

# The Economy Report, May 2017

- ON SWEDISH MUNICIPAL AND COUNTY COUNCIL FINANCES



Swedish Association  
of Local Authorities  
and Regions

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## Foreword

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*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 2020.

In this spring's report we describe how future demographic developments will be characterised by a strong population increase especially for young and older people. The number of people of working age will increase much more slowly. According to our calculations, this trend will lead to a growing gap between income and needs of services. The conclusion is that more focus needs to be placed on efficiency measures in order to handle this.

This is an abridged version of the report. It contains the Summary and the second chapter, on demography and the financing of welfare services, 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 2017

*Niclas Johansson*  
Section for Economic Analysis

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# Summary

Municipal net income in 2016 was stronger than ever despite unusually strong increases in costs. The aggregate net income of the county councils did not reach what can be regarded as healthy finances. In the next few years the strong increase in the number of children and older people will continue. This increase will not be matched by equally strong growth of the tax base. Up until 2020 a gap of SEK 40 billion will open up between underlying revenue and costs if services continue to develop as they have. This is not sustainable. The gap must be covered. This can be done in a number of ways and the most likely response is a combination of various measures.

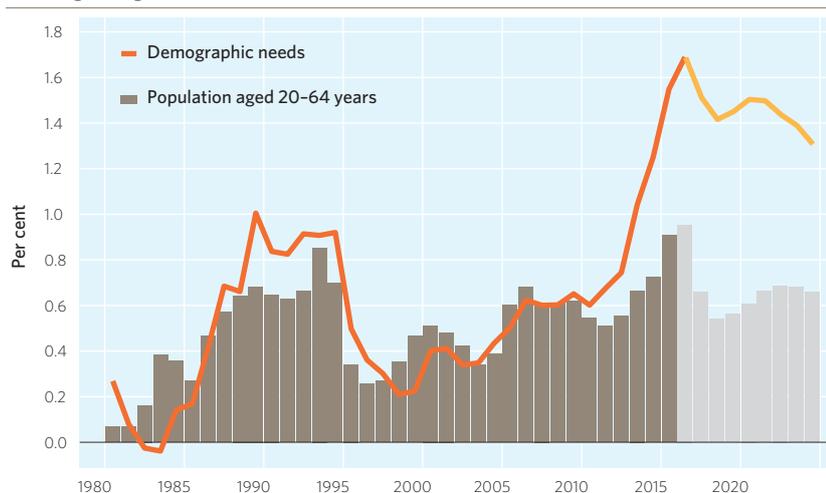
## **Welfare service needs are increasing faster than ever**

The population is growing, especially in younger and older age groups, and this increases the local government sector's costs for giving everyone the same provision of welfare services as today. Since the early 1980s demographic changes have resulted in costs increases for services averaging about 0.5 per cent per year. This means that the cost of providing welfare services has increased as a result of population change, but costs have also risen over and above what has been caused by population change.

The large population increase in recent years has resulted in needs now rising three times as quickly, at about 1.5 per cent per year. This is a rate of increase that is expected to continue for a long time to come (figure 1). It means costs increasing by about SEK 10 billion per year more than we are used to, calculated at the current level of costs.

The orange curve shows the percentage change in needs generated by demography and the grey columns show the annual percentage change in the population aged 20–64 years. Needs generated by demography used to increase at the same rate as the number of people of working age. In the future needs will rise more quickly while there will not be a corresponding increase in the number of people of working age. The difference between the columns and the curve illustrates the gap between income and needs of welfare services.

Figure 1 • Population aged 20–64 years and needs generated by demography  
Percentage change



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

The main cause of the population increase is net migration, but a natural increase (excess of births over deaths) also contributes to the increase. Future net migration is hard to forecast and depends on a number of factors, not least the international situation. The main reason for the natural increase of births over deaths is that the generation from the late 1980s and early 1990s has now reached childbearing age, but a further reason is that a relatively large share of the immigrant population is of childbearing age. At the same time as we have a rapid increase in children and young people, the costs of the large generation from the 1940s are becoming more and more noticeable in health care and eventually also in elderly care.

The people who give rise to the highest costs are children, young people and old people since welfare services, such as elderly care, childcare, schools and health care, are mainly directed at these groups. The dilemma is that the increase in the people who account for most tax revenue, people of working age, is much more modest. If we did not have any immigration, the number of people aged 20–64 years would actually decrease up to 2020. So the entire increase in the group of working age is a result of our net immigration.

