The Economy Report, May 2018

ON SWEDISH
MUNICIPAL AND COUNTY COUNCIL FINANCES

Sveriges Kommuner och Landsting

Information
Niclas Johansson phone +46 8 452 77 64
Nils Mårtensson phone +46 8 452 78 86
Annika Wallenskog phone +46 8 452 77 46

1st edition, July 2018

ISBN 978-91-7585-5403-1
ISBN 978-91-7585-541-7 [Swedish edition]
ISSN 1653-0853
Cover illustration Jan Olsson Form & illustration AB
Graphic form & production Elisabet Jonsson
Diagrams Håkan Hellstrand, Elisabet Jonsson
Printers ABA Kopiering AB, Stockholm
Paper Colotech 200 gr (cover), Colotech 120 gr (insert)
Fonts Chronicle och Whitney.

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 2021.

In this spring's report we describe how expected demographic changes will lead to future difficulties in the financing of and recruitment to the local government sector. One conclusion is that a stronger focus on efficiency measures is needed to handle this, on the part both of municipalities and county councils and of central government.

This is an abridged version of the report. It contains the Summary and chapter 4 on labour supply, as well as an Appendix. 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 2018

Niclas Johansson
Head of Section,
Department of Economy and Governance

Swedish Association of Local Authorities and Regions

Contents

Summary

Judging from their record strong levels of net income, the municipalities are in a strong position. Despite this developments cannot continue as they have until now. The nature of the increases in needs in the coming years means that they cannot solely be addressed by additional resources. Considerable efficiencies will also be required.

Strong economic situation both internationally and in Sweden

The Swedish economy is very strong; global GDP is expected to perform strongly, rising by 3.9 per cent this year, and just as much next year. Growth is also stronger in the EU than it has been up to now in the recovery phase after the most recent financial crisis.

At the same time, the situation in the world is uncertain and developments can move in different directions. Brexit may affect economic growth, as may US trade policy. Conflict areas in the Middle East, Asia and Africa affect the geopolitical and economic situation in the world.

After many years of strong economic growth Sweden is now ahead of the EU in the economic cycle. There is a clear boom here, with a large shortage of labour, especially in the public sector. This shortage of labour is a factor that will be a strong restriction on continued strong growth. We expect tax revenue in municipalities, county councils and regions to rise much more slowly in the coming years than they have done in past years. The main reason is that the number of hours worked will not be able to continue to increase at the same rate as up to now.

Strong net income in the local government sector

As a result of rapidly rising revenue from taxes, government grants and capital gains, net income has been strong for some years in the municipalities. Their aggregate net income is around 3 per cent of taxes and government grants over the last ten years, even though there are considerable differences between municipalities. The many good years enjoyed by the municipalities can also be seen in the fact that their average tax rate now is at the same level as in 2005. At the same time, there has been a slight increase in the differences between municipalities. Some mediumsized municipalities, especially suburban municipalities, have reduced tax rates, while several small municipalities have increased them.

Dark clouds in municipal finances

Despite strong levels of net income, net lending in municipalities has been negative. This means that municipalities have used more money than they have received, on account of their high rate of investments, which is estimated to be twice as high in 2020 as it was in 2008. This has also led to an increase of 26 per cent in municipal borrowing since 2012.

Asylum and refugee reception also have an impact on municipal finances and services. Many municipalities with large reception numbers have reinforced their finances temporarily, because central government payments have exceeded their costs to date, while other municipalities have not been able to recover their full costs for reception services.

All municipalities share the uncertainty that the effects of refugee immigration will have on their financial development in the coming years.

A further uncertainty is what is happening in the area of legislation on support and services for people with certain disabilities. Here, too, the consequences have been different for different municipalities. As a result of the assessments made by the Supreme Administrative Court and Försäkringskassan [Swedish Social Insurance Agency] many municipalities have now incurred considerable cost increases for personal assistance when the municipality has had to take on costs previously met by central government. The legislation is unclear and open to different interpretations. It will take until at least 2020 for the effects of the ongoing inquiry into this legislation to be able to have an impact.

County councils and regions in a much more difficult situation

County councils and regions have already been affected a great deal by demographic developments. Their aggregate net income has been under 1 per cent as a proportion of taxes and government grants in the past ten years. The economic situations of county councils and regions differ, but the county council sector has had more than difficulty than municipalities in restraining costs. All county councils and regions, apart from Stockholm County Council, have increased their tax rates in recent years. This means that the average tax rate has increased by 0.05 per cent per year.

