The Economy Report, May 2019

ON SWEDISH
MUNICIPAL AND REGIONAL FINANCES

Sveriges
Kommuner
och Landsting

Information
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Foreword

The Economy Report illustrates the financial situation and conditions of county councils and municipalities and the development of the Swedish economy over the next few years. It is published twice yearly by the Swedish Association of Local Authorities and Regions (SALAR). The calculations in this issue extend to 2022.

We can now see that there are many signs of harder times to come for municipalities and regions in Sweden. Economic growth is expected to slow down this year, and tax base growth is expected to be substantially slower than in recent years. Adapting services to a growing population with resources that are increasing much more slowly is an equation that is difficult to solve. Almost all municipal and regional heads of finance state in a survey that efficiencies will be required next year to counter the deterioration of finances and services. Central government's many poorly thought through – and underfunded – reforms intended to raise the level of ambition in welfare services do not make this work any easier. The ambition is good, but the effects often turn out to be different, and less desirable. These effects apply to the whole of the local government sector; but it should, at the same time, be said that there are differences between regions and between municipalities in different parts of the country. Their circumstances and needs vary.

In this report we continue to describe the situation in the local government sector and to discuss action that must be taken both by the local government sector and by central government.

On our website SKL.se you can find a selection of supporting information from our reports on the Sector in figures page. Presentations containing charts of costs and revenue are available for download.

This is an abridged version of the report. It has been written by staff at the SALAR Section for Economic Analysis and has not been considered at political level within the Association. The persons who can reply to questions are given on the inside cover page. Other SALAR staff have also contributed facts and valuable comments. The translation is by Ian MacArthur, following slight revisions by Elisabet Jonsson. We are very grateful to the municipalities and county councils that have contributed basic data to our report.

Stockholm, May 2019

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Summary conclusions

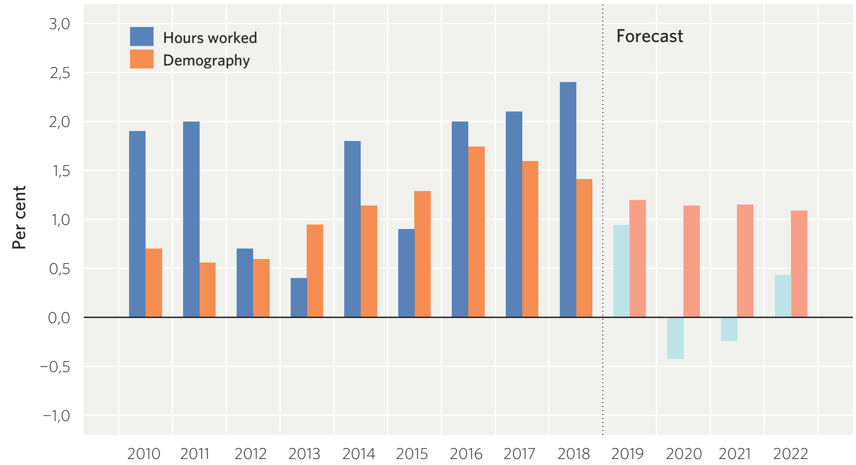
Municipalities and regions are at the start of a period that will make very great demands for transition. The higher pressure from demography has been evident and known for a number of years. So far the challenges in the sector's finances have been managed through revenue increases mainly from taxes and land sales that have been favoured by the economic boom. But this period of economic strength is coming to an end, and extensive measures will be be necessary. In the spring issue of The Economy Report we assumed that the tax rate in municipalities and regions would increase by 0.13 percentage points in 2020, generating a revenue increase of just over SEK 3 billion. If net income of 1 per cent of taxes and government grants is to be achieved up until 2022, there is still a shortfall of almost SEK 35 billion, given that costs increase in pace with the population. According to the intentions of the January Agreement[1]*, government grants to municipalities and regions are to increase by SEK 5 billion per year. In addition, the sector needs to make efficiencies in services corresponding to an annual cost of around SEK 20 billion in 2020.*

The most important revenue source for municipalities and regions is tax on work income, which is highly dependent on the number of hours worked. The performance of the labour market has been strong for a number of years, but we now see many signs that the good economic situation in Sweden is beginning to weaken. The increase in employment is expected to cease this

1. The agreement made in January 2019 between the government parties, the Centre Party and the Liberal Party.

year, and the economic boom will come to an end next year, resulting in a weaker labour market and a decrease in the number of hours worked. This affects the tax base, which has increased by 4–5 per cent per year for a number of years, despite low price and wage increases. In the coming years, the tax base is instead expected to increase by 3–3½ percent per year.

Figure 1 • Growth of the number of hours worked and demographic pressure
Per cent



Source: Statistics Sweden and Swedish Association of Local Authorities and Regions..

The most important factor for the growth of tax revenue is the increase in the number of hours worked. They have increased strongly for a long series of years; and have even increased faster than needs due to changes in the size and composition of the population. In the coming years the number of hours worked is expected to show weak growth, at the same time as the pressure from demography will continue to rise.