### Economic boom with downside risk

At present the growth of the Swedish economy is strong with a sharp rise in employment and good growth of the tax base. We are in an economic boom. The demand for labour is high and it is becoming more and more difficult for employers to find labour with the right skills, not least in municipalities and county councils. The boom is expected to culminate in 2018. In the succeeding years, 2019–2020, the economy is assumed to return to a normal state, meaning that employment will stagnate and tax base growth will be weaker.

So we expect problematic developments for the local government sector, but this is still to be viewed as a relatively undramatic course of events. Historical data show that it is more usual for booms to burst as a result of a sharp decrease in economic activity and employment, often triggered by international crises. So there is a distinct risk of weaker development than in the scenario outlined here.

## Strong net income in municipalities in 2016, but weaker in county councils

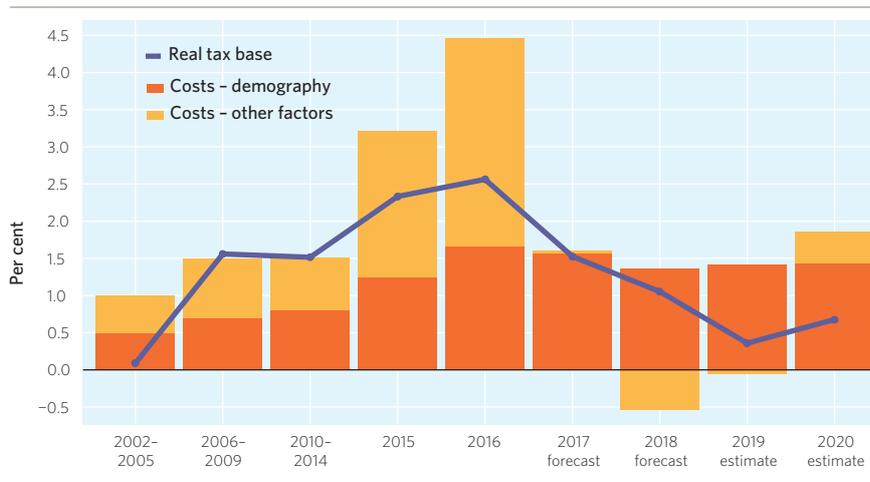
The net income of municipalities in 2016 was SEK 22 billion, as a preliminary figure. Only nine municipalities reported a deficit. The good net income reported is explained by good tax base growth, extra central government support and large capital gains.

The county councils also improved their net income in 2016 compared with 2015, to SEK 3.4 billion. Three county councils reported deficits, which is fewer than in previous years, but the aggregate net income for the country council sector is still weak overall, only amounting to 1.2 per cent of taxes and general government grants, a level that is not sustainable in the long term in order to cope with future pension payments, investments and so on.

### Calculation

In 2006–2014 the tax base increased, in aggregate, at the same rate as the local government sector's costs in constant prices. In the subsequent years, 2015–2016, costs increased strongly, primarily as a result of the large number of asylum seekers. However, central government is responsible for the costs of asylum reception and has therefore compensated the municipalities. Costs generated by demography also increased faster in these years, and this was offset by the strong growth of the economy and tax revenue. In 2017–2020 we expect tax base growth to fall while costs generated by demography continue to increase at a rapid rate.

Figure 2 • Growth of costs and tax base  
Change per year in constant prices, per cent



The figure shows the annual percentage change in costs and the tax base. Demographic needs increase faster than the tax base in the future in the local government sector.

Source: Swedish Association of Local Authorities and Regions.

Costs also increase for reasons other than demography. Especially as a result of a higher level of ambition at national and/or local level. But cost increases can also be due to transitional costs, one-time events, higher pension costs, etc. Historically the cost increase due to factors other than the development of the population has been just over 0.5 per cent per year. In figure 2 above this component is concealed or intensified by costs of asylum seekers, which rose sharply in 2015–2016 and then decreased.

The effect of these demographic changes is clearly seen in the investment plans of municipalities and county councils. According to a survey, 233 municipalities (corresponding to 85 per cent of the population) reply that up to 2020 they plan to build around 600 preschools, around 350 compulsory and

upper secondary schools, around 350 group housing and elderly housing units and around 150 new sports facilities. In addition, there is a considerable need to upgrade existing buildings and facilities. Moreover, a large number of new dwellings are being built by the municipal housing companies. The county councils are upgrading and expanding public transport and hospital buildings and investing in medical equipment.

The extensive investments planned in the future are being financed through the sale of land and assets and the liquidity generated by operating surpluses, depreciation/amortisation and pension provisions. Pension provisions are largest in the county councils, where they increase by almost SEK 40 billion between 2016 och 2020, which is a charge on the income statement but generates liquidity that can be borrowed back. In addition, there is considerable external borrowing that increases the existing loan portfolios of municipalities and county councils. Rising interest rates in the future will lead to higher borrowing costs. But, above all, these substantial investments will lead to higher operating and maintenance costs and higher personnel costs to the extent that the services are expanded. When these investments are planned, there may, however, also be possibilities of finding new and more efficient solutions.