Costs are increasing despite constant efficiencies in health care. The development of the most expensive somatic diagnostic group, »Diseases of the circulatory system«, is one example. Preventive interventions, better medicines and more effective health care processes mean that the cost both per patient and per inhabitant has decreased, as have mortality and the risk of suffering a stroke or heart attack. It has been possible to use the resources released to treat other and new diseases in older and older patients.

Future challenges for welfare services

Welfare services have major investment and recruitment needs. The large cohorts in the 1940s mean that the proportion of older people in the population is now rising. Moreover, high birth rates and immigration are increasing the proportion of children and young people. Infrastructure was largely built in the 1960s–1980s and is now facing considerable restoration and newbuild needs. The economic crises of the 1990s meant low tax revenue for municipalities and county councils, at the same time as needs were increasing. The scope for investments and maintenance was minimised, and after that it did not reach the level necessary until the 2010s, after the financial crisis. In combination with major reception of asylum seekers, especially in 2015, this contributes to needs caused by demography and investment needs being very high now and for some years to come. Investments in municipalities and in county councils and regions will take an increasing share of resources. Against this backdrop, the need to build preschools, schools, hospitals and water and sewage systems is great, as is the need to make the use of existing premises more efficient, partly through new technology. For instance, municipalities need to build well over 1,000 schools and preschools up until 2021. This is an increase of the total stock by more than 10 per cent. As a result of the competition for labour, construction processes are taking more and more time and costs have risen.

Major recruitment challenges

The high demographic pressure mainly comes from a rapid increase in the number of children, young people and older people, at the same time as the proportion of people of working age is increasing much more slowly. It is happening at the same time as a large group of doctors, nurses and other healthcare professionals have recently retired. This contributes to a high workload in health care, which has to be addressed by a larger proportion of young new employees. In the municipalities this is mainly seen in the shortage of educational staff, technical staff in infrastructure services and social workers. In the longer term immigration will make a positive contribution to employment and, without immigration, the labour force would decrease in the coming years.

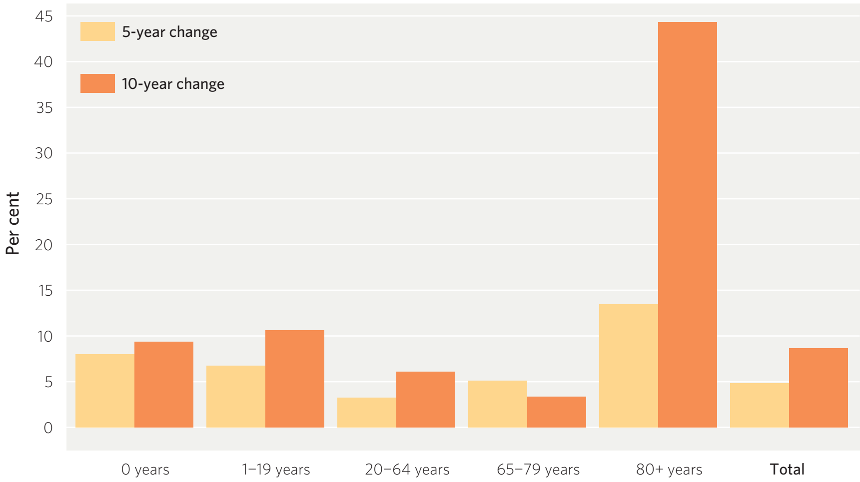
Overall, the recruitment challenge is going to grow. If costs and the number of employees continue to increase at the present rate, i.e. faster than demographic needs, the whole net increase in the labour force up until 2025 would need to go to services in the local government sector. This is not a realistic scenario, so we have changed our calculation methods from previous Economy Reports, and now assume that resources will increase in line with demographic needs. This means that costs and the number of employees are estimated to increase at the same rate as the needs of welfare services. One effect of this calculation is, for example, unchanged staffing ratios. Previously costs, and therefore employment, in welfare services increased 0,5–1 per cent faster per year than demography, so an increase in pace with demography is a trend break from the previous growth rate.

