The Economy Report, October 2017

ON SWEDISH
MUNICIPAL AND COUNTY COUNCIL FINANCES

Sveriges
Kommuner
och Landsting

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Foreword

The Economy Report illustrates the financial situation and conditions of county councils and municipalities and the development of the Swedish economy over the next few years. It is published twice yearly by the Swedish Association of Local Authorities and Regions (SALAR). The calculations in this issue extend to 2021.

In this autumn's report we describe how the expected demographic developments will affect municipalities and county councils as a result of the strong increase in the number of young and older people. The number of people of working age will increase much more slowly. According to our calculations this development will lead to a steadily widening gap between revenue and costs in the future. One conclusion is that to handle this more focus needs to be placed on efficiency measures.

This is an abridged version of the report. It contains the Summary and parts of the chapters on municipalities and county councils, 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, October 2017

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Contents

Summary and conclusions

The strong increase in the population in younger and older age-groups is now much faster than the increase in the number of people of working age. As a result, the need for services is rising more than calculations show can be financed through increased employment and therefore increased tax revenue. If no measures are taken, a gap of SEK 59 billion will open up between revenue and costs in 2021. The work of municipalities and county councils on changing and developing their services must be intensified and must focus even more on efficiencies with the aid of new technology and new ways of working. Central government must help to facilitate efficiency measures in the sector. The sector needs more general indexed government grants – and less targeted grants with detailed steering.

Different starting situations

Municipalities' net income totalled SEK 22 billion in 2016, corresponding to 4.1 per cent of tax revenue and general government grants. Even though capital gains and development gains account for SEK 9 billion, this is a very strong level of net income. On average over the past ten years net income has corresponded to 2.9 per cent of taxes and general government grants. The average tax rate in the municipalities has been largely unchanged in the same period.

County councils' net income has been significantly weaker. In the past ten years net income has not even reached 1 per cent as a proportion of taxes and general government grants. In 2016 net income was SEK 3.4 billion, corresponding to just over 1 per cent of taxes and general government grants. The average tax rate has increased by 0.40 percentage points in the county councils since 2012 and all county councils except Stockholm County Council have increased their tax rate at least once in the last five years.

This means that, on average, the county councils are more poorly equipped than the municipalities to cope with future demographic developments in which needs will rise significantly faster than tax revenue in both county councils and municipalities. They start from a position in which their net income is already less than what is sustainable in the long term.

The considerable demands for efficiencies and other measures presented in this report relate to the situation in the average municipality and county council. The picture is different in individual municipalities and county councils. Those with weak net income will have an even greater need for adjustment than the sector as a whole. This can result in difficulties in maintaining accessibility, service levels and quality at the same time as in health care, for instance, no clear correlation can be demonstrated between the quality of care and costs. Several municipalities had such good finances in 2016 that weaker net income in the future may be part of their adjustment. As net income is explained in many cases by large capital gains and development gains that are very unevenly distributed between municipalities, it is uncertain what levels of net income can be counted on in the future.

Where is the economy heading?

After some years of rapid growth the Swedish economy is booming. Our assessment is that the economy will get even stronger in the coming year. Growth is mainly being driven by domestic demand via growing investments and greater private consumption. This leads to GDP growth of around 3 per cent this year and next year.

After that we expect, according to our method of making projections, the economy to return to a normal cyclical level and growth figures to be much lower after 2018. This also means that employment growth and real tax base growth will weaken towards the end of the period. This is due both to the return to a normal cyclical level and to a slower increase of the number of people in the labour force.

Population structure is of great importance for the development of employment and unemployment. This applies, for instance, to the age structure, where labour force participation is different in different age groups. But we also know that employment and unemployment differ depending on country of origin and time in Sweden. In the next few years there is a decrease in the number of people of working age born in Sweden or in the rest of the Nordic region. In contrast there is a rise in the number born abroad, not least refugees and their family members. So far this group has had a long path to work and has therefore had a lower employment rate and higher unemployment than people born in Sweden. Despite an ever increasing focus on better integration we expect the changed composition on the labour market to result in a slight decrease in the employment rate in the future.