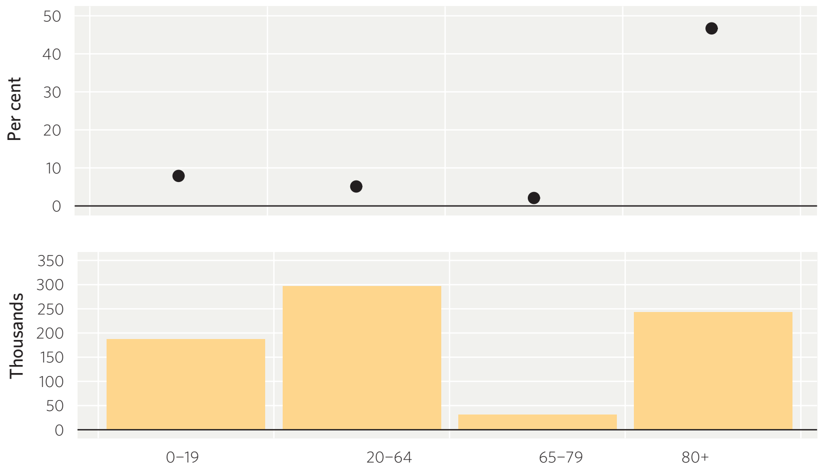
The weak productivity growth we have seen since the financial crisis in 2008 is assumed to continue. We expect GDP in Sweden to fall to 1.4 per cent in both 2019 and 2020, from 2.4 per cent in 2018. There are many signs of weakness in global trade, and we are also seeing subdued prospects for growth, not least in Germany this year, which is of great importance for the European economy. In our forecast, however, the main explanation of the low growth of Swedish GDP in 2019 and 2020 is not net exports but weak growth of domestic demand. The main contribution to the subdued growth comes from falling housing investments and weak growth of other business sector investments.

Harder times for municipalities and regions

There are many signs that harder times await municipalities and regions. Net income was already much poorer in 2018. The sector's aggregate surplus decreased from SEK 26.5 billion in 2017 to just under SEK 15 billion in 2018. The regions' surplus was only SEK 0.5 billion overall, and six of the regions had deficits. The weak development of the regions in general, with only one out of 20 achieving net income above 2 per cent of taxes and government grants, is worrying. This is especially so in a situation where the regions needed strong levels of net income of handle their major investment needs.

The net income of municipalities also deteriorated strongly in 2018. 69 municipalities reported deficits. Only 109 of 290 municipalities achieved net income above 2 per cent of taxes and government grants. Municipalities also have major investment needs. Schools, preschools, elderly housing, water and sewage networks and other infrastructure need to be expanded to cope with growing needs resulting from demography and to handle neglected investment and ongoing urbanisation.

Figure 2 • Development of different age groups in Sweden's population in 2018–2028
Number and per cent



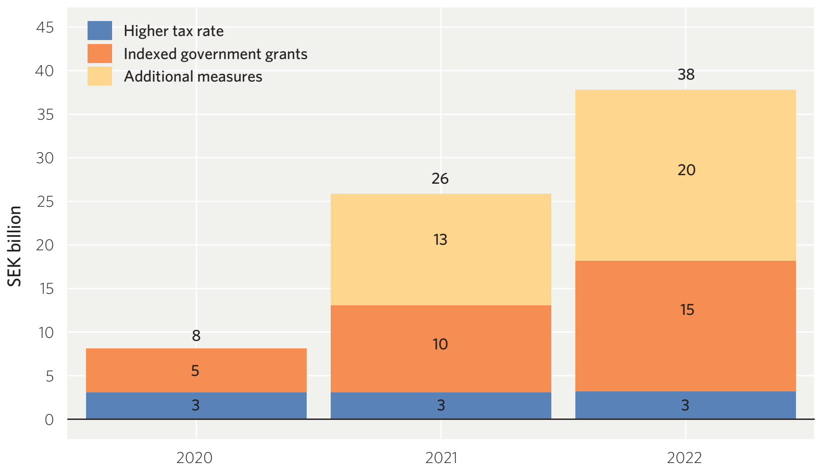
Source: Statistics Sweden.

In the next ten years the number of children and young people will rise by almost 200 000 and the number of people aged 80 or above by almost 250 000, while the large group of working age will only increase by around 300 000.

Net lending has been negative in municipalities and regions in the past ten years (apart from 2010), on account of the major investments. This has resulted in rising loan debt in the sector. Based on our forecast of investment levels and net income, the need for financing will increase by more than SEK 60 billion per year, and this will have to be met in the form of higher loans, the use of own funds and re-borrowing from pensions or asset sales.

In our estimates we assume that net income in 2021–2022 will be around 1 per cent of taxes and government grants, which is actually far too low in view of the high level of investments. However, net income is likely to fall when employment is no longer increasing at the same time as needs are rising at a rapid rate (see figure 1). As shown in figure 2 the population in the most cost-demanding age groups is increasing particularly rapidly, while the working-age population is only increasing weakly. According to a survey replied to by heads and directors of finance, municipalities and regions are mainly responding to these developments by making efficiencies in services. The rate of cost growth can therefore be expected to shift down a gear and rise slightly less than follows from demographic developments in 2019 and 2020.

Figure 3 • Growing gap between costs and revenue
SEK billion



Source: Swedish Association of Local Authorities and Regions.

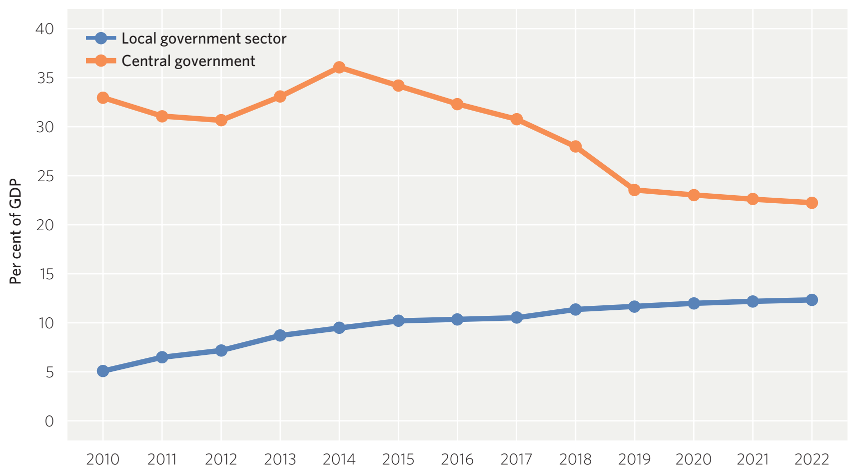
In three years there will be a shortfall of SEK 38 billion to achieve net income of 1 per cent, if costs are mainly allowed to rise in pace with population change and nothing else is done. However, we assume that municipalities and regions will increase the local tax rate by 0.13 percentage points in 2020 (0.05 percentage points of which in municipalities). If, in addition, central government increases government grants by SEK 5 billion per year, in line with the intentions of the January Agreement, there will still be a shortfall of SEK 20 billion in 2022. The sector must handle the gap between costs and revenue by taking additional measures, such as efficiencies, savings or tax rate increases.