Historical events have generated fresh thinking

The economic crisis of the 1990s led – in addition to tough rationalisation – also to an awareness of and insight into the importance of making changes and taking efficiency measures while maintaining high quality. This applies particularly to health care. The need for a transition arose in parallel with

The number of people aged over 80 years increases fastest in both the next five and the next ten years. This is the group that has most needs per inhabitant in municipalities and county councils. The group that is increasing most slowly is people of working age, which accounts for the bulk of tax revenue. Their needs of welfare services per inhabitant are only a tenth of those in the oldest population group.

Figure 1 • Population increase in various age groups compared with 2017
Percentage increase



Source: Statistics Sweden, April 2018.

technical developments that have really benefitted health care in Sweden and the patients cared for. Treatments increasingly take place with short waiting times or in primary care, with ever better quality. This has made it possible to improve advanced care and to reduce the number of hospital beds.

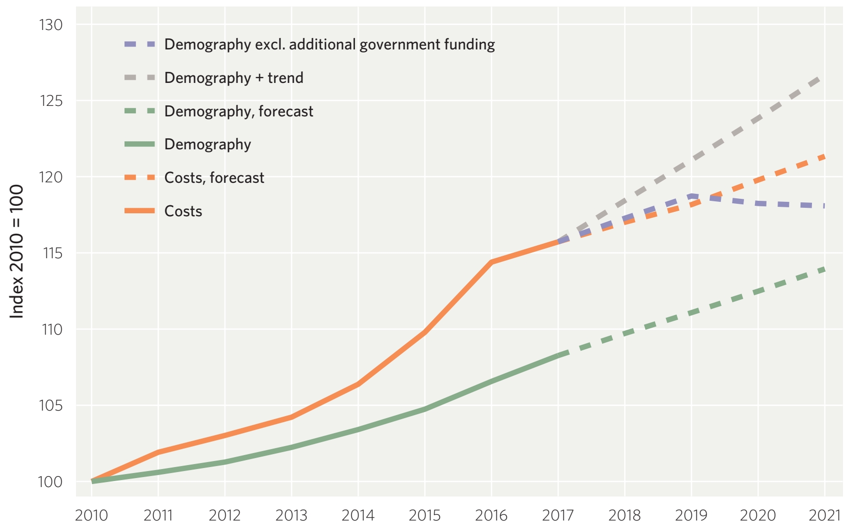
During the large refugee immigration in 2014–2015 many municipalities did fantastic work to cope with receiving all the asylum seekers, especially children and young people. This also contributed to greater awareness about how our systems of governance at local and national level function, especially how central government regulations contribute to fostering or hampering development and flexibility in welfare services.

Future mission: to cope with skills planning and the quality of welfare services

The first challenge in welfare services in the coming years is to be able to recruit staff, and the second challenge is financing. Our calculations have previously been based on the resources supplied to welfare services increasing at the same rate as up to now. The assessment we now make is that this will not be possible in view of the situation for skills planning and provision in the future. Our calculations therefore assume that these resources will increase in line with demographic developments.

An unchanged commitment for welfare services also makes great demands on municipalities, county councils and regions. It means that the number of employees needs to increase substantially in the coming years. Up until 2025 the number of employees needs to increase by 124,000 to maintain the present level of services. The total net increase in employment up until 2025 is estimated at around 207,000, so municipalities, county councils and regions would need to recruit 60 per cent of the net increase in employment. If employment continues to rise at its rate up to now , the entire increase in employment would need to go to the local government sector. This is not realistic. Instead productivity needs to increase in the public sector, as well as in the private sector, to enable us to cope with skills planning and provision in the future.

Figure 2 • Demographic developments and cost growth in constant prices
Index, 2010 = 100

