



The Economy Report, October 2020

ON SWEDISH
MUNICIPAL AND REGIONAL FINANCES

Information

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Foreword

This autumn report also centres to a great extent on the COVID-19 pandemic. Knowledge of this disease has increased since the spring but there is still considerable uncertainty. We do not know how severe the increase in transmission we are now seeing will be or what consequences it will have. Even though we start from a positive scenario, in which the effects on the economy are expected to decline gradually over this year and next year, the expectation is that it will be a long time before we can assume a normal situation.

For the local government sector, this has been a bewildering year. In the spring the pandemic forced the sector to make rapid adjustments to its ways of working. Health care resources were redirected to COVID-19 patients while upper secondary schools and adult education changed over to remote tuition.

Through public statistics and our surveys and networks we continually get new information that helps in the difficult task of piecing together a picture of the impact on local government finances. In the short term, at least, they are being rescued by strong increases in central government grants at the same time as cost increases have been slowed. Unfortunately, the possibilities of coping with the underlying demographic challenge appear to have deteriorated now that the pandemic has led to increased and accumulated needs of welfare services. On the other hand, central government, the municipalities and the regions have displayed an adaptability that promises well for the future.

The question is whether transferring municipal or regional services to central government or other centralisation reforms, as advocated by some commentators, is the right medicine in this situation. We examine the arguments for greater centralisation in a special chapter.

On our website skr.se you can see selected supporting information on the Sector in Figures page. Presentations containing figures showing costs and revenue are available for download. The Economy Report page has presentations of the tables and figures from the most recent report. On our website skr.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 and Nils Mårtensson. We are very grateful to the municipalities and regions that have contributed basic data to our report.

Stockholm, October 2020

Niclas Johansson

Head of Section,

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Contents

3	Summary conclusions
4	Continued great uncertainty in the economy
13	Annex

Summary conclusions

2020 is an exceptional year from many perspectives. In the spring the COVID-19 pandemic led to an extremely rapid downturn in production and employment, both in Sweden and internationally. Services in municipalities and regions had to adjust at record speed. Since then there has been a clear up-turn in the economy, but the pace of the continued recovery is still highly uncertain.

Paradoxically, as a result of large volumes of temporary, pandemic-related additional funding, municipalities and regions are expected to achieve very strong levels of net income this year. However, given the abruptly changing conditions during the year, this is not strange. Additional central government funding has provided good financial conditions for the local government sector to manage the pandemic with secure finances. At the same time, demographic developments will result in major challenges and long-term effects on finances and staffing in the future. Making efficiencies in services and catching up with things that could not be done as a result of the pandemic will be a major challenge. Strong levels of net income this year also risk creating expectations that regions and municipalities will not be able to fulfil in the longer term.

Continued great uncertainty in the economy

The spread of COVID-19 is now increasing again in the community. What economic impacts this will have is very uncertain. The record fast economic collapse in the spring and its effects on the macro economy do seem to be behind us now, and the collapse has bottomed out both globally and in Sweden. A strong positive bounce-back is now being seen in strong growth all over the world.

But the sharp fall in the spring means that the recovery will take time. The question is at what rate the losses of production, employment, sales and profits can be recouped. Assessments vary, but in a situation in which the pandemic is far from over, the uncertainty is unusually great. On account of this great uncertainty, the forecast in this *Economy Report* only covers 2020; it is then followed by a scenario for the macro economy. This means that the figures for 2021–2024 are based on known correlations and the like.

The COVID-19 pandemic has gained pace again recently, and new restrictions have been introduced in several countries. So there is great uncertainty about developments. However, we nevertheless assume, as a starting point for our economic scenario, that the global spread of the infection will culminate this year and that the global trend for next year will be a gradual decrease in the number of cases even though this abatement of transmission will not necessarily be untroubled and linear. So the scenario does not rule out phases of greater spread in countries or regions that may be of a more temporary or more protracted nature.

Protracted recovery and long-term consequences

Extensive crisis measures to support companies and households have played a major role in the recovery. The upturn in the global economy is assumed to continue, at the end of 2020, as well as in the subsequent years. In our assessment, however, the rate of the recovery will decline, after the initial bounce-back this year.