Central government and the local government sector must cooperate

There is now a fairly widely agreed picture of the challenges – in terms of demography, economics and recruitment – facing municipalities and regions. The Government needs, along with municipalities and regions, to find a common view of what is needed to cope with these challenges and reach long-term agreements on desirable changes and concrete undertakings from the municipalities, regions, SALAR and central government.

The Spring Fiscal Policy Bill for 2019 stresses the strong increase in the number of children, young people and older people, and the January Agreement contains promises of higher government grants. Their level is not expressed clearly, but what has been discussed is an increase of SEK 5 billion per year. However, the calculations in the Spring Fiscal Policy Bill have a lower level of government grants to the local government sector in 2022 than in 2019, while the volume of consumption is estimated to decrease in the period in order to meet the local government balanced budget requirement – which is inconsistent in the light of what has been promised. The consequences that would arise if the local government sector needed to reduce its costs even though the demographic dependency ratio is moving towards its highest level for 100 years are unreasonable. Net lending in the local government sector is also negative in all future years and the loan debt increases relatively strongly as a result of the high level of investments. At the same time total general government debt, the Maastricht debt, is now reaching the benchmark for the debt anchor of 35 per cent of GDP. It is important to have a discussion about whether it is reasonable for the local government sector to account for a rising share of this debt, at the same time as the central government share decreases gradually.

Figure 4 • Central government and local government sector shares of general government consolidated gross debt (Maastricht debt)
Per cent of GDP



Source: Statistics Sweden, National Institute of Economic Research (NIER) and Swedish Association of Local Authorities and Regions.

In SALAR's *Economy Report* we illustrate some of the areas where governance by central government can make it more difficult for municipalities and regions to provide effective welfare services.

- **Targeted government grants**
  The increase in targeted government funding has – despite worthy intentions – created many problems for municipalities and regions. The targe-

ted grants often lead to higher costs and less effectiveness and seldom promote developments necessary to deal with coming challenges, especially the shortage of skills. In an increasingly tough economic situation it is necessary to take various forms of re-prioritisation and savings measures, at the same time as quality must be maintained and services developed. In the report we point out that many targeted government grants are designed so as to »protect« welfare services financially in, for instance, school education and health care. As a result, targeted government grants can often counter necessary developments and efficiencies in one service, while another service must instead be subjected to greater savings since the municipality or region does not have the final say in the allocation of financial resources, but must still achieve balance in its finances.

- **Local government financing principle that is not followed**
  Municipalities and regions feel that central government is not taking good care of the local government financing principle. The local government sector has been adversely affected by changes in central government rules without any monitoring being put in place and without receiving sufficient or, indeed, any compensation. There are a number of examples concerning legislation in social services for individuals and families where many central government regulation of, for instance, monitoring and required documentation have significantly increased administrative burdens.
- **Tax rules for owners of close companies decrease tax revenue**
  SALAR's calculations show that the proportion of compensation taken out as income of employment by active owners of close companies has decreased from 57 to 43 per cent since 2013. For the local government sector, this corresponds to a decrease of SEK 8 billion in tax revenue.
- **Short-term planning**
  SALAR often points to the local government sector need for a long-term basis for its planning. We use concrete municipal examples to demonstrate the consequences for individual municipalities of the short-termism that central government has had in its system for the reception of asylum seekers and new arrivals. The right of asylum seekers to arrange their own housing and the opening of asylum accommodation centres by the Swedish Migration Agency, often with the lowest possible price as the prime criterion for contracts, form the background to the still very uneven distribution of reception across the country.

In the coming years we see major cost increases for welfare services. This will place heavy pressure on the finances of municipalities and regions, with the risk of major savings and possible increases in tax rates. It cannot be reasonable for the local government sector – whose only tax base is income tax – to need to take all the consequences of this. This is at the same time as central government is providing top-ups in the form of new targeted government grants that are more liable to result in rising expectations and costs.

We see that there will be a shortage both of money and of skills in the form of labour. But Sweden is not unique – the labour shortage situation is clear in the whole of the western world in the coming years. What differentiates Sweden from many other countries is our high employment rate. Unlike many other countries, Sweden has already made use of the labour resource provided by the female part of the population and does not have access to it when people's needs increase.

Preventive work is a strategy for effectiveness

In previous reports we have, for instance, written about the potential of digitalisation and about the need to extend working life if we are to cope with the challenges of the coming years. In this report we highlight the need to work in a preventive way in order to respond to the effects of demographic developments.

Sounder lifestyles in the population are held to be able to prevent 80 per cent of cardiovascular morbidity and 30 per cent of cancer morbidity: the most costly diseases in health care. In the same way, mental health problems in childhood can be addressed by a selection of interventions to prevent far-reaching negative consequences later in life. There are many indications that preventive services are good both for the individual and for the economy.