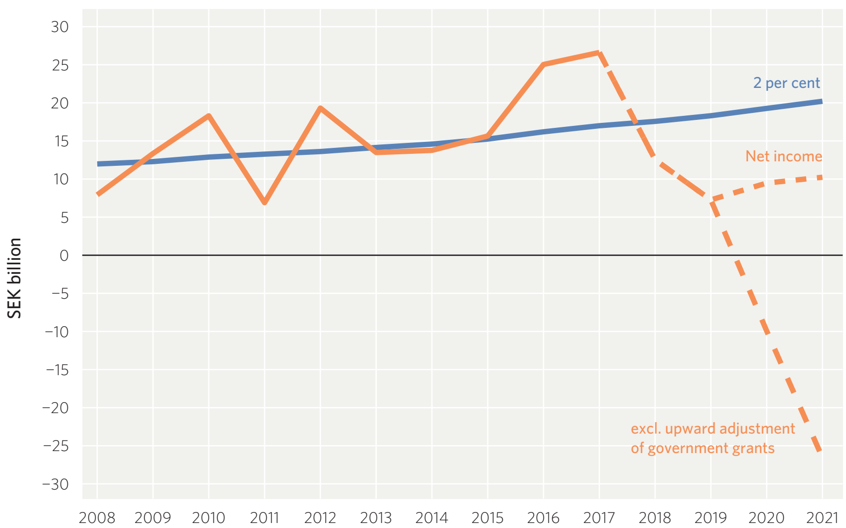


Source: Swedish Association of Local Authorities and Regions.

The figure shows how demography, in the form of the size and age structure of the population has increased since 2010 (green line). The unbroken orange line shows how costs expressed in constant prices have grown. They have grown faster than the population. The increase in 2016 is due to refugee reception. We now assume that costs will only increase in line with demography (the broken orange line). This means that the cost increase must be slower than it has been up to now. If costs continue to rise at the same rate as up to now , they would rise according to the broken grey line. If more resources than announced in the Budget Bill for 2018 and the Spring Fiscal Policy Bill are not provided for welfare services, there must be a considerable downward shift in costs (according to the broken mauve line). This would involve lower staffing ratios, for instance.

Financing is also a challenge. To achieve net income corresponding to 1 per cent of taxes and government grants while maintaining their welfare services commitment, municipalities, county councils and regions must receive an additional SEK 37 billion in government grants up to and including 2021. To achieve its new savings target of 0.33 per cent of GDP up to 2021, with this additional funding for the local government sector, central government would need budget reinforcements of about SEK 20 billion in 2021. Without an increase in general government grants and with no change to its welfare services commitment, the local government sector would have net income of minus SEK 27 billion, with unchanged taxes after 2019. This includes a tax rate increase of 0.20 per cent in 2019, corresponding to SEK 5 billion in 2021.

Figure 3 • Net income of municipalities and county councils if resources for services increase in line with demography
SEK billion



Source: Swedish Association of Local Authorities and Regions.

Without increases in government grants and with no change in their welfare services commitment, municipal and county council services would show a deficit of SEK 27 billion in 2021. In this forecast the tax rate in the sector has been increased by 0.20 per cent in 2019. The remaining financing is reported as an increase in needs in the form of higher government grants. If the level of government grants increases by SEK 37 billion in 2021, municipalities and county councils would achieve net income of 1 per cent of taxes and government grants, i.e. half of the target normally used as a measure of healthy finances in the sector.

In the face of coming challenges, municipalities, county councils and regions will have to deliver services in a completely different way from today. Steps are already being taken in the sector, but more development and change will be required in the coming years since expectations on welfare services are continuing to increase.

Success in the transitions that must be made will require:

- **Making better use of the potential of technology.**
  Many specific welfare services and processes in most professions can be made better and more costeffective by using the possibilities provided by digitisation.
- **More collaboration.**
  Collaboration must increase between municipalities and between county councils and regions. There are many tasks that can be performed in cooperation in order to keep costs down and raise the quality of welfare services. It will be possible to realise that possibility in an even better way with the new act on collaboration that is expected to enter into force in July 2018.
- **Central government management on the basis of local needs.**
  Recent years have seen a strong increase in targeted government grants regulated in detail, while general grants have decreased as a share of total grants. This has led to greater ineffectiveness and has made it more difficult to manage, develop and change services. To achieve the desired effect, central government management needs to be based to a much greater extent on local needs. We propose making government grants for school education more developmentcentred and government grants for health care more long term and strategic.
- **Recruitment strategies for jobs in welfare services.**
  At present, municipalities, county councils and regions are already working with various recruitment strategies to meet their demographic challenges, reduce recruitment needs and increase their attractiveness as employers. Work on these strategies – for example, extending and further developing working life, viewing fulltime work as the norm and making smarter use of skills – will continue to contribute to the development of welfare services.

CHAPTER 4

Labour supply

The chapters on the finances of municipalities and county councils [not translated] describe the needs caused by demography and what is required in the form of financing to be able to put these services in place. But financing is only one of the restrictions – the supply of suitable labour is another.

