic local economy, as Italy's leading commercial, industrial and financial hub. Credit challenges relate to a high debt stock, limited revenue flexibility, and sizeable, yet manageable, contingent liabilities.

The Stable Outlook represents our view that risks to the ratings over the next 12 to 18 months are balanced.

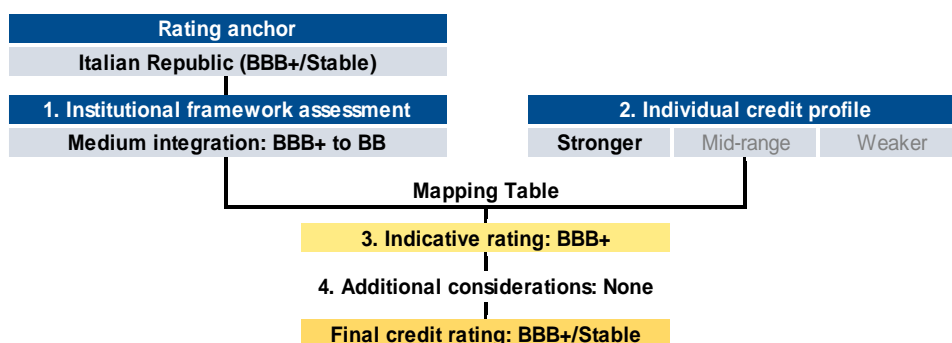
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### Scope's approach to rating Milan



For further details, please see Scope's [Sub-sovereigns Rating Methodology](#).

Source: Scope Ratings

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Bloomberg: RESP SCOP

### Positive rating-change drivers

- Upgrade of Italy's rating/Outlook
- Changes to the institutional framework increasing budgetary and financial flexibility

### Negative rating-change drivers

- Downgrade of Italy's rating/Outlook
- Structural deterioration in budgetary performance
- Notable increase in the debt stock

## I. Institutional Framework Assessment

To assess the institutional framework, we apply a Qualitative Scorecard (QS1) centred around 6 components. We assess each analytical component on a five-point scale ranging from a score of 0 for 'low' integration to 100 for 'full' integration. The institutional framework score, ranging from 0 to 100, is calculated as a simple average of these assessments. The score is then used to determine a rating range from the rating anchor level, within which the sub-sovereign's rating can be positioned.

Our assessment of intergovernmental integration between the Italian cities and the Italian Republic (BBB+/Stable) results in an indicative downward rating range of four notches from the Italian sovereign, within which the cities can be positioned according to their individual credit strengths.

### Institutional Framework scorecard (QS1)

Analytical components	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Extraordinary support and bailout practices	○	●	○	○	○
Ordinary budgetary support and fiscal equalisation	○	○	●	○	○
Funding practices	○	●	○	○	○
Fiscal rules and oversight	●	○	○	○	○
Revenue and spending powers	○	○	●	○	○
Political coherence and multi-level governance	○	○	●	○	○

Integration score	67
<b>Downward rating range</b>	<b>0-4</b>

Institutional framework score	100 > x ≥ 90	90 > x ≥ 80	80 > x ≥ 70	70 > x ≥ 60	60 > x ≥ 50	50 > x ≥ 40	40 > x ≥ 30	30 > x ≥ 20	20 > x ≥ 10	10 > x ≥ 0
Indicative rating range	0-1	0-2	0-3	0-4	0-5	0-6	0-7	0-8	0-9	0-10

## II. Individual Credit Profile (ICP)

To assess the ICP, we apply a Qualitative Scorecard 2 (QS2), centred around 10 components, underpinned by peer benchmarking of quantitative metrics complemented by qualitative and forward-looking elements. The sub-sovereign is assessed as ‘weaker’ (score of 0), ‘mid-range’ (score of 50), or ‘stronger’ (score of 100) in each component. The individual credit profile score, ranging from 0 to 100, is calculated as a simple average of these assessments. In addition, we make two additional assessments for environmental and social factors, which can lead to adjustments by up to +/- 10 points cumulatively.

We assess the individual credit profile of Milan as strong vis-à-vis peers, with an ICP score of 80 out of 100.

### Individual Credit Profile scorecard (QS2)

Risk pillar	Analytical components	Stronger (100)	Mid-range (50)	Weaker (0)
Debt and liquidity 40%	Debt burden & trajectory	○	●	○
	Debt profile & affordability	●	○	○
	Contingent liabilities	○	●	○
	Liquidity position & funding flexibility	●	○	○
Budget 30%	Budgetary performance & outlook	○	●	○
	Revenue flexibility	○	●	○
	Expenditure flexibility	●	○	○
Economy 20%	Wealth levels & economic resilience	●	○	○
	Economic sustainability	●	○	○
Governance 10%	Governance & financial management quality	●	○	○
Additional environmental and social factors		Positive impact (+5)	No impact (0)	Negative impact (-5)
Environmental factors and resilience		○	●	○
Social factors and resilience		○	●	○

ICP score	80
Indicative notching	0

## III. Mapping Table

We derive the indicative rating by mapping the rating range derived by the institutional framework assessment to the ICP score.