Health economic evaluation can be used to good effect as part of the supporting information for setting wise priorities and for weighing investment in preventive services against treatment and rehabilitation interventions.

The report gives examples in which health care has been successful in supporting individuals in improving their lifestyles. It will be increasingly important to be able to give individuals customised advice about improving their chances of good health, probably with the support of new technology and more AI support.

Pension costs decrease in the long term

The local government pension debt is much-discussed, and pension costs have increased strongly because more and more employees in the sector are high income earners. In the very long term there will not be any pension debt in the local government sector. This is because the new pension agreement from 2014 is a wholly defined payment arrangement for staff born in 1986 or later. Then the cost will consist solely of contributions that are a charge on net income for the year concerned. However, the older agreements will live on for many years and affect the cost picture, but to a declining extent. The old and large pension debt built up before 1998 is now being paid off rapidly. The amounts currently being paid in these pensions are large, around SEK 18 billion per year, and are a double burden in the sector on account of present rules for financial reporting.

At the same time, the debt for defined-benefit pensions earned since 1998 is increasing. This debt is substantial in the regions, with their many high-earners, but is also clearly felt by the municipalities. But this debt will also be wound down eventually.

In recent years, aggregate pension costs have increased relatively strongly and they look likely to continue to do so for some years to come. After that, these costs are expected to turn downwards as a share of payroll. However, this is providing that pay and prices stay within the limits assumed in the estimates. If there are more pay initiatives or if prices accelerate, the cost increases may rise instead.

CHAPTER 2

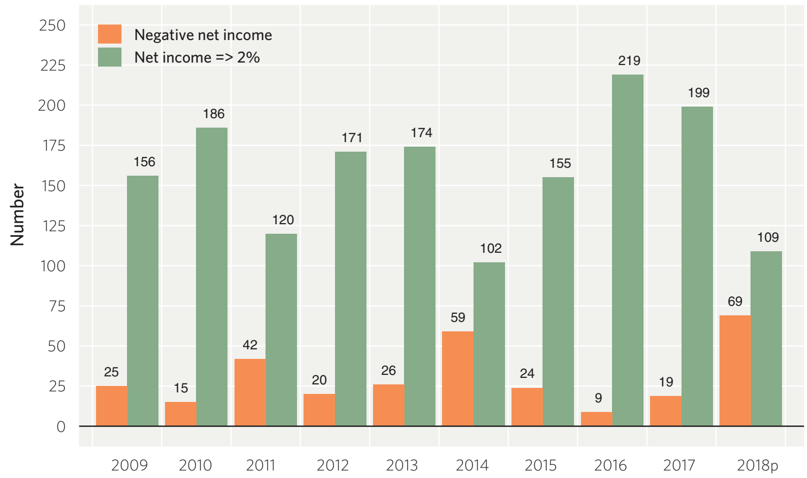
Municipal finances

The preliminary net income of the municipalities in 2018 was SEK 14 billion. This is just over 2 per cent of taxes and government grants , the rule of thumb for healthy finances in the sector, and SEK 10 billion poorer than in 2017. Poorer tax base growth in 2019–2022 is expected, in combination with continued large increases in needs, to lead to poorer and poorer net income. We expect a more subdued rate of cost growth in the next few years; one reason is that costs are continuing to decrease after the refugee situation in 2015. To be able to increase resources for services in pace with demography, and achieve net income of only 1 per cent of taxes and general government grants, budget reinforcements of SEK 24 billion are required in 2022 (or just over 0.7 per cent of gross costs per year).

Substantial decline in net income in 2018

According to their preliminary accounts for 2018, the municipalities report net income of SEK 14 billion. This is SEK 10 billion worse than in 2017. This net income corresponds to 2.6 per cent of tax revenue and general government grants. Even though aggregate net income is relatively strong, there is great variation between municipalities. In 2018, 69 municipalities (24%) had negative net income, compared with 19 municipalities in 2017. Only 109 municipalities, or 38%, had net income of at least 2 per cent of taxes and general government grants in 2018. This is a substantial decrease compared with recent years. We have to go back to 2008 to find as many municipalities with negative net income. However, the distribution is different. Now slightly fewer small and slightly more large municipalities have negative net income than in 2008.

Figure 9 • Number of municipalities with negative net income and with net income corresponding to at least 2 per cent of taxes and grants
Number of municipalities

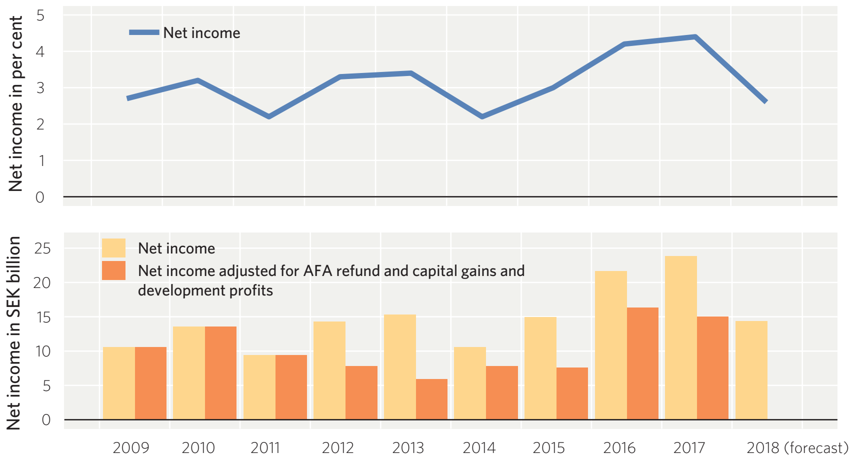


Source: Statistics Sweden and Swedish Association of Local Authorities and Regions.