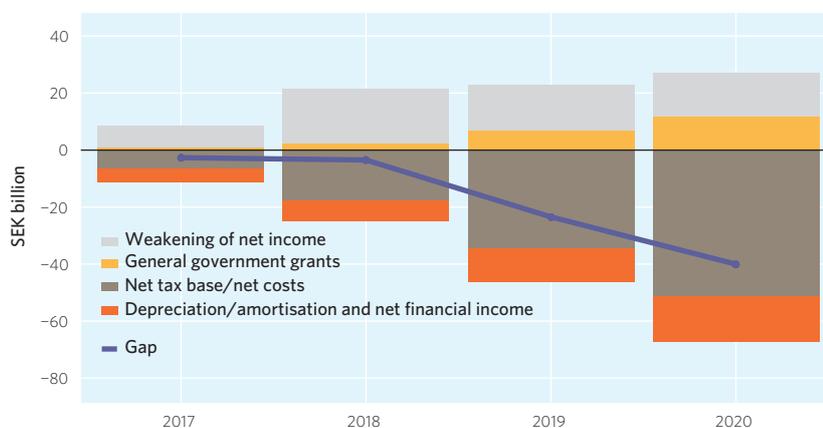
### Increase in employment despite shortage of labour

Another reason for the rising costs is the shortage of labour. As a result of the strong population increase the number of teachers, social workers and other professionals has increased strongly. At present it is hard to recruit trained staff in many areas and this shortage of labour is pressing up the costs of leased staff and other solutions. This applies, for example, to nurses, especially specialist nurses, some teachers and social work graduates. New ways of working mean that tasks are streamlined so that peripheral tasks not requiring specialist expertise can be carried out by other occupational groups.

### Growing gap between income and needs of services

The financial calculation shows that the estimated costs resulting from demography, historical trends, depreciation and net financial income rise by SEK 67 billion more than estimated income with an unchanged level of tax up until 2020. This is picked up to some extent by a weakening of net income of SEK 15 billion and an increase of SEK 12 billion in central government grants.

Figure 3 • Growing financial gap in the local government sector  
SEK billion, current prices



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

The net outcome of the increase in tax revenue and costs will be strongly negative in the future. Greater depreciation/amortisation and weaker net financial income comes on top of this. This gap is handled to some extent by an increase in general government grants and a weakening of net income, but the calculation still leaves a gap of SEK 40 billion that must be handled.

As of 2019 general government grants are assumed to increase by 2 per cent, in constant prices, corresponding to a historical average. Along with the increases already decided, this brings an increase of SEK 12 billion up until 2020 (compared with 2016). The municipalities are assumed to weaken their net income by SEK 15 billion while county council net income is assumed to be unchanged. Against the background of its tight finances, the local government sector is assumed to only achieve net income of 1 per cent of taxes and general government grants, which is lower than the 2 per cent that is usually the benchmark for healthy finances.

In addition to this, action to improve net income by SEK 40 billion is required. The theoretical possibilities available to handle this are an increase in productivity, a decrease in production, a further weakening of net income or additional resources provided by tax increases, higher general government grants and increases in charges.<sup>1</sup> No single measure solves the whole gap, and a combination of measures is needed instead. Productivity increases are preferable, providing that it is possible to carry them out in a sustainable way. In purely mathematical terms, an annual productivity improvement of about 1 per cent in 2017–2020 would be enough to close the gap. It may not sound like much, but in this context it is important to point out that efficiency measures have always been taken in municipalities and county councils but that while services have been made more efficient all the time, they have also been expanded.

### **Greater focus on increasing efficiency**

The gap that arises up to 2020 in the calculation does not stop there but continues to grow for a long time to come. This is why long-term solutions have to be found. This may be possible with the aid of digitalisation and changes to ways of working. Greater needs do not just have to be addressed with more staff; labour-saving solutions made possible by new technology can also be used.

However, it is not likely that efficiency measures of this kind will be put in place quickly enough, so other measures are needed in the short term. There is probably some scope for tax increases and also for cost reductions through traditional rationalisation or straightforward savings. In addition, central government finances are so good that it is possible to greatly increase general government grants.

One important pre-condition is a greater realisation that there are poorer times ahead, so there needs to be more focus on efficiency measures. Another pre-condition is that central government, the municipalities and the county councils cooperate with one another. It is the task of the municipalities and the county councils to increase the efficiency of their services, while central government has an important role in creating the conditions for this.