SALAR's recruitment report for 2018, called *Sweden's most important jobs are in welfare services,* estimates that the welfare services sector (including private providers) needs just under 200,000 more employees in 2026 than in 2016. Moreover, 300,000 retirees need to be replaced. We assume unchanged resources per user/patient/pupil. If services continue to grow at the same rate as up to now, 0.5 to 1.0 per cent faster than the population, the staffing need rises by a further 70,000 employees. Needs rise fastest in elderly care and in upper secondary schools.

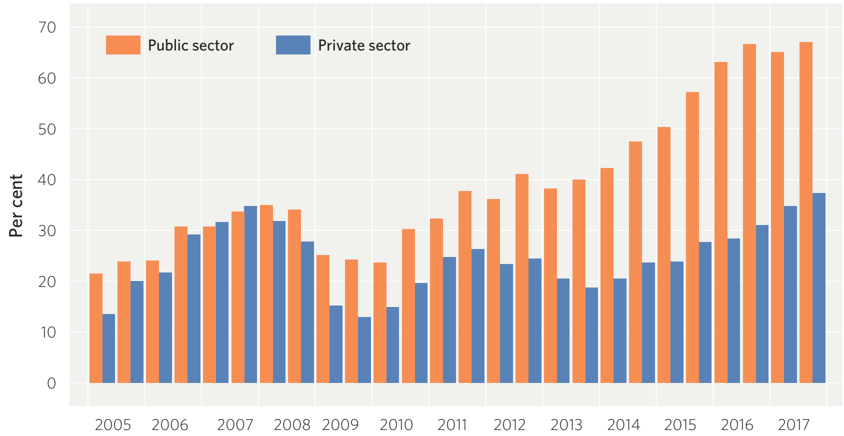
The recruitment report shows how recruitment needs would decrease if better use was made of technology, if more people went from part time to full time work and if working life was extended. Recruitment needs in the welfare services sector also affect how much competition there will be for labour in the whole of the labour market.

Statistics Sweden has a similar picture of needs; according to its publication *Trends and forecasts 2017* the number of employees in public services is estimated to increase by 400,000 up to 2035. On the basis of the distribution of the labour force over different education and training programmes and calculations of the position regarding labour force entrants, Statistics Sweden has also looked at how well the labour force in 2035 will match demand. The large areas of shortages are expected to be people with an upper secondary vocational education, people with a teaching qualification and specialist nurses.

The shortage of labour is not something that just risks occurring ten years from now. There are already apparent difficulties in recruiting staff. Figure 34 reproduces results from the Swedish Employment Service's survey to employers about their recruitment situation. A clearly higher share of public employers say that they have recruitment problems compared with the business sector. If the position gets worse, it will do so from what is already a difficult situation.

Figure 34 • Labour shortage

Proportion of workplaces with recruitment problems, per cent, semiannual figures



Much larger recruitment problems in the public sector than in the business sector.

Source: Swedish Public Employment Service.

30 per cent of the increase in employment in 2007–2017 went to municipalities and county councils

How do the projections in this report compare with the above descriptions? Between 2007 and 2017 the number of people employed in the welfare services sector rose by 134,000, or 1 per cent per year (table 16). Since average working hours have also increased, the change in the number of hours worked was 1.3 per cent per year. These figures include all employees in services financed by local government irrespective of whether they are local government employees or employees of companies from which municipalities and county councils buy services.

In the same period total employment in Sweden rose by 488,000. This corresponds to an annual increase of 1 per cent. The number of hours worked increased by just under 1 per cent per year. The period 2007–2017 was one of relatively rapid population increase and higher labour force participation.

60 per cent of the increase in employment in 2017–2025 is needed in municipalities and county councils

Between 2017 and 2025 the picture is radically different. The annual increase in total employment in our calculations is only half of what it used to be, both the number in employment and the number of hours worked increase by 0.5 per cent per year. The population of working age is not increasing as quickly and the high labour force participation falls slightly as a result of the composition of the labour force.

In contrast, needs increase in municipal and county council services. This is because of the rapid rise in the number of young and older people. The means that the needs caused by demography will increase more quickly than in the past ten years. If local government consumption is to keep pace with demography, this means an average growth rate of 1.1 per cent per year up until 2025.