Since February, the pandemic has overshadowed everything else and shifted the focus away from previous macroeconomic storm clouds. But it is very much the case that several of the risk factors previously raised by many are still present. Examples include Brexit, where it is still not possible to rule out considerable negative effects for the European economy in the event of a disorderly exit for the UK, and the tensions between the US and China, as well to some degree between the US and Europe with a clear bearing in the conditions for trade. In the slightly longer term there is the risk that these question marks will weigh on the continued global economic upturn – as long as agreement issues are unresolved and geopolitical disputes last.

A number of years of weak economic growth have a great impact on the labour market. In 2020 we assume that the number of hours worked falls by 3.7 per cent and that unemployment increases by 2 percentage points to just under 9 per cent; we also assume that it increases further in 2021. Despite higher unemployment and a lower number of people in employment when the support for short-term layoffs is wound down in 2021, the number of hours worked increases. When unemployment rises, new cohorts of students have more difficulty entering the labour market. As in previous recessions, the trend will probably be in the direction of more and longer studies, which will contribute to a reduction in the supply of labour in coming years. It will take time for both the employment rate and the labour force participation rate to

recover, and balance in the labour market will only be reached in 2024, and then at a higher equilibrium unemployment rate of 7.5 per cent.

Tax base resilient

In 2019 the Swedish labour market was already characterised by a weaker economic situation with a decrease in the number of hours worked, which is the foundation of the municipal and regional tax base. Despite the great decrease in the number of hours worked in 2020, the tax base is by no means affected to the extent expected, and is expected to increase by 1.9 per cent. The reason is the great rise in taxable transfers. Central government measures like short-term layoff rules and reinforced unemployment benefit make strong contributions to this rise. In addition, pension incomes are rising relatively quickly this year.

Next year the number of hours worked is estimated to increase. At the same time, layoff pay will be phased out and the uprating of income-related pensions will be low. Taken together, this results in weaker tax base growth in 2021 than in 2020; the increase is estimated at 1.5 per cent.

Unique situation for public finances

The major central government spending initiatives mean that we expect that, for the first time in ten years, the local government sector will not show a deficit in its net lending. At the same time, the aggregate deficit in general government net lending will be large, as much as 4.0 per cent of GDP. Next year the deficit is estimated to be lower: 3 per cent of GDP. Since central government spending initiatives amounting to more than SEK 100 million have been announced in the Budget Bill, there is a distinct weakening; at the same time, net lending is reinforced as a share of GDP by the economic upturn: high growth of GDP and employment, in particular, strengthen tax bases. However, we expect deficits in net lending throughout the period up until 2024.

Central government debt has decreased as a share of GDP for a long time. Municipalities and regions, however, have had a gradually rising debt. This is explained, not least, by population increases in the groups older people and children and young people, which have pushed up cost increases. Moreover, the major investment needs for schools, preschools, hospitals, water and waste water facilities and elderly housing have added a stream of rapidly growing expenditure. Local government sector debt as part of the Maastricht debt increased from 5 per cent of GDP in 1995 to 12 per cent in 2019, the same year when the aggregate debt came down to 35 per cent (which is within the debt anchor).

Up until 2024 we expect the compensation rate in transfer systems to follow average wage growth and local government consumption expenditure to follow demographic needs. Some of the balance weakening that follows from the Budget Bills for 2019–2021 is assumed to be permanent. This means that the Maastricht debt continues to rise, as a share of GDP; it is estimated to be above 43 per cent in 2024.

When the economy stabilises, there will be stronger demands for central government to follow the fiscal policy framework. Then the local government sector cannot be expected to receive grants at the present rate. However, the long-term effects should be taken into account. What will be the consequences of the local government part of the Maastricht debt being its fastest growing part in the long term?

Continued pressure from demography

The demographic challenge is due, with some simplification, to **the number of people in need of welfare services rising faster than the number of working-age inhabitants**. At the same time, it is the working-age population that has to take care of both the financing and the staffing of welfare services. In rough terms, welfare service needs will increase by about 1 per cent per year in the coming ten-year period. It is principally elderly care that is coming under strong pressure from rising needs, and health care is also affected. This is because we are getting older and older and are able to live with a greater number of more serious diseases. Essentially, this is a good thing, but it does contribute to considerable challenges for staffing and financing.