The present system of detailed control and targeted government grants is not consistent with this ambition. The tendency is unfortunately, for the targeted grants to increase in number and to steer in more detail. The spring amending budget for 2017 contains several proposals of new targeted temporary initiatives, contrary to the direction previously set out by the Government. What municipalities and county councils need are general and indexed government grants to enable them to shape and prioritise their services and thereby get the most for their tax money in the light of their local conditions. General government grants and stable parameters for planning foster a long-term perspective and scope for efficiency measures, development and renewal.

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1. The calculation handles this gap in technical terms by increasing the average tax rate (1.61 per cent between 2017 and 2020).

Municipalities and county councils must make better use of the improved access to data about quality and efficiency and also of the many comparative methods that are available.

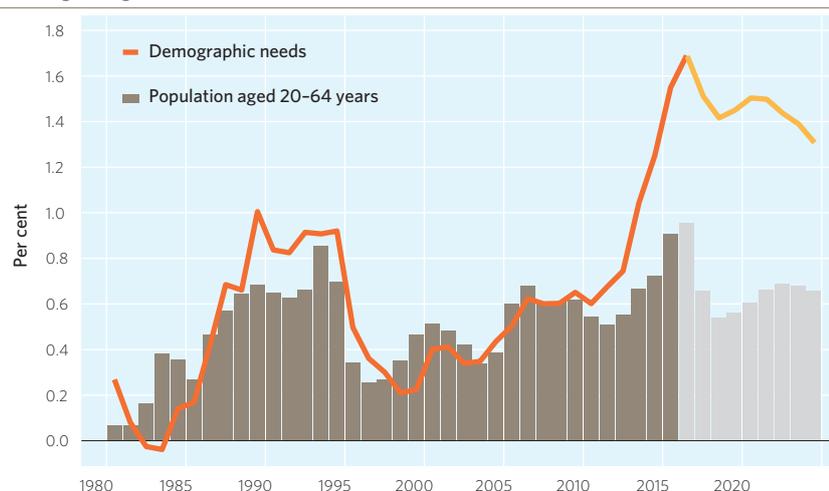
In particular, this involves finding more efficient ways of coping with their tasks as providers of welfare services. Historically, great improvements in efficiency and productivity have primarily been to do with new technology. Now there are great, and well-founded, hopes about the new technology that goes by the name of digitalisation. The advances made in recent years linked to digitalisation are evidence of a technical revolution with the potential to digitalise many tasks now being handled by people. This also provides great opportunities for municipalities and county councils, where processes and tasks in large areas such as health care and schools can be automated or solved using different working methods.

## Demography, immigration and the financing of welfare services

The growing needs directed at municipal and county council services will gradually become more and more difficult to finance. One added burden is that the number of children and older people is rising much faster than the number of people of working age. Immigration contributes to there being more people of working age, but immigration also brings greater demands on the services provided by the local government sector. The net effect is largely neutral, providing that municipal and county council costs for child care, schools and elderly care, etc. are the same for people born abroad as for people born in Sweden. This means that, over time, immigration neither helps nor hinders the local government sector's possibilities of financing welfare services.

For some years the number of younger and older people in the population has been increasing relatively fast. This means that the needs of municipal and county council services are tending to grow faster than the ability to pay. This is not a temporary situation and it will, instead, remain in place for the coming ten to fifteen years. Figure 10 (on page 10) reflects the development of the number of people aged 20–64 years compared with the development of needs of local government services generated by demography.

Figure 10 • Population aged 20–64 years and needs generated by demography  
Percentage change



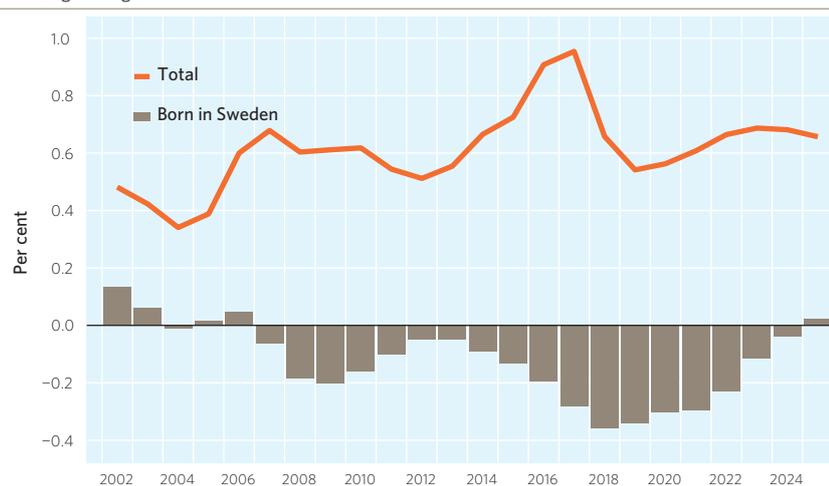
For some years now the demographic needs of municipal and county council services have been growing much faster than the population of working age. This will continue in the future.