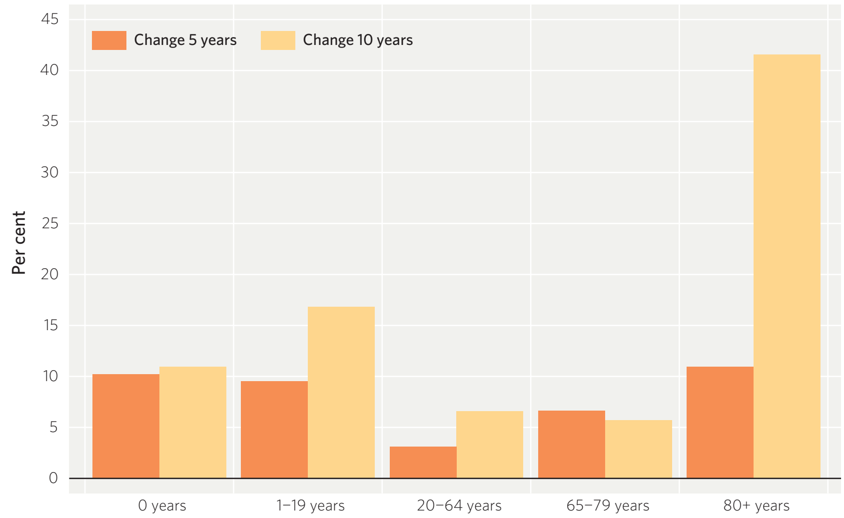
In the Budget Bill the Government presents employment growth for 2016–2020 that is quite far in excess of our assessment. This means that the Government expects faster growth of the tax base and therefore a greater increase in the sector's tax revenue than our calculations show. One reason is that the Government does not expect a return to a normal cyclical level, and instead expects the boom to continue for the whole of the period. Another reason is that despite the change in the composition of the labour force the Government expects a weak increase in labour force participation up to 2020.

Welfare service needs are increasing faster than ever

Sweden's population is growing at a record rate. Last year the population rose by 144,000. This is the biggest increase since 1861. In the coming ten years Sweden's population is expected to grow by a further 1,050,000, which would take it to above 11 million. This results in strong pressure to expand services in municipalities and county councils – and not least on investments in new premises for services.

But the greatest challenge is the composition of the population increase. The population is growing particularly quickly in younger and older age groups. These groups have particularly great needs of municipal and county council services.

Figure 1 • Percentage growth of various age groups over five and ten years
Per cent



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

In the next few years the population of working age will grow much more slowly than children, young people and older pe-ople. In five years the increase in the number of people over 80 will speed up.

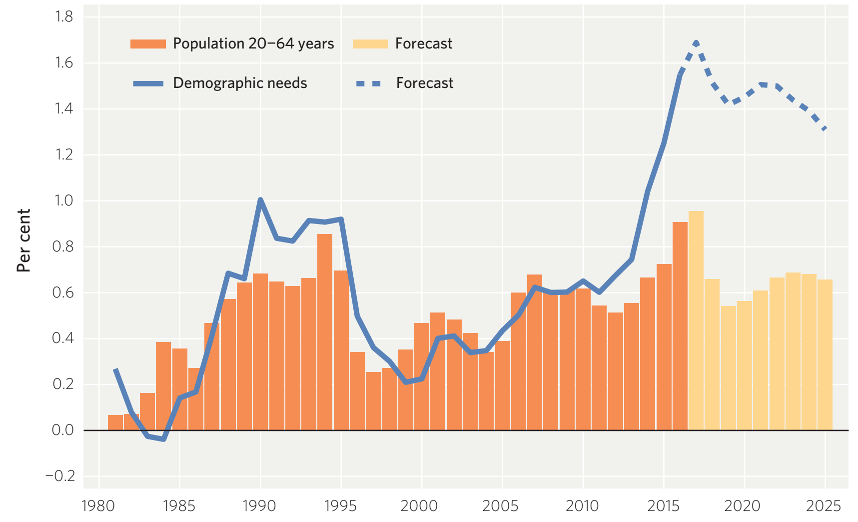
After having risen at an average of a half per cent per year in recent decades, the increases in needs due to demography is estimated at almost 1.5 per cent per year over the next few years, a growth rate that is expected to continue for a long time to come. At today's cost level, this means an annual cost increase of about SEK 10 billion more per year than has previously resulted from population growth.

The problem is that the number of people of working age rises significantly more slowly than the population as a whole. On average the increase is about 0.6 per cent per year up until 2021. As is seen in figure 2 (on page 6), the growth of demographic needs and the number of people of working age have been relatively closely aligned over the past 30 years.

The developments we see ahead of us therefore bring a dramatic shift in the possibilities of financing increased needs of welfare services.