In 2018, 38 per cent of municipalities achieved 2 per cent of taxes and general government grants. In the past ten years an average of 11 per cent of municipalities had deficits.

In 2013–2017 capital gains and development profits made a strong contribution to the good levels of net income. An adjustment has been made for this in figure 10. They also made a positive contribution in 2018, but full information about this is not yet available.

Figure 10 • Municipal net income after financial items
SEK billion and per cent of taxes and government grants

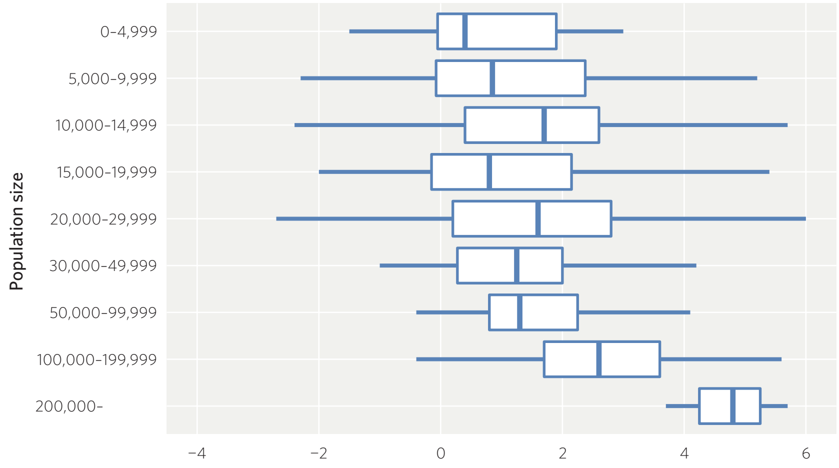


Source: Statistics Sweden and Swedish Association of Local Authorities and Regions..

In the past ten years aggregate net income has corresponded to 3.2 per cent of taxes and general government grants. Adjusted for premium repayments from AFA Försäkring and capital gains and development profits, net income is 2.3 per cent.

The largest municipalities have net income that is appreciably higher than in the other groups of municipality sizes, where the median varies between 0.2 and 2.7 per cent. There is a very great spread in municipalities of all sizes, as is seen in figure 11.

Figure 11 • Municipalities' preliminary net income after financial items 2018, size of municipality
Per cent of taxes and grants



Note: Kiruna and Täby have been excluded on account of extreme values.

Source: Statistics Sweden and Swedish Association of Local Authorities and Regions.

In aggregate, net income for 2018 is good, but there are great variations in all sizes of municipalities and also in groups of municipalities.

Restrained cost growth

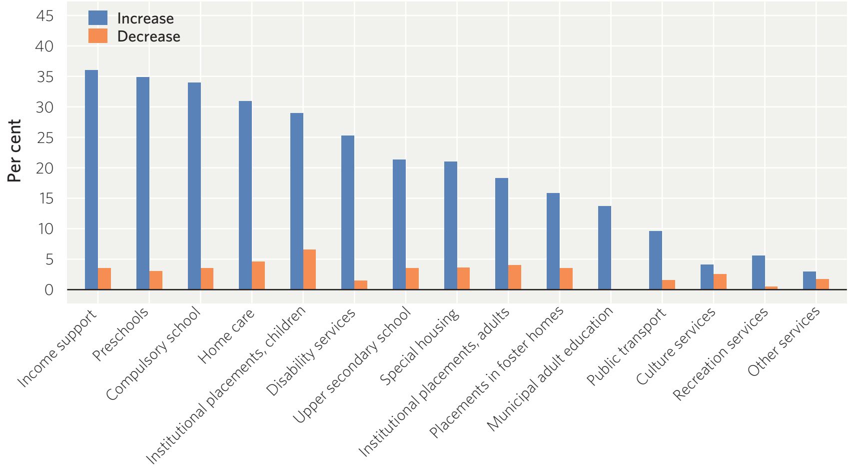
In aggregate, volume, i.e. municipalities' costs in constant prices, increased by 0.9 per cent in 2018. This can be compared with an increase of 1.5 per cent if costs had been allowed to increase in line with demography. The main explanation of the low volume growth is the decrease in the costs of refugee reception.

For 2018 many municipalities have, according the survey of heads of finance (service statistics are not ready), had distinct cost increases, especially in the major services of preschools, schools and elderly care. Some have also had high cost increases for institutional placements, at the same time as many municipalities have had distinct cost decreases for this. Many heads of finance make a special mention of cost decreases in refugee services.

Generally speaking, in 2019 fewer heads of finance note distinct cost changes than in 2018. However, many expect cost increases in, for example, income support, preschools and compulsory schools.

A survey was sent to all heads of finance in municipalities. 203 municipalities replied, corresponding to 80 per cent of the population.

Figure 12 • Services where distinct changes in costs are expected in 2019, replies by heads of finance
Per cent of respondents



Note: Around 200 responses per area.