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

Up to now the financing problems have not been particularly clear to see. The municipal and county council tax base has grown strongly as a result of the recovery seen in the Swedish economy since 2008/2009. But the recession has now turned into a boom, so the potential for further rapid employment growth is therefore virtually exhausted. At present there is a shortage of labour in large parts of the labour market instead. At the same time, however, employment for people born abroad remains much lower than for people born in Sweden.<sup>5</sup>

It is important to recall that the growth of the number of people aged 20–64 years would be much weaker if it was not for immigration. Figure 11 shows the growth of the population aged 20–64 years, both in total and people born in Sweden.

Figure 11 • Population 20–64 years  
Percentage change



The population aged 20–64 is only growing on account of a rise in the number born abroad. In contrast, the number born in Sweden is decreasing.

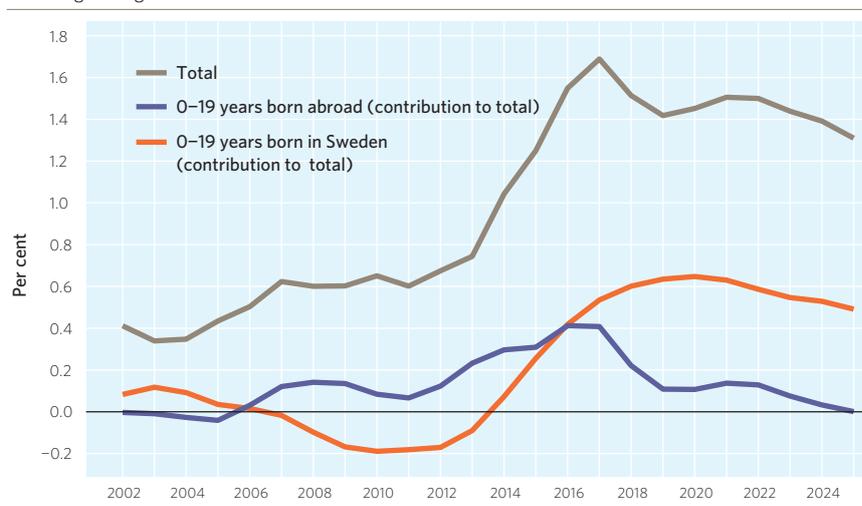
Source: Statistics Sweden and Swedish Association of Local Authorities and Regions.

Immigration has thus contributed to a much more positive development of the population aged 20–64 years. Instead of decreasing, the population in this age group is expected to continue to rise by more than 0.5 per cent per year. This increase is a result of the assumption made by Statistics Sweden in its population forecast of continued substantial net immigration.<sup>6</sup>

5. For men and women born in Sweden and aged 25–54 years 91 and 89 per cent of the population were registered as employed in 2016 according to the Labour Force Survey (AKU). The corresponding figures for men and women born abroad were 77 and 68 per cent.

Immigration contributes not only to there being more people of working age and therefore, ultimately, more people in employment and a better tax base. Immigration also contributes to increasing needs of municipal and county council services. This is particularly so when the immigrants are children and young people. A very large part of the growing needs currently being directed at preschools and schools is directly due to immigration. Figure 12 presents the development of total demographic needs and the contribution from the 0–19 age group, broken down by born in Sweden and born abroad. In the past ten years children born abroad have accounted for a larger addition to demand than children born in Sweden. This situation is expected to change in the coming ten years as a higher number of births will make a distinct contribution to demand from children born in Sweden at the same time as immigration is expected to decrease gradually.

Figure 12 • Demographic needs, total and for age group 0–19 years  
Percentage change



Source: Swedish Association of Local Authorities and Regions.

The increased needs of local government sector services can largely be explained by an increase in the number of children. In the past ten years the main increase has been in the number of children born abroad.

In this context it can be worth recalling the obvious point that more children born abroad can only arise through immigration – not through births in Sweden. This means that the age structure of the population is very different for people born in Sweden and people born abroad, as shown in figure 13.

Figure 13 • Population 2017 by age  
Number



Source: Statistics Sweden.

People born abroad have a completely different age structure from people born in Sweden.