Moreover, historically costs in municipalities and county councils have increased at a significantly faster rate than follows from the demographic development of needs. Perhaps the most important explanation is the growing demands for welfare services as people's income and purchasing power rises. Higher levels of ambition can be initiated both by central government and by the municipalities and county councils themselves. In our calculations we assume cost increases of 0.5 per cent in the municipalities and 0.9 per cent in the county councils over and above what follows from population growth.

Figure 2 • Population aged 20–64 years and needs generated by demography
Percentage change



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

So far the growth of the population of working age has followed the estimated costs due to demography relatively well. In the coming 20 years the situation will be different. Then the change in the population, due to numbers and age structure, will require a cost increase of 1.6 per cent per year, assuming that everyone is to be given the same welfare provision as at present. In the same period the population of working age only increases by about 0.6 per cent per year. It is this group that accounts for the employment on which income tax is largely based.

The calculation – cannot be solved

Figure 2 summarises the problem of balancing revenue and costs. When the economy returns to a normal cyclical level, employment growth will not be sufficient to cope with the increases in needs, far less with any cost increases over and above what follows from population growth.

Even though the economy remains strong, net income is expected to deteriorate in both municipalities and county councils this year. According to the county councils' forecasts in connection with their first four-month follow-up, net income deteriorates in 17 of the county councils and totals just under SEK 1 billion. The municipalities also expect poorer net income this year. Our calculations lead to net income of just under SEK 15 billion, even though capital gains and development gains are hard to estimate.

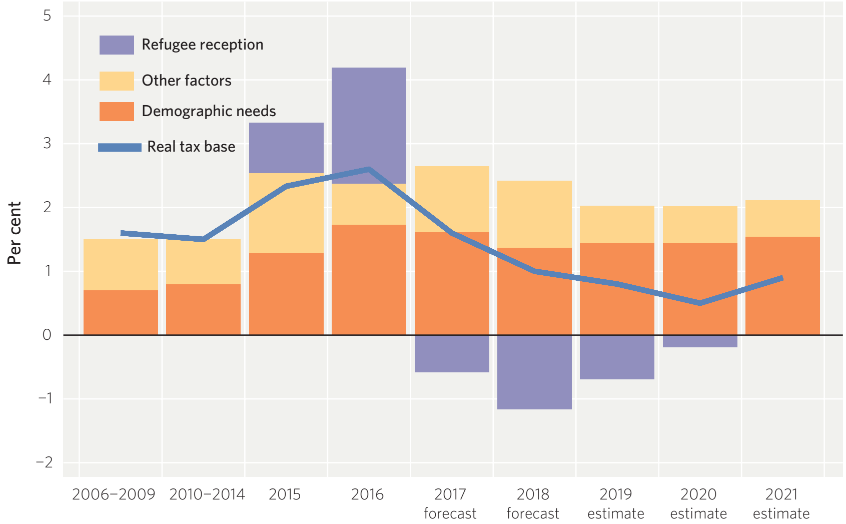
In the county councils in particular rapidly rising pension costs also contribute to the poorer financial situation, especially in 2018. High pay increases for groups just under or over the ceiling for earning defined-benefit pension are driving cost growth at the same time as the ceiling itself is only rising slowly.

There is great investment pressure in both municipalities and county councils. Population growth and the need to renovate or replace older premises and facilities have resulted in a continuous rise in investments. That development looks set to continue. This means increased costs for depreciation and interest, which make the equation even harder to solve.

Figure 3 shows costs rising significantly faster than the real tax base as of 2015. This applies provided that the growth of costs continues to follow its historical pattern, i.e. to increase in pace with demographic needs plus about 0.5 percentage points in municipalities and 0.9 percentage points in county councils. This will not work out.

If no measures are taken, a gap of SEK 59 billion will open up between costs and revenue in 2021, made up of SEK 39 billion in municipalities and SEK 20 billion in county councils. In our calculations we have assumed that net income will fall to 1 per cent in both municipalities and county councils, which is not sustainable in the long term. We also count the general additional fund-

Figure 3 • Growth of costs and tax base
Change per year in constant prices, per cent



Source: Swedish Association of Local Authorities and Regions.

ing proposed in the Budget Bill of SEK 5 billion in 2019 and a further SEK 5 billion in 2020. In addition, we assume about the same size of increase in general government grants in 2021.

The estimated gap is not a forecast and is, instead, an illustration of the need for measures to improve net income. There will, for example, be a need for extensive efficiencies to cope with both finances and service quality.