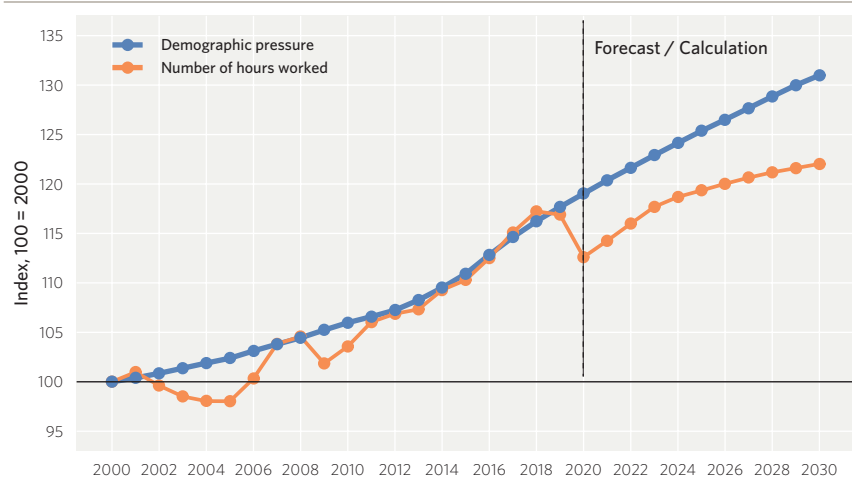
On the basis of Statistics Sweden's population forecasts in recent years, preschools and schools, for instance, were expected to remain under strong pressure. Following a downward revision of birth numbers and family member immigration in Statistics Sweden's forecast, the pressure seems to decline slightly in the coming ten-year period. However, a bounce-back cannot be ruled out when the effects of the pandemic eventually ease.

In recent decades, costs and the number of persons employed in the local government sector have increased much faster than is justified by demographic trends, mainly as a result of a raising of ambitions.

The development that the sector has seen to date will not be possible in the future. **Most indications are that staffing will not be able to keep pace with welfare service needs.** It has long been known that we would face a demographic challenge with an ageing population. A number of measures have been discussed, such as higher taxes, higher charges, a higher pensionable age, greater labour immigration, lower ambitions and efficiencies. Recently, digitalisation has been put forward as a strong candidate. Promotion and preventive work is also way of slowing down increases in needs and contributing to better use of the resources available. It is not likely that any single measure will be sufficient to cope with the challenge. In contrast, many smaller contributions from a number of different measures can be sufficient to cope with the challenge. The possibilities of an expanded and extended working life will be considered in a recruitment report to be presented by SALAR later in the autumn.

The situation looks different in different parts of Sweden. In rural municipalities the number of inhabitants who are 80 or older will increase by an average of 33 per cent in the coming ten years, while the number of people of working age will decrease by 9 per cent. Many municipalities will be faced with extreme challenges. How are they to go about looking after more older people in elderly care when there is no possibility of a matching recruitment of new staff? How are they to expand their service without the aid of more hands, or with fewer hands? What can be done with digital technology? What can be done remotely? Can we get more people to want to work for us? Can we get those people who already work for us to want to work for another couple of years?

Figure 1 • Growth of employment (hours) and demographic pressure
Index 2000=100



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

Even though population forecasts have been revised downwards on account of the pandemic and other factors, demographic needs are expected to rise faster than employment. The demands for quality and welfare services are not going to decrease.

More people need to work

It is easy for the sole focus at present to be on the COVID-19 pandemic. However, it is important to plan for the demographic reality described above. Against that background, it is particularly important that more people of working age are employable and that more people retain their health up to a high age.

Even before the COVID-19 pandemic, there were many long-term unemployed people who had not found a job despite several years of strong demand for labour. This is explained by the discrepancy between what employers are looking for and the skills of unemployed people. The pandemic is likely to accelerate the ongoing structural change in the labour market. That risks further increasing the imbalance in the labour market since more people do not have the skills being sought. The competition for jobs is judged to be particularly tough for new entrants to the labour market who do not have upper secondary education.