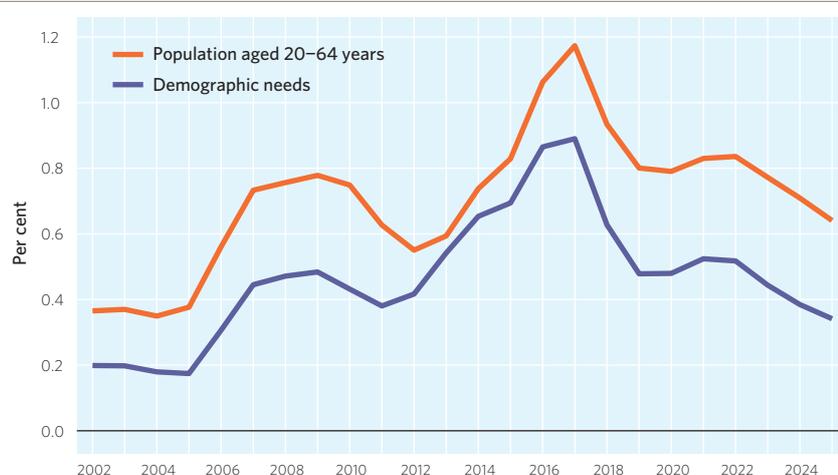
6. As of next year annual net immigration is estimated to be around 70 000 persons and to begin moving downwards to around 50 000 some way into the 2020s.

As shown in figure 13 the age distribution of people born in Sweden is more even than that of people born abroad. The reason is that people born in Sweden enter the population at birth while people born abroad enter it later in life. This means that there are relatively few children among people born abroad, but this does not prevent a potential considerable increase in their number if immigration is substantial temporarily and there are a relatively large number of children among these immigrants.

Otherwise, the normal situation is for immigration to make a greater contribution to the change of the population in the 20–64 age group than to needs generated by demography, as is shown in figure 14.<sup>7</sup> But the difference is not strikingly large. In recent decades it has involved a couple of tenths of a percentage point per year.

Figure 14 • Contribution of people born abroad to needs and to the population in the 20–64 age group

Contribution in percentage points to aggregate change



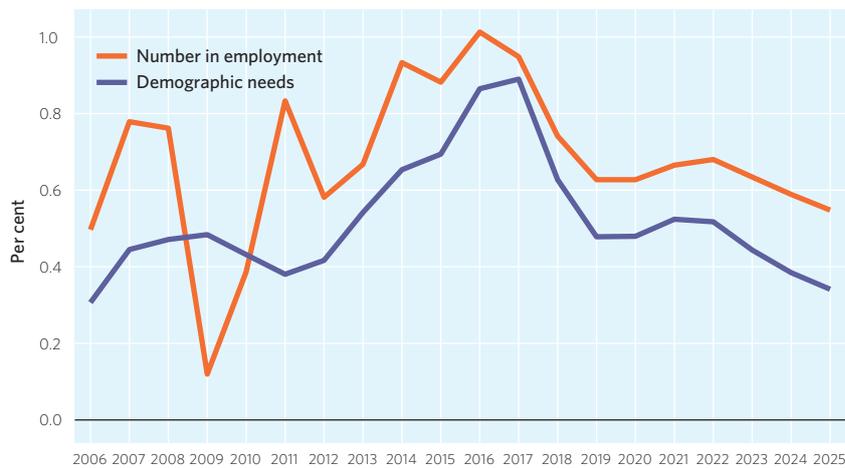
People born abroad make a greater contribution to the growth of the population in the 20–64 age group than to the growth of demographically generated needs.

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

The population in the 20–64 age group should be viewed as an approximation of the possibilities of financing the services provided by the local government sector. But what happens to the number of people in employment is important. On the one hand, people born abroad are in employment to a lesser extent than people born in Sweden of the same age. On the other hand, according to the Labour Force Survey the employment rate has risen substantially since the financial crisis, particularly for people born abroad. Figure 15 shows what contribution the change in employment among people born abroad makes to total employment in relation to the size of the contribution of this group to aggregate demographic needs.

7. It should be added here that the costs for people born in Sweden and abroad are assumed to be the same in each age group. But it is not unreasonable to suppose that the costs may be higher for people born abroad than they are on average for people born in Sweden in the same age group, especially in the case of children.

Figure 15 • Contribution of people born abroad to needs and employment  
Contribution in percentage points to aggregate change



Source: Swedish Association of Local Authorities and Regions.

Normally people born abroad make a greater contribution to the growth of the number of people in employment than to the growth of needs generated by demography.