Passing on of costs for personal assistance

Since 2009 a number of judgments in the Supreme Administrative Court have led to changes in practice in the assessments made by the Swedish Social Insurance Agency [Försäkringskassan] of which people are entitled to personal assistance. In addition to creating uncertainty and concern among people entitled to personal assistance, this has resulted in the municipalities having to take over responsibility for a number of people who had previously received personal assistance from the Swedish Social Insurance Agency. The cost increase for this up until 2015 was estimated at SEK 2 billion for the municipalities. Since 2016 practice has become even more restrictive as a result of new judgments. This means that the municipalities have had to take over responsibility for more people. The estimated additional cost for the municipalities as a result of this in 2016 and 2017 was a total of some SEK 1.2–1.5 billion.

How are the municipalities and county councils to cope with the challenges?

The structural challenges faced by the local government sector are greater than we have seen in the last period of fifty years. This will require a common assumption of responsibility by the whole of the public sector. This means that central government must help the municipalities and county councils by providing both funding and assistance in further work on efficiencies and new ways of working. In our calculations, which are based on an economy moving towards balance, there is scope in central government net lending up until 2021. If there is a recession, the situation is obviously different. Even taking account of the government grant increases announced, the need in the local government sector up until 2021 will correspond to a gap of the order of

SEK 60 billion. It may then seem to be obvious for central government and the local government sector to share responsibility for financing this.

Central government support must be based on the need to provide welfare services in a new way. There is neither the time nor the money to get stuck in old modes of thinking and working. For example, it is not possible to stimulate higher staff ratios or traditional working methods. Fresh thinking is needed about how to develop and design services. In this report we give several examples of how this can be done. They involve giving the user/patient/resident support for self-help, for example in the form of self-monitoring of diseases. We also describe how services can work with apps for recording patient histories, diagnosis and triaging (prioritising in emergency care) as well as security cameras at night and the digital collection of input for municipal financial (income) support. The use of new technology can increase quality and personal integrity and reduce the need to increase staff in pace with rising demographic pressure. It is more important than ever that central government does not prevent this development via detailed steering and targeted government grants based on traditional working methods. This report describes several examples of targeted central government grants that must be phased out to make it possible to develop services.

The high rate of sickness absence in municipalities, county councils and regions results in great costs and is a problem for the supply of skills. In 2016 sickness absence of more than 30 days on its own generated a loss of staff corresponding to more than 28,000 full-year equivalents in the municipalities. In 2016 SALAR and the trade union organisations made a joint declaration of intent for healthier workplaces in municipalities and county councils. It contains 23 measures to achieve low and stable sickness absence.

Another thing that is important in enabling the sector to deal with its finances in the long term is early action to combat both chronic diseases and exclusion. This is, for example, also about improving integration in order to increase tax revenue, especially by more people born abroad finding work, and reducing costs. Up until 2025 the number of people aged between 15 and 74 years who live in Sweden and were born in the Nordic region will decrease by about 100,000 at the same time as the number of people in the same age group who come from other countries will increase by 455,000. So, if we are to have greater employment, this is the group from which the employment must come. Entering the labour market is also a way of avoiding exclusion – exclusion which is associated with high costs in both municipalities and county councils in areas like financial support, individual and family care, schools and health care. The expected health care costs for a person aged 30–50 without employment are almost three times as high as for a person who is working.

Another matter that we look at in the report is that as much as 10 per cent of the costs of physical health care go to injuries and poisoning. The costs of injuries and poisoning are high in all age groups, but, as is the case for other diagnoses, they rise strongly with rising age. Here there ought to be great scope for reducing both costs and suffering.

CHAPTER 2

Municipal finances

Net income for the municipalities in 2016 totalled SEK 22 billion. A large part, SEK 9 billion, consisted of capital gains and development gains. Strong demographic pressure, higher pension costs and slower tax base growth mean that measures worth SEK 39 billion are needed up to and including 2021 in order to achieve net income of 1 per cent of taxes and general government grants. Efficiencies, partly with the aid of the digitisation of welfare services, are essential to provide services and achieve the objectives of healthy finances.