An upper secondary qualification is the single most important factor for the possibilities of becoming firmly established in the labour market and is also essential for higher education. Moreover, a good education has positive consequences for both a healthy lifestyle and mental health, which increases the chances of staying in good health to a high age.

Increased demands for centralisation

Demographic developments with their effects on both finances and staffing reinforce the demands for an efficient organisation of the public sector. In the wake of the pandemic several commentators have advocated more centralisation and less self-government at local or regional level. Even though these proposals are often based on demands for equity, it is worth discussing how such a centralisation would actually be carried out and what effects it would have.

Local self-government has served Sweden well. In addition to being necessary if democracy is to function at local level, it makes sure that local circumstances are able to steer and prevents the concentration of power. It also delivers more accountability than would be possible if service provision was organised by central government.

The advantages of service provision organised by municipalities and regions are seldom discussed, nor are the risks of a takeover by central government. Collaboration and coordination at local level between different services is necessary to ensure that resources are used well and that services are efficient. It is highly unclear how this coordination would function when central government is to decide via various ministries and government agencies. It will be difficult for government agencies to decide at central level where best to locate individual schools, health centres or care homes for older people so as to best meet local needs. To cope with this, central government would need to build up gigantic administrative organisations in the country that would also need to coordinate their work with politics at local level. Another point to consider is what central government would do with the schools in the municipalities that have prioritised schooling and therefore put more money into them. It is also unclear whether advocates of centralisation issues are arguing that central government should take over everything in, for example, school education, health care or elderly care or whether responsibility for these services should be shared between central government and the local government sector. There are many questions and they require careful consideration!

The dilemma of the municipalities – strong net income but growing challenges

In 2020 the municipalities entered a couple of years with slightly weaker net income than in the preceding three years. Many municipalities had started work on efficiencies and savings to cope with the demographic situation awaiting them. This led to a decrease in costs in constant prices in 2019. In part, this is also explained by the winding down of certain services after the great wave of refugee reception in 2015. But, even discounting this, the cost increase was the lowest since 2008. Despite making savings, 68 municipalities had deficits in 2019, and 2020 looked even more difficult. This resulted in the Government making an announcement in January 2020 of SEK 3.5 billion in additional funding for the municipalities and in the Riksdag later approving further additional funding of SEK 1.7 billion.

Starting in March the municipalities began to be strongly affected by the pandemic. To begin with it was about getting hold of personal protective equipment, managing and containing community transmission, changing over to digital tuition in upper secondary schools and meeting the care needs of people with COVID-19 at care homes for older people around the country. Central government intended to cover the municipalities costs, so it increased general government grants by SEK 13.5 billion, and also promised to compensate all additional costs in care of disabled and older people, which are estimated at around SEK 5 billion in the municipalities up to and including November. The fact that central government paid the entire sick pay for all employees up to and including July considerably reduced costs for the municipalities.

The effect of the pandemic has resulted in great pressure in certain services at the same time as demand has been lower in others, including culture, leisure and social daytime services. On account of concern about contagion, the demand for special housing and home care services has been lower, as has the demand for childcare, which has been used for shorter periods than normal since many parents have been working from home.

In the autumn it became clear that the tax base would not be affected as much as had been feared by the pandemic and that the additional general

grants provided by central government are larger than the tax-base effect. This, in combination with the other grants and the lower demand for many services, means that many municipalities will close 2020 with a large financial surplus; the aggregate figure is put at more than SEK 30 billion. The dilemma for the municipalities now is to hold back the expectations that follow from their strong net income. Because the long-term challenges that the municipalities had before the pandemic are still there. They must prevent their services from swelling since efficiencies must be made to manage their finances in the third year of their statutory budget planning period, where there will still be a negative financial gap if costs are allowed to rise in pace with their population.