It can be seen from figure 15 that the contribution of people born abroad to employment is greater than their contribution to demographic needs. The exception here is 2009 and 2010, during the financial crisis. The calculations in this chapter assume that for the period after 2016 the employment rate for people born abroad (and for people born in Sweden) is the same in each age group as in 2016. This can be viewed as an optimistic assumption as a large part of the additional people born abroad originate from countries that usually show low employment rates in the Swedish labour market. Nor do the calculations take any account of the fact that average working hours may be lower for the group we are talking about here.

The calculations in this chapter indicate that the development for people born abroad may continue to be largely neutral for the local government sector, i.e. the development of demographic needs for this group will broadly coincide with the tax revenue generated by the additional employment. The problem set out in figure 10 is not affected to a noteworthy extent by the assumptions made about the size of immigration.<sup>8</sup> A further conclusion is therefore that immigration with present employment rates is not a solution to the financing problems faced by the local government sector. But this also means that considerably better integration of and a higher employment rate for people born abroad could go some way towards alleviating the problems shown in figure 10.

These calculations show the overall picture arising for the local government sector from changes in demographic needs and the number of people employed. For individual municipalities with large refugee reception in particular there are also other financial issues. Central government has the responsibility for the costs for asylum seekers and for the additional costs in the initial years of the introduction of refugees in society. It is therefore vital that central government payments cover the municipality's costs. The cost and payments that, for example, follow from the large group of unaccompanied minors are not included in the calculations in this chapter.

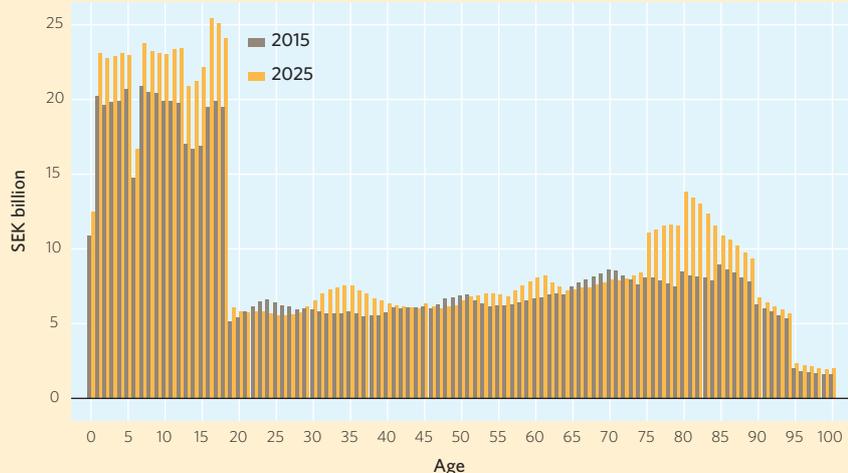
8. It should be stressed that the positive effects on the tax base are probably not as large as the contributions to employment. This is both because work income is only part of the tax base and because people born abroad probably have lower pay than people born in Sweden.

### Costs for children and young people are rising most

Municipalities and county council have different costs for different age groups. Calculated per person in the population in the corresponding age group the costs are highest for the very oldest. An average 95-year old costs more than ten times as much as an average 25-year old. Costs are also higher for children and young people than for people of working age. On average a child of preschool or school age costs three to four times as much as a person aged 20–59 years.

The fact that, on average, older people cost a great deal in relative terms does not mean that the costs of older people as a group are remarkably high. In all, the local government sector's costs for children and young people aged 0–19 years are more than twice as high as the sector's costs for the population aged 75 years and older. The costs for children and young people dominate and it is also these costs that are expected to rise most in the future. See figure 16.

Figure 16 ■ Local government sector's costs in 2015 and 2025 by one-year classes  
SEK billion



Source: Swedish Association of Local Authorities and Regions.

Children and young people account for a large part of the local government sector's costs. It is also the costs for children and young people that will increase most in the future.

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](http://www.skl.se), choose *Ekonomi, juridik, statistik/Ekonomi/Sektorn i siffror*.

### An aggregate picture of municipalities and county councils

Table 22 • Key indicators for municipalities and county councils  
Per cent and thousands of people

	Outcome		Forecast	Estimate	
	2016	2017	2018	2019	2020
<b>Average tax rate, %</b>	<b>32.10</b>	<b>32.12</b>	<b>32.25</b>	<b>33.09</b>	<b>33.74</b>
municipalities, incl. Gotland	20.75	20.75	20.81	21.30	21.74
county councils*, excl. Gotland	11.41	11.42	11.49	11.84	12.05
	Outcome	Forecast		Estimate	
	2016	2017	2018	2019	2020
<b>No of employees**, thousands</b>	<b>1,166</b>	<b>1,179</b>	<b>1,189</b>	<b>1,206</b>	<b>1,227</b>
Municipalities	885	897	905	918	935
County councils	281	282	283	287	292
<b>Volume change, %</b>	<b>4.3</b>	<b>1.6</b>	<b>0.9</b>	<b>1.4</b>	<b>1.9</b>
Municipalities	5.0	1.5	0.4	1.0	1.7
County councils	3.1	1.8	1.7	2.2	2.2