Table 16 • Changes in employment, total and in local government sector
Thousands and annual percentage change

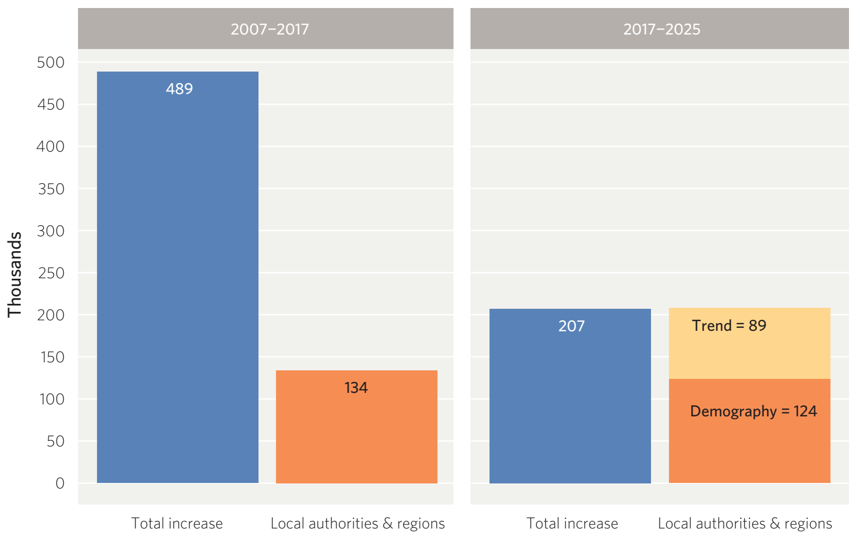
	2007	2017	2025	2007–2017	2017–2025
Number employed					
Total	4,525	5,013	5,220	1.0 %	0.5 %
Municipalities & county councils	1,120	1,189	1,298	0.6 %	1.1 %
Local government financed	1,224	1,358	1,482	1.0 %	1.1 %
Other sectors	3,300	3,655	3.738	1.0 %	0.3 %
Hours worked					
Total	7,313	8,051	8,374	1.0 %	0.5 %
Municipalities & county councils	1,648	1,799	1,964	0.9 %	1.1 %
Local government financed	1,806	2,076	2,266	1.4 %	1.1 %
Other sectors	5,507	5,975	6,108	0.8 %	0.3 %
Local government consumption	7,490	8,633	9,423	1.4 %	1.1 %

Source: National Institute of Economic Research and Swedish Association of Local Authorities and Regions.

If we assume that local government financed services increase at about the same rate in the coming period as in the past, but without a higher level of ambition, the increase would be 1.1 per cent up until 2025. The problem is that total employment will increase much more slowly in the coming period.

With the previous pattern, taxfinanced employment would need to increase by about the same amount again. In our calculations we assume that municipalities and county councils can attract the labour needed to expand their services in pace with needs caused by demography. This means that other sectors cannot increase their employment by more than 0.3 per cent per year. This would mean that, to meet these needs, about 60 per cent of the total increase in employment would have to go to jobs financed by municipalities and county councils.

Figure 35 • Change in number in employment, total and local government sector excluding and including trend
Thousands



Source: Swedish Association of Local Authorities and Regions.

If higher levels of ambition are included, employment financed by local government would need to use the whole of the increase in employment.

For a long time cost growth in municipalities and county councils, measured at constant prices, has exceeded needs caused by demography by an average of between 0.5 and 1 per cent per year. With a continued rise in employment according to the previous trend, municipalities and county councils would need to employ the whole of the increase in the labour force. However, in our present calculations we do not include this higher level of ambition and assume, instead, that costs rise in pace with demography, i.e. in pace with the population increase and the change in population structure [more information in chapters 2 and 3 in the Swedish edition]. Without counteracting measures (i.e. reprioritisation, efficiencies, new technology, etc.) higher levels of ambition require additional human resources.

Of course, it is possible to question how realistic the above scenario is. A number of factors will decide the outcome. The consequences of limiting the share of the increase in employment going to local government services to 30 per cent, i.e. around the average for the past ten years, would mean that this employment could only increase by 0.6 per cent per year, which is a much slower increase than follows from demography. This would mean lower staffing ratios. On the other hand, employment in the business sector and central government sector would be able to increase by 0.5 per cent per year, instead of 0.3 per cent.