A year of upheaval for the regions

The weakening of the economy that started last year led four regions to increase their tax rate in 2020, and many regions entered 2020 with a target for savings to be made. Now the assessment is that high general government grants and compensation for additional costs and sick pay, in combination with health care postponed, will probably lead to strong levels of net income in 2020. This is despite substantial revenue losses in public transport and public dental services. The forecast for 2020 means net income of just under SEK 9 billion. This is a strong improvement on the forecast based on the spring interim reports. In 2020 the Riksdag has, on account of the pandemic, approved increases in general government grants on a historic scale: SEK 9.75 billion.

Health care has undergone a major transition as a result of the pandemic. The provision of health care was changed rapidly so as to be able to care for a large number of contagious and severely ill patients and to contain transmission. The number of intensive care beds was more than doubled at the same time as planned health care decreased sharply, even though the regions' objective has been to maintain that service. In most regions, however, care that could be postponed has been moved to later dates; this applies to both operations and clinic visits. Cooperation with municipal health care has been developed, and part of the transition in health care has meant great advances. The transition to local health care has been given momentum. The collaboration between municipal health care and regional psychiatric services, in particular, has made advances in the light of the new situation. Strategic development of services has had to be deferred to make space for everyday developments driven by the pandemic.

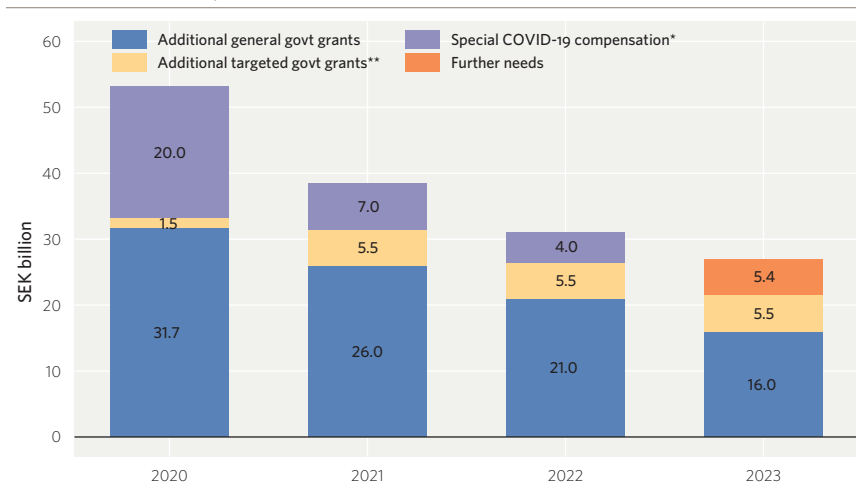
Measures to deal with the pandemic have resulted in sizeable additional costs. In an application to the National Board of Health and Welfare, the regions have estimated the additional costs attributed to COVID-19 at a total of SEK 11 billion up to November this year. In addition, the costs of the broad, large-scale testing are being handled separately through an agreement between the Government and SALAR. At the same time, it has been necessary to postpone a great deal of planned health care. For the whole of 2020, for example, the number of treatments/operations is estimated to be 15 per cent lower than in 2019. The number of in-patient discharges started to decrease in March, and this decrease was reinforced in April. In the first half of 2020 there were just over 65,000 fewer discharges than in the previous years, even though 20,000 people with COVID-19 diagnoses were cared for in hospital during this period. The Government has allocated SEK 4 billion in both 2021 and 2022 to support the regions in dealing with the health care postponed. A review with the regions concluded that there is a strong will to already start

working off the queues in 2021 both by using their own resources and by purchasing external services. There is great uncertainty about what resources will be required to deal with the queue situation that has arisen. Action plans are now being drafted within the regions. An initial assessment is that the SEK 8 billion allocated will be sufficient to deal with the queue situation caused by COVID-19.

Income from services has also been affected by the pandemic. Public transport has been hit particularly hard in the form of lower ticket income since travel has decreased sharply. For 2020 the revenue loss in public transport is estimated at SEK 7 billion compared with 2019. Clarity about continued targeted support from central government is necessary to give public transport stable assumptions for its planning. The compensation to regional public transport authorities for loss of ticket revenue decided and proposed to date of SEK 3 billion this year and SEK 2 billion is much lower than the revenue shortfall and additional costs resulting from the pandemic, including reinforcement services.