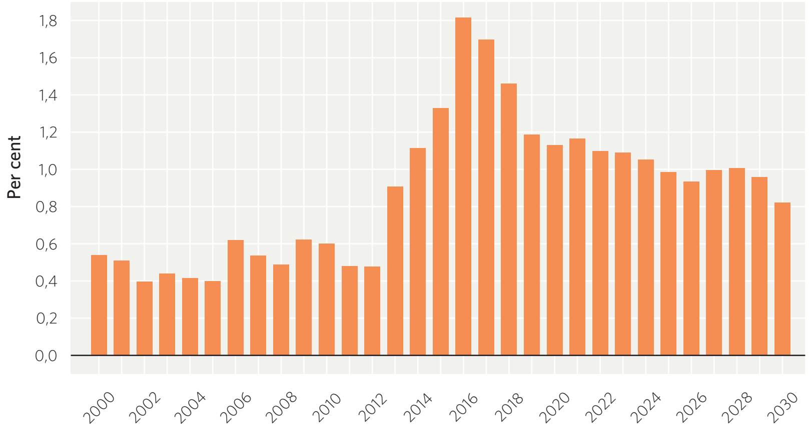
Source: Swedish Association of Local Authorities and Regions.

Many heads of finance state that there will be a distinct increase in costs in several of the major services, a few expect distinct cost decreases.

The age structure and growth of the population are of great importance for municipal costs. Services for children, young people and older people cost a great deal. In 2000–2012 the estimated cost increase from demographic pressure averaged 0.5 per cent per year. After that, it accelerated substantially and is expected to be about 1.1 per cent in 2019–2022.

The demographic pressure is now twice as high as it was in the early 2000s.

Figure 13 • Estimated demographic needs
Annual percentage change



Source: Statistics Sweden and Swedish Association of Local Authorities and Regions.

CHAPTER 3

Regional finances

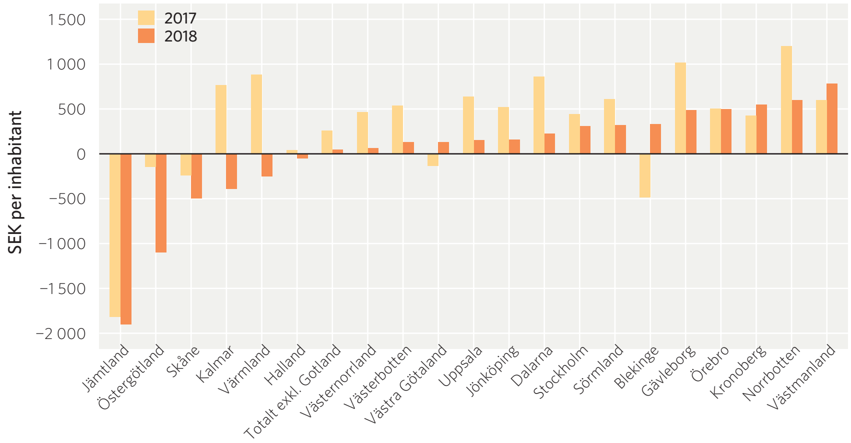
The preliminary net income of the regions was SEK 0.5 billion in 2018. This corresponds to only 0.2 per cent of tax revenue and general government grants, which means that already small margins have become even smaller. Six regions had deficits and only one region had net income corresponding to at least 2 per cent of taxes and grants. Cost growth must be slowed down to achieve finances in balance. High levels of investments mean a greater need of external financing or use of own funds. More subdued tax base growth in the future leads to considerable needs to make efficiencies; the alternative is tax rate increases and the risk of poorer quality and accessibility.

Poorer net income in 16 of 20 regions in 2018

Six regions reported deficits for 2018 and only one region reported net income corresponding to at least 2 per cent of tax revenue and general government grants. Net income measured as SEK per inhabitant deteriorated in 16 of 20 regions.

Figure 25 • Net income in regions 2017 and 2018

SEK per inhabitant



Note: The figure shows all regions with pension costs reported using the mixed model. Östergötland, Jönköping and Skåne report their governance of pension costs using the full funding model. Net income calculated in this way was SEK −661, 535 and −66 per inhabitant respectively in 2018. For Region Stockholm net income is reported including adjustment costs corresponding to SEK 336 per inhabitant in 2018.

Source: Statistics Sweden.

Region Blekinge achieved a surplus in 2018 after reporting a deficit in three successive years. Region Kronoberg, Västra Götaland Region and Region Västmanland also improved their financial performance compared with 2017. In the other regions net income deteriorated in 2018.

Eight regions have had surpluses in each of the last five years. Of these eight, all but Region Stockholm have a positive contribution from financial items.

Half the regions have deficits in net income from activities

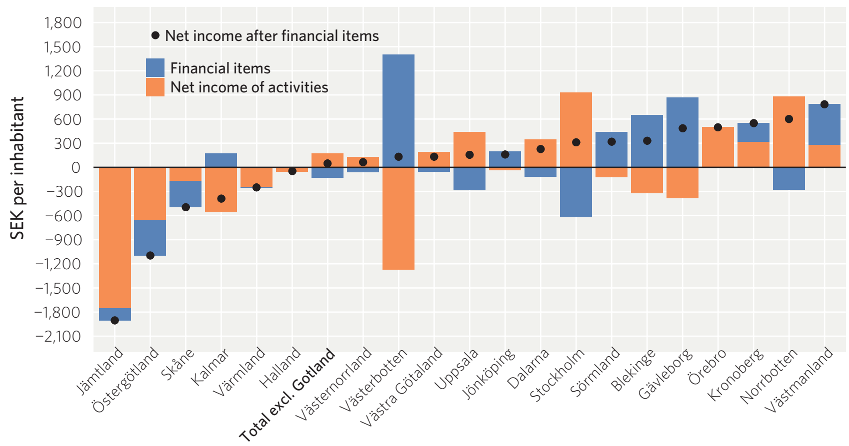
Net income from activities, a new line showing net income before financial items, totalled SEK 1.8 billion in 2018. This is half of the average for the past three years. In just over half the regions net income from activities was negative; however, four of them achieved positive net income for the year on account of contributions from financial items (figure 26).