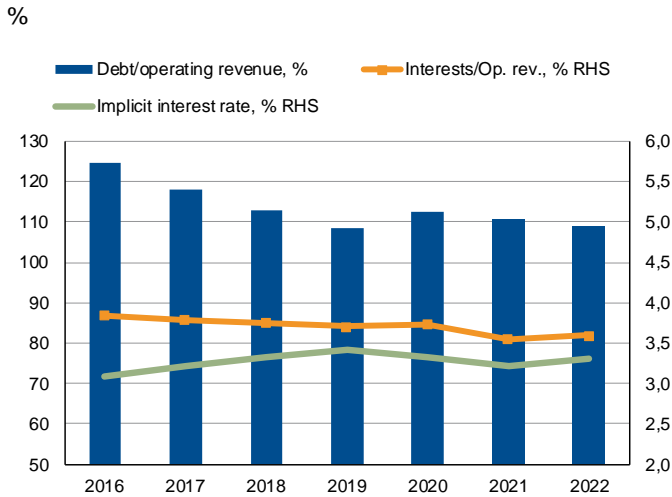
For Milan, this results in an indicative rating aligned to the sovereign rating, corresponding to BBB+.

Rating anchor	Institutional framework assessment		Individual credit profile score							
	Score	Downward rating range	100 > x ≥ 80	80 > x ≥ 70	70 > x ≥ 60	60 > x ≥ 50	50 > x ≥ 40	40 > x ≥ 30	30 > x ≥ 20	20 > x ≥ 0
Italian Republic	100 > x ≥ 90	0-1	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB	BBB
	90 > x ≥ 80	0-2	BBB+	BBB+	BBB	BBB	BBB	BBB	BBB-	BBB-
	80 > x ≥ 70	0-3	BBB+	BBB	BBB	BBB	BBB-	BBB-	BB+	BB+
	<b>70 &gt; x ≥ 60</b>	<b>0-4</b>	<b>BBB+</b>	BBB	BBB	BBB-	BBB-	BB+	BB+	BB
	60 > x ≥ 50	0-5	BBB+	BBB	BBB	BBB-	BBB-	BB+	BB	BB-
	50 > x ≥ 40	0-6	BBB+	BBB	BBB/BBB-	BBB-/BB+	BBB-/BB+	BB+/BB	BB/BB-	B+
	40 > x ≥ 30	0-7	BBB+	BBB/BBB-	BBB/BBB-	BBB-/BB+	BB+/BB	BB/BB-	BB-/B+	B
	30 > x ≥ 20	0-8	BBB+	BBB/BBB-	BBB-/BB+	BB+/BB	BB/BB-	BB-/B+	B+/B	B-
	20 > x ≥ 10	0-9	BBB+	BBB/BBB-	BBB-/BB+	BB+/BB	BB/BB-	BB-/B+	B/B-	CCC
	10 > x ≥ 0	0-10	BBB+	BBB/BBB-	BBB-/BB+	BB+/BB	BB-/B+	B/B-	CCC/CC	CC

No additional considerations apply to Milan’s ratings. As such, the **final rating** corresponds to its indicative rating of **BBB+**.