In 2021 and 2022 the finances of the regions look relatively good, partly due to government grants for health care postponed. But the economic situation already looks worse in 2023, with a need for measures of around SEK 2 billion, but there is great uncertainty.

Figure 2 • Development of government grants and demography in municipalities and regions
Increase in SEK billion compared with 2019



In 2020 the government grant increase was the largest ever received by the sector. The level of the grants decreases in coming years. In 2023 further measures corresponding to SEK 5.4 billion are required if costs are allowed to increase in pace with the population.

*2020: public transport, testing, etc. 2021: schools SEK 1 billion, public transport 2 billion, health care postponed SEK 4 billion. 2022: health care postponed 4 billion.

**This includes targeted government grants not by themselves estimated to result in additional costs 2020: Local health care SEK 1.5 billion. 2021–2023: Local health care SEK 1.5 billion, elderly care SEK 4 billion.

Source: Swedish Association of Local Authorities and Regions.

Welfare services delivered remotely

In the initial months of the COVID-19 pandemic there was an explosive increase in the use of digital services. What had taken years to implement now had to be implemented in a short space of time. There was also a dramatic increase in the number of digital health care consultations. Several health care providers introduced digital tools for case histories, guiding and triaging.

A rapid transition was also carried out in the area of education. When upper secondary schools, adult education, higher vocational education and universities closed for physical tuition in 17 March, 800,000 pupils and stu-

dents had to be quickly offered remote tuition. The common picture shared by SALAR and education authorities is that tuition has worked well despite the prevailing situation but that this has not been without challenges.

The higher rate of transition needs to be retained against the background of the demographic challenge facing the local government sector. The question is whether hopes have been set too high in the short term. Many believe that the possibilities are very great in the long term, but the demographic challenge is at its height now and in the coming decade.

One obstacle to faster digitalisation is that certain essentials are not in place. Infrastructure needs to be expanded, both on the hard side (e.g. broadband) and on the soft side (e.g. standards, law, storage). There are legal obstacles in, for example, the Patient Data Act, the Act on the processing of personal data in the social services and in acts that affect how cloud services are used. The terms and conditions for public procurement need to be modernised. At the same time, welfare services need to phase out old technology and invest in new solutions. Moreover, sustainable financing models are needed between central government, the municipalities and the regions.

A great deal of activity is under way to deal with much of this both at national level and at regional and local level. For instance, all the regions are making historic investments in new or enhanced information environments that enable smarter ways of working and more resource-efficient information management. In social services and health care, SALAR and the Government have agreed on a long-term strategy and concrete implementation plan to increase the pace of the digital transition. The digital transition in schools and learning is being supported and accelerated through work on a schools digital plan. SALAR and Inera* are working together with Sweden's municipalities to put together a roadmap for joint digital investments by municipalities.

SALAR has submitted a proposal for a 'Sweden negotiation' to the government-appointed Welfare Commission. Its purpose is to establish a common vision, a long-term model for cooperation and cofinancing of essential investments. Central government needs, for instance, to take an overall responsibility for the bulge funding needed to deal with the essential initial investments.

*Inera is a limited company owned by regions, municipalities and SKR. Its mission is to create conditions for the digitalisation of welfare services by supplying its owners with common digital infrastructure and architecture.

ANNEX

This annex presents some key indicators and the overall income statements of municipalities and of regions, 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 regions separately, tables presenting overviews of central government grants and other data that we used to 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.skr.se, choose Ekonomi, juridik, statistik/Ekonomi/Sektorn i siffror.