\*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 23 • Aggregate income statement for the sector

SEK billion

	Outcome	Forecast		Estimate	
	2016	2017	2018	2019	2020
Income of activities	219	221	219	223	231
Expenses of activities	-976	-1,019	-1,057	-1,105	-1,157
Depreciation/amortisation	-32	-34	-36	-39	-42
<b>Net expenses of activities</b>	<b>-789</b>	<b>-832</b>	<b>-874</b>	<b>-920</b>	<b>-968</b>
Tax revenue	670	702	731	776	820
Gen. govt grants and equalisation	140	146	148	155	161
Net financial income	4	1	1	-1	-2
<b>Net income before extra-ordinary items</b>	<b>25</b>	<b>18</b>	<b>6</b>	<b>9</b>	<b>10</b>
<i>Share of taxes and grants, %</i>	<i>3.1</i>	<i>2.1</i>	<i>0.7</i>	<i>1.0</i>	<i>1.0</i>

Note: Purchases between the sectors have been consolidated.

Table 24 • Income statement for the municipalities

SEK billion

	Outcome	Forecast		Estimate	
	2016	2017	2018	2019	2020
Income of activities	165	166	163	165	169
Expenses of activities	-646	-676	-700	-730	-765
Depreciation/amortisation	-22	-23	-25	-26	-28
<b>Net expenses of activities</b>	<b>-504</b>	<b>-533</b>	<b>-561</b>	<b>-592</b>	<b>-624</b>
Tax revenue	433	453	472	500	528
Gen. govt grants and equalisation	89	92	93	97	101
Net financial income	4	3	3	1	1
<b>Net income before extra-ordinary items</b>	<b>22</b>	<b>16</b>	<b>6</b>	<b>6</b>	<b>6</b>
<i>Share of taxes and grants, %</i>	<i>4.2</i>	<i>2.9</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>

Table 25 • Income statement for the county councils

SEK billion

	Outcome	Forecast		Estimate	
	2016	2017	2018	2019	2020
Income of activities	56	56	58	61	64
Expenses of activities	-332	-345	-359	-377	-395
Depreciation/amortisation	-10	-10	-11	-12	-14
<b>Net expenses of activities</b>	<b>-285</b>	<b>-299</b>	<b>-313</b>	<b>-329</b>	<b>-345</b>
Tax revenue	237	249	259	276	291
Gen. govt grants and equalisation	51	54	56	58	60
Net financial income	0	-2	-2	-2	-3
<b>Net income before extra-ordinary items</b>	<b>3</b>	<b>2</b>	<b>0</b>	<b>3</b>	<b>4</b>
<i>Share of taxes and grants, %</i>	<i>1.2</i>	<i>0.6</i>	<i>0.1</i>	<i>1.0</i>	<i>1.0</i>

Source: The Swedish Association of Local Authorities and Regions.



# The Economy Report, May 2017

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## On Swedish Municipal and County Council Finances

Since the early 1980s demographic change has corresponded to growing cost pressure averaging about 0.5 per cent per year in the local government sector. At the same time the number of people of working age, i.e. those who finance municipal and county council services via tax, has increased at roughly the same rate. However, population growth has risen considerably in recent years, and this is expected to continue for a long time to come according to forecasts by Statistics Sweden. This increase corresponds to rising demographic pressure on costs of about 1.5 per cent per year, or a tripling of the previous level. In contrast, the number of people of working age is expected to continue to rise by about 0.5 per cent per year.

This scenario presents a major efficiency challenge to municipalities and county councils if costs are not to rise much faster than revenue. At present, moreover, the Swedish economy is experiencing a boom that is expected to burst in the coming years, resulting in lower growth of the local government tax base.

As this demographic trend is expected to continue for a long time to come, finding long-term solutions is essential. Historically, great efficiency gains have mainly been bound up with new technology in combination with changes in ways of working. The advances made in recent years under the heading of digitalisation are evidence of a technical revolution with the potential to change how local government tasks as providers of welfare services can be solved. A crucial issue is whether the public sector in Sweden is capable of making this transition together. The alternatives are much worse.

*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 2020.

The report is not for sale, but it can be downloaded from the website of Sveriges Kommuner och Landsting: [www.skl.se](http://www.skl.se). Choose In English and then Publication and reports.

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