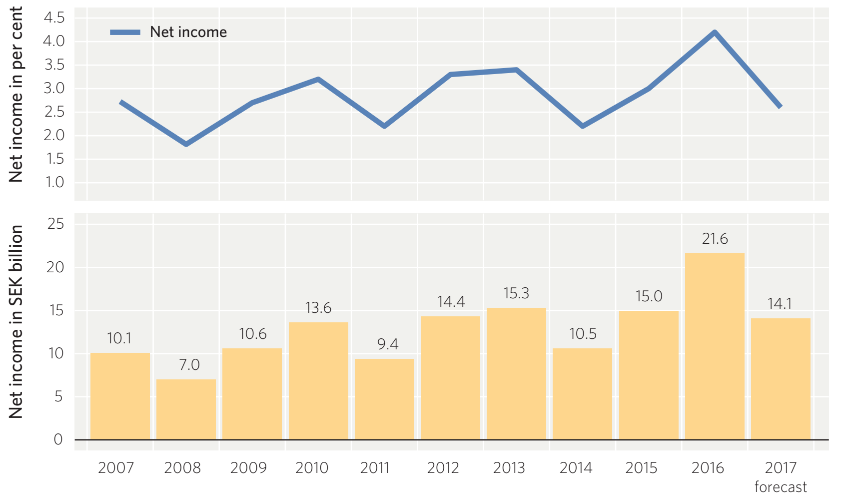
Strong net income in 2016

The municipalities reported net income of SEK 22 billion in 2016. This corresponds to 4.1 per cent of tax revenue and general government grants. These figures include unusually large capital gains and development gains of just over SEK 9 billion, net. When adjusted for this, net income is 2.4 per cent of taxes and general government grants, which is also a good outcome. In the past four years the net level of capital gains and development gains has averaged SEK 7.5 billion per year, compared with SEK 4 billion in preceding years. In aggregate, the municipalities have reported positive net income for the past ten years, amounting to an average of 2.9 per cent of taxes and general government grants. So the municipalities have maintained a good margin to the 2 per cent that can be said to be a rule of thumb for healthy finances. The financial circumstances vary between municipalities and it is up to every municipality to determine its own objectives for healthy finances.[2]

2. The net income referred to is net income before extraordinary items and not net income under the balanced budget requirement. In 2016 the balanced budget requirement, which is net income for the year corrected for certain items not originating in actual services, was SEK 18 billion.

In the last ten years aggregate net income has corresponded to 2.9 per cent of taxes and general government grants. In 2016, 75 per cent of municipalities achieved 2 per cent of taxes and general government grants – the highest ever share. In the past ten years an average of 10 per cent of municipalities have had deficits.

Figure 5 • Municipalities' net income before extraordinary items
SEK billion and percentage of taxes and general government grants

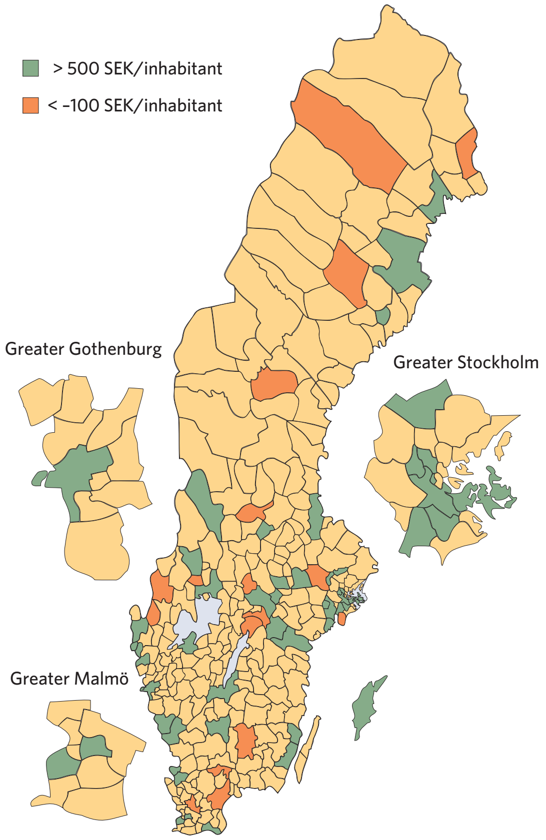


Source: Statistiscs Sweden and Swedish Association of Local Authorities and Regions.

Net income for individual municipalities was also extremely good in 2016; only 9 municipalities had negative net income and 219 municipalities had net income of at least 2 per cent of taxes and grants. Capital gains and development gains have been very unevenly distributed from SEK –1,000 till 7,000 per inhabitant but with a median value close to zero. It was mainly large cities, medium-sized towns and commuting municipalities near large cities that had high values, while commuting municipalities with low commuting rates near medium-sized towns and municipalities in rural areas had low values.

There were 52 municipalities that had capital gains and development