An aggregate picture of municipalities and regions

Table 21 • Key indicators for municipalities and regions
Per cent and thousands of people

	Outcome Forecast		Estimate		
	2019	2020	2021	2022	2023
Average tax rate, %	32.19	32.28	32.28	32.28	32.28
municipalities, incl. Gotland	20.70	20.72	20.72	20.72	20.72
regions*, excl. Gotland	11.55	11.62	11.62	11.62	11.62
	Outcome Forecast		Estimate		
	2019	2020	2021	2022	2023
No of employees**, thousands	1,197	1,188	1,188	1,196	1,204
Municipalities	893	883	884	893	900
Regions	305	304	303	303	304
Volume change, %	0.5	1.0	2.7	0.4	0.8
Municipalities	-0.4	-0.5	3.3	0.9	1.0
Regions	4.4	1.5	-0.8	0.6	1.0

*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 22 • Aggregate income statement for the sector

SEK billion

	Outcome Forecast		Estimate		
	2019	2020	2021	2022	2023
Income of activities	228.7	238	246	249	253
Expenses of activities	-1,093.4	-1,120	-1,171	-1,196	-1,231
Depreciation/amortisation	-38.4	-41	-44	-46	-49
Net expenses of activities	-903	-924	-968	-993	-1,026
Tax revenue	752.7	762	777	804	836
Gen. govt grants and equalisation	162.7	204	205	201	198
Net income of activities	12.4	43	14	13	8
Net financial income	13.4	-1	5	4	3
Net income after financial items	25.8	42	19	17	10
<i>Share of taxes and grants, %</i>	2.8	4.3	1.9	1.7	1.0

Note: Purchases between municipalities and regions have been consolidated.

Table 23 • Income statement for the municipalities

SEK billion

	Outcome Forecast		Estimate		
	2019	2020	2021	2022	2023
Income of activities	160.6	160	170	175	177
Expenses of activities	-712.9	-720	-755	-776	-800
Depreciation/amortisation	-26.2	-28	-30	-31	-33
Net expenses of activities	-578.5	-588	-615	-633	-657
Tax revenue	483.8	489	499	516	536
Gen. govt grants and equalisation	101.8	129	127	124	122
Net income of activities	7.1	30	11	7	2
Net financial income	9.8	3	5	5	5
Net income after financial items	16.9	33	16	13	7
<i>Share of taxes and grants, %</i>	2.9	5.3	2.6	2.0	1.0

Table 24 • Income statement for the regions

SEK billion

	Outcome Forecast		Estimate		
	2019	2020	2021	2022	2023
Income of activities	70.9	81	79	77	79
Expenses of activities	-383.3	-403	-419	-423	434
Depreciation/amortisation	-12.2	-13	-14	-14	-15
Net expenses of activities	-324.5	-336	-354	-360	-370
Tax revenue	268.9	273	278	288	299
Gen. govt grants and equalisation	60.9	75	79	77	76
Net income of activities	5.2	13	3	5	6
Net financial income	3.6	-4	-1	-1	-2
Net income after financial items	8.9	9	3	4	4
<i>Share of taxes and grants, %</i>	2.7	2.5	0.8	1.2	1.0

Source: The Swedish Association of Local Authorities and Regions.

The Economy Report, October 2020

On Swedish municipal and regional finances

Knowledge about COVID-19 has increased since the spring, but there is still considerable uncertainty. We do not know how severe the increase in transmission we are now seeing will be or what consequences it will have. As a basis for our calculations, we have made an assumption that its effects on the economy will decline gradually over the course of this year and next year. Just now we are seeing a strong GDP bounce-back all over the world, including in Sweden. But it will still be a long time before we can assume a normal situation. Previous risks persist, and are now also accompanied by major risks of a deterioration in the functioning of the economy, not least in the labour market.

This has also been a bewildering year regarding municipal and regional services. In the spring a rapid transition had to be made in ways of working. Health care resources were redirected to COVID-19 patients while upper secondary schools, adult education, higher vocational education and universities switched to remote tuition.

Local government finances are being rescued, in the short term at least, by strong increases in central government grants at the same time as cost increases have been slowed. Unfortunately, the possibilities of coping with the underlying demographic challenge appear to have deteriorated since the pandemic has led to increased and accumulated needs of welfare services. On the other hand, central government, the municipalities and the regions have displayed an adaptability that promises well for the future.

The question of transferring municipal or regional services to central government or other centralisation reforms, as advocated by some commentators, is not the right medicine in this situation.

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 regions. The calculations in this issue extend to 2024.

The report can be downloaded from the website of Sveriges Kommuner och Regioner: www.skr.se. Choose English pages and then Publications.

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