Increase in the supply of labour can contribute, but the effects are hard to calculate

In times of weak growth in the supply of labour, the competition for labour gets tougher. So, one question that can be asked is whether it is possible to increase the supply of labour. Something has obviously happened regarding the average working hours of employees in the local government sector; according to table 16 the average hours worked have increased 0.4 per cent more than the average number of employees per year since 2007. This has, of course, reduced recruitment needs slightly and may say something about what is possible when it comes to increasing the supply of labour via average working hours. Calculations in SALAR's recruitment report indicate possible effects as being 50,000–60,000 people over a tenyear period for deferred retirement, and a similar effect for longer working hours.

At present, noncyclical unemployment is around 6.5 per cent of the labour force. A large portion of those who are unemployed have a low level of education and/or were born abroad and are also longterm unemployed. Every economic crisis seems to add to the number of unemployed people who are far from work. The Government has proposed an expansion of adult education and vocational education to run until 2022. There is demand for and a risk of a shortage of people with upper secondarylevel vocational education. If unemployment can be reduced by 1 per cent, this can mean more than an additional 50,000 people in employment.

New technology can make major contributions but demands investment

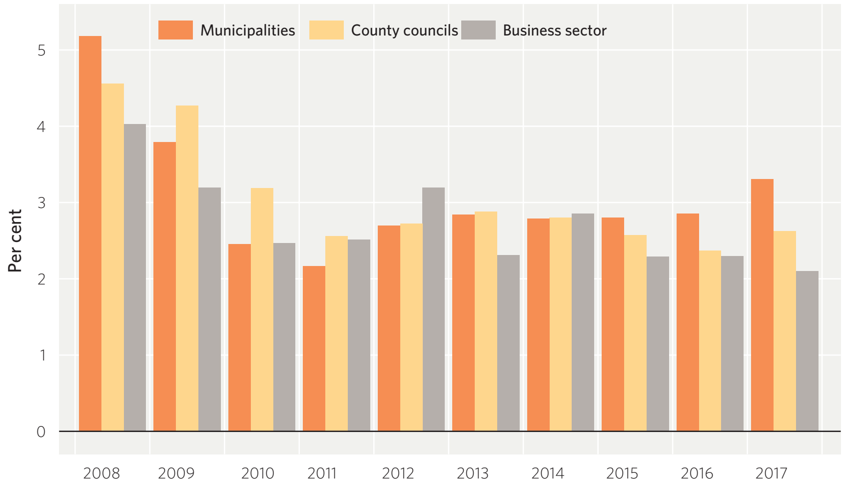
Taking efficiency measures in services can help to release labour from one service/task to move to another. Quite a lot of efficiency measures of this kind are being taken all the time, and they do provide scope for higher levels of ambition. Automation with the aid of new technology may lead to considerable reductions in labour needs. For more information, see chapter 5 Efficiency measures needed to secure welfare services [in the Swedish edition].

For this to happen, workers must have the skills needed to enable the implementation and use of new technology capable of increasing productivity. Studies of the labour force's ICT (information and communication technology) skills carried out by OECD show that half of the Swedish labour force does not have good enough ICT skills to cope with current requirements. If this is not addressed through broad skills planning and development, the risk is that competition for the other half of the labour force will increase, which risks contributing to an even more polarised labour market.

Higher productivity in the business sector is important

Productivity in the business sector also influences the conditions for tax-financed services. Industry has increased value added for a long time, while the number of people it employs has decreased. This ought also be able to apply to private service industries. The question is how a transfer of labour can take place and what is required from, for example, wage formation.

Figure 36 • Changes in hourly pay in different sectors
Per cent



Source: National Mediation Office.

Municipal and county council wages have risen faster than wages in the business sector.

Figure 36 shows that different sectors have had different changes in hourly pay since 2009. Municipalities and county councils have had higher pay increases than the business sector, especially since 2014. There is probably a correlation with the trend described in figure 34, which shows that the public sector is experiencing the largest labour shortage. If the labour shortage continues to be greatest in municipalities and county councils, it is difficult to see that it will not also make an impression on hourly pay in the future.

Employment change is not the same as gross flows

The above analysis is a simplification in the sense that we have only looked at net changes. Changes in employment are net figures derived from total recruitments and total departures. Municipalities and county councils need to recruit constantly to replace retirements and other staff mobility. So the number of recruitments is much larger than the net increase in employment.