Several regions have built up pension portfolios to cover future undertakings. Positive changes in market values of the portfolios are reported as yield that enhances financial income. Regions that have had high levels of investment and greater indebtedness have interest expenses that are, instead, a charge on net income. In aggregate, net financial income is negative for the regions.

In aggregate, net income of activities has corresponded to 1.5 per cent of taxes and government grants in the past ten years. Region Stockholm and Region Uppsala have had average net income of activities in excess of 2 per cent, while Region Jämtland Härjedalen, Region Blekinge, Region Halland and Region Västerbotten have, on average, had negative net income of activities as a share of taxes and grants.

Figure 26 • Net income of activities and financial items in the regions 2018

SEK per inhabitant

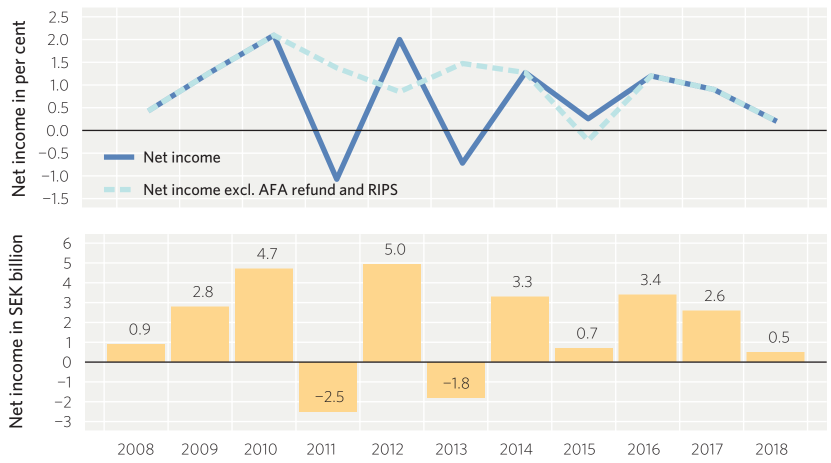


Source: Statistics Sweden.

In aggregate, a marginal surplus in 2018

The regions reported aggregate net income of SEK 0.5 billion in 2018. This corresponds to only 0.2 per cent of taxes and general government grants, which is far from than the 2 per cent usually given as a rule of thumb for healthy finances.

Figure 27 • Regions' net income after financial items
SEK billion and per cent of taxes and government grants



Source: Statistics Sweden.

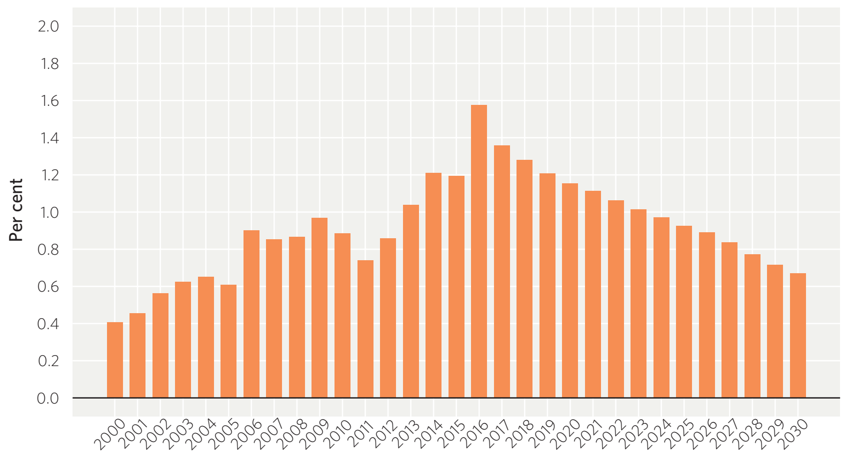
In the past ten years net income in the regions has averaged just under SEK 2 billion, or 0.7 per cent of taxes and government grants. Excluding temporary costs for the RIPS interest rate (used in pension calculations) and revenue from AFA Försäkring, net income corresponded to 1 per cent.

The weak levels of net income in the regions are not explained by low increases in revenue. Instead, it is cost growth that is causing the present situation. Looking ahead to coming years, when forecasts indicate slower tax base growth and continued demographic challenges, the situation looks even darker.

Part of the cost increase is explained by changes in the size and composition of the population. On average, demographic needs increased by 0.4 per cent per year in 1990–2000. From 2000 to 2010 demographic needs increased by an average of 0.7 per cent per year and for the period after 2010 and up to 2020 their growth rate is estimated at 1.2 per cent.

The increases in needs that follow from strong population growth and changes in the age structure of the population contribute to rapid cost growth in the regions. The increases in demographic needs are exemplified by diagnosis-based specialist somatic care in the section »Costs increase while production decreases in in-patient specialist somatic care« [not included in the English version].

Figure 28 • Demographic needs in the regions
Percentage growth



Source: Statistics Sweden and Swedish Association of Local Authorities and Regions.

As a result of demographic developments, the number of people aged over 80 years will increase by 47 per cent in the next ten years. The number of children and young people is also increasing strongly. In contrast, the increase in the number of people of working age is only around 5 per cent. This means that the growing needs will not be matched by an equally large increase in employment and tax revenue. Nor will it be possible to recruit staff at the same rate as needs grow; more effective use of the available resources is needed instead, manly through a transition in health care with the aid of technical solutions and new ways of working. Preventive care, and especially customised interventions for individuals, can reduce needs and therefore be one of the most important factors in delivering the mission of providing welfare services.

ANNEX

This annex presents some key indicators and the overall income statements of municipalities and of county councils, as well as an aggregate income statement for the sector to give an overall picture.