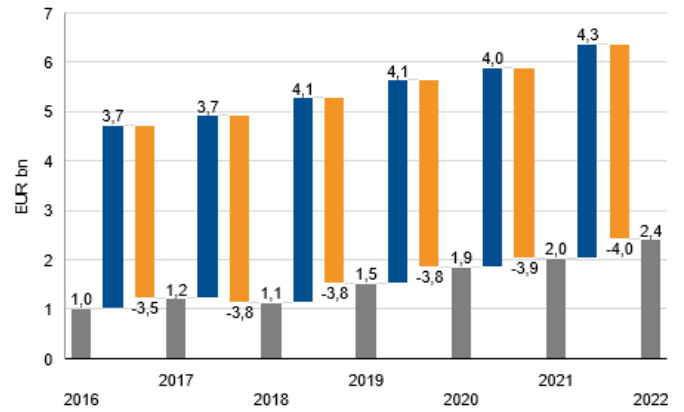
## IV. Selected charts

### Debt and interest burden



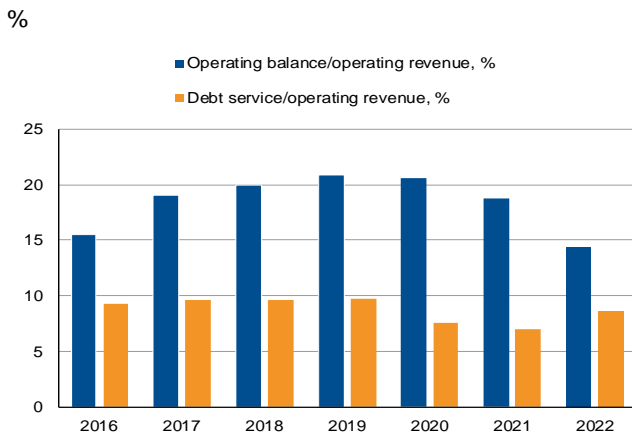
### Cash flow

EUR bn; inflow: blue, outflow: orange, holdings: grey



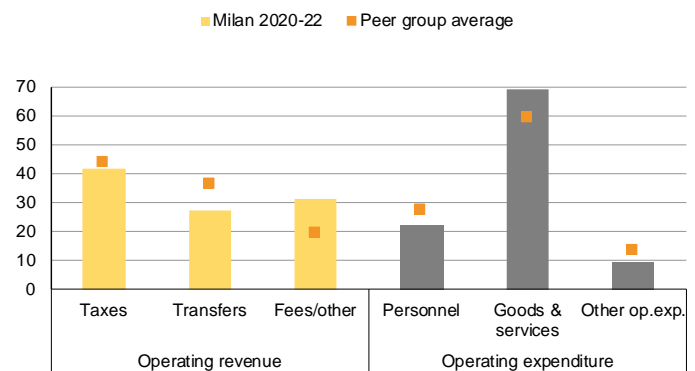
Source: Comune di Milano, Ragioneria Generale dello Stato, Scope Ratings

### Budgetary performance



### Operating budget composition

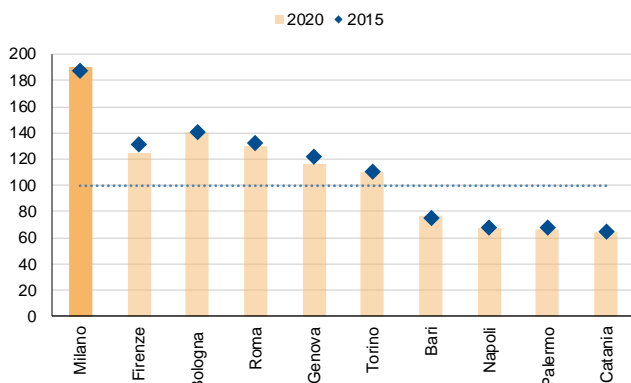
% of total operating revenue and expenditure



Source: Comune di Milano, Ragioneria Generale dello Stato, Scope Ratings

### GDP per capita

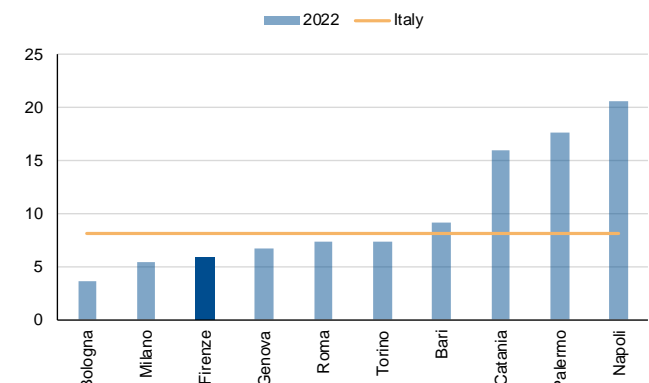
% of the national average



NB: Data at the provincial level

### Unemployment rate

%



Source: Eurostat, ISTAT, Scope Ratings

## V. Statistical Overview

	2016	2017	2018	2019	2020	2021	2022
<b>Financials, EUR m</b>							
Operating revenue	3,143	3,161	3,266	3,285	3,191	3,329	3,304
Operating expenditure	2,656	2,559	2,612	2,598	2,536	2,703	2,828
Operating balance	487	602	654	687	656	626	476
Interest income	16	17	15	16	16	15	16
Interest payments	121	120	122	122	119	118	119
Current balance	382	499	546	581	553	523	373
Capital balance	-84	-84	107	78	-92	-136	-31
Net revenue from financial activities	0	-3	-29	17	-199	0	-10
Balance before debt movement	297	411	624	677	262	387	332
Debt	3,923	3,734	3,688	3,564	3,594	3,683	3,601
Gross borrowing (incl. flexible loans already in the debt stock)	105	111	127	117	127	96	99
Redemption	172	184	193	198	121	113	163
<b>Quantitative metrics</b>							
Debt/operating revenue, %	124.8	118.1	112.9	108.5	112.6	110.6	109.0
Debt/operating balance, years	8.1	6.2	5.6	5.2	5.5	5.9	7.6
Interest payments/operating revenue, %	3.8	3.8	3.8	3.7	3.7	3.6	3.6
Implicit interest rate, %	3.1	3.2	3.3	3.4	3.3	3.2	3.3
Operating balance/operating revenue, %	15.5	19.0	20.0	20.9	20.5	18.8	14.4
Balance before debt movement/total revenue, %	8.5	11.3	15.7	16.9	7.0	10.0	8.6
Transfers and grants/operating revenue, %	13.4	13.9	14.4	13.4	31.3	30.4	19.5
Personnel costs/operating expenditure, %	23.3	23.0	23.3	22.9	23.0	21.5	21.6
Capital expenditure/total expenditure, %	9.2	11.5	11.5	15.4	17.4	16.6	15.0
GDP per capita, % of national GDP per capita	189.0	187.9	188.5	184.7	190.0	-	-

Source: Comune di Milano, Ragioneria Generale dello Stato, Scope Ratings



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