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

	Outcome	Forecast		Estimate	
	2017	2018	2019	2020	2021
Average tax rate, %	**32.12**	**32.12**	**32.32**	**32.32**	**32.32**
municipalities, incl. Gotland	20.75	20.74	20.86	20.86	20.86
county councils*, excl. Gotland	11.42	11.44	11.52	11.52	11.52
	Prel. outcome	**Forecast**		**Estimate**	
	2017	**2018**	**2019**	**2020**	**2021**
No of employees, thousands**	**1,189**	**1,200**	**1,210**	**1,227**	**1,243**
Municipalities	901	912	921	934	947
County councils	287	289	289	293	296
Volume change, %	**1.2**	**1.2**	**1.0**	**1.4**	**1.3**
Municipalities	0.8	0.9	0.9	1.4	1.3
County councils	2.1	1.6	1.2	1.2	1.2

*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 18 • Aggregate income statement for the sector
SEK billion

	Prel. outcome	Forecast		Estimate	
	2017	2018	2019	2020	2021
Income of activities	223	227	226	235	243
Expenses of activities	–1,017	–1,060	–1,097	–1,148	–1,198
Depreciation/amortisation	–34	–35	–37	–40	–42
Net expenses of activities	**–828**	**–868**	**–908**	**–952**	**–996**
Tax revenue	703	725	755	778	807
Gen. govt grants and equalisation	147	153	161	185	203
Net financial income	4	2	0	–1	–4
Net income before extra-ordinary items	**27**	**13**	**7**	**9**	**10**
Share of taxes and grants, %	*3.1*	*1.4*	*0.8*	*1.0*	*1.0*

Note: Purchases between the sectors have been consolidated.

Table 19 • Income statement for the municipalities
SEK billion

	Prel. outcome	Forecast		Estimate	
	2017	2018	2019	2020	2021
Income of activities	168	166	166	173	178
Expenses of activities	–673	–699	–725	–760	–795
Depreciation/amortisation	–23	–24	–26	–28	–29
Net expenses of activities	**–528**	**–557**	**–584**	**–615**	**–645**
Tax revenue	454	468	487	502	521
Gen. govt grants and equalisation	92	96	100	117	130
Net financial income	5	4	3	2	1
Net income before extra-ordinary items	**24**	**11**	**6**	**6**	**7**
Share of taxes and grants, %	*4.4*	*2.0*	*1.0*	*1.0*	*1.0*

Table 20 • Income statement for the county councils
SEK billion

	Prel. outcome	Forecast		Estimate	
	2017	2018	2019	2020	2021
Income of activities	57	63	62	65	67
Expenses of activities	–346	–362	–375	–390	–405
Depreciation/amortisation	–10	–11	–12	–12	–13
Net expenses of activities	**–299**	**–311**	**–324**	**–338**	**–351**
Tax revenue	249	257	267	276	286
Gen. govt grants and equalisation	54	57	61	69	73
Net financial income	–1	–2	–3	–3	–4
Net income before extra-ordinary items	**3**	**2**	**1**	**3**	**4**
Share of taxes and grants, %	*0.9*	*0.6*	*0.4*	*1.0*	*1.0*

Source: The Swedish Association of Local Authorities and Regions.

The Economy Report, May 2018

On Swedish municipal and county council finances

The Swedish economy is approaching cyclical balance from a boom, which means that employment growth can be expected to be weaker in the future. This means that we can also expect weaker growth of the real tax base.

In the future the number of young and older people in the population will increase more rapidly than the number of people of working age. This is expected to lead to difficulties concerning the financing of the local government mission of providing welfare services. And even if the financing problems are solved, it will be difficult to cope with staffing. This will make it important to succeed in recruiting new skills and retaining existing skills. At the same time, new and more effective ways of working are needed, including through digitisation. Central government's various initiatives to raise quality in various areas are worthy but often misdirected.

Overall, municipalities are in a strong starting position financially, but tougher times are coming. A fresh survey describes prospects and growing challenges in the coming years concerning a growing population and major investment needs.

County councils have a poorer starting position for meeting their future challenges, which are also largely linked to demography. A thematic section describes how Swedish health care is changing constantly in terms of structures, treatment methods and technology.

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 2021.

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

ISBN 978-91-7585-543-1
ISBN 978-91-7585-541-7 [Swedish edition]
ISSN 1653-0853
Download at webbutik.skl.se
Price free

Mail SE-118 82 Stockholm | **Visitors** Hornsgatan 20
Phone +46 8 452 70 00 | www.skl.se

Sveriges Kommuner och Landsting