For diagrams showing the distribution of costs and revenue for municipalities and county councils separately, tables presenting overviews of central government grants and other data that we usually present in the Annex to the *Economy Report,* we refer to our website, a page called **Sektorn i siffror** (The sector in figures). Go to www.skl.se, choose Ekonomi, juridik, statistik/Ekonomi/ Sektorn i siffror.

An aggregate picture of municipalities and county councils

Table 16 • Key indicators for municipalities and county councils
Per cent and thousands of people

	Outcome	Forecast		Estimate	
	2018	2019	2020	2021	2022
Average tax rate, %	**32.12**	**32.19**	**32.32**	**32.32**	**32.32**
municipalities, incl. Gotland	20.74	20.70	20.75	20.75	20.75
county councils*, excl. Gotland	11.44	11.55	11.63	11.63	11.63
	Outcome	**Forecast**		**Estimate**	
	2018	**2019**	**2020**	**2021**	**2022**
No of employees, thousands**	**1,196**	**1,201**	**1,199**	**1,204**	**1,209**
Municipalities	904	906	905	909	913
County councils	293	294	294	296	296
Volume change, %	**1.4**	**1.1**	**0.9**	**1.2**	**1.1**
Municipalities	0.9	1.0	0.8	1.2	1.1
County councils	2.5	1.5	1.1	1.1	1.1

*The tax base of Gotland is not included, which is why the totals do not add up.
**Average number of people in employment according to the National Accounts.

Sources: Statistics Sweden and the Swedish Association of Local Authorities and Regions.

Table 17 • Aggregate income statement for the sector
SEK billion

	Outcome	Forecast		Estimate	
	2018	**2019**	**2020**	**2021**	**2022**
Income of activities	226	232	236	243	251
Expenses of activities	−1,060	−1,097	−1,138	−1,184	−1,228
Depreciation/amortisation	−35	−37	−39	−41	−44
Net expenses of activities	**−869**	**−902**	**−941**	**−982**	**−1,021**
Tax revenue	723	748	775	799	829
Gen. govt grants and equalisation	153	163	170	193	205
Net income of activities	**8**	**9**	**4**	**10**	**12**
Net financial income	6	2	1	0	−2
Net income after financial items	**15**	**11**	**5**	**10**	**10**
Share of taxes and grants, %	*1.7*	*1.2*	*0.6*	*1.0*	*1.0*

Note: Purchases between the sectors have been consolidated.

Table 18 • Income statement for the municipalities
SEK billion

	Outcome	Forecast		Estimate	
	2018	**2019**	**2020**	**2021**	**2022**
Income of activities	164	168	171	176	181
Expenses of activities	−696	−720	−747	−779	−809
Depreciation/amortisation	−24	−25	−27	−29	−31
Net expenses of activities	**−557**	**−577**	**−603**	**−632**	**−659**
Tax revenue	467	481	497	513	532
Gen. govt grants and equalisation	96	102	106	120	131
Net income of activities	**6**	**6**	**1**	**2**	**4**
Net financial income	8	4	4	5	3
Net income after financial items	**14**	**10**	**5**	**6**	**7**
Share of taxes and grants, %	*2.6*	*1.7*	*0.8*	*1.0*	*1.0*

Table 19 • Income statement for the county councils
SEK billion

	Outcome	Forecast		Estimate	
	2018	**2019**	**2020**	**2021**	**2022**
Income of activities	64	66	67	70	72
Expenses of activities	−365	−379	−393	−407	−422
Depreciation/amortisation	−11	−12	−12	−13	−13
Net expenses of activities	**−312**	**−325**	**−338**	**−350**	**−363**
Tax revenue	257	267	277	286	297
Gen. govt grants and equalisation	57	61	64	72	75
Net income of activities	**2**	**4**	**4**	**8**	**9**
Net financial income	−1	−3	−3	−4	−5
Net income after financial items	**0.5**	**0.9**	**0.6**	**3.7**	**3.8**
Share of taxes and grants, %	*0.2*	*0.3*	*0.2*	*1.0*	*1.0*

Source: The Swedish Association of Local Authorities and Regions.

The Economy Report, May 2019

On Swedish municipal and county council finances

GDP growth in Sweden is assessed to fall to the low level of 1.4 per cent in both 2019 and 2020, partly as a result of low domestic investments and subdued growth prospects internationally. The growth of the real tax base is expected to slow considerably in 2020–2021. This is happening at the same time as there is great pressure on services and it is difficult to meet staffing needs in many services. These relatively bleak prospects, which also seem to remain in place for some time, are reflected in the replies to surveys of heads of finance in municipalities and regions. Almost all respondents take the view that efficiencies are needed in 2020 to deliver services and financial balance.

In a number of earlier issues of *The Economy Report* we have pointed out necessary measures. In addition to successful integration of immigrants, employment needs to increase through an expanded and longer working life, which would ease both the financing and the staffing of Swedish welfare services.

Central government finances are strong after decades of surplus targets intended to address tough times and demographic challenges. This obviously provides hope regarding easing a difficult economic situation, but how can this be done when an even greater challenge – skills provision – must be addressed? The Riksdag and the Government must also realise that there is a limit to how many poorly thought through, detailed and underfunded reforms the local government sector is capable of handling, when the focus must be on providing core services in an effective way.

The municipalities and regions must, for their part, work on the basis of these new conditions and be capable of delivering good welfare services with scarce resources, which requires different ways of working and new ways of thinking. One question we look at in this report is the potential of preventive work when it comes to improving health while slowing cost increases.

The Economy Report is a series published twice yearly by the Swedish Association of Local Authorities and Regions (SALAR). In it we deal with the present economic situation and developments in municipalities and county councils. The calculations in this issue extend to 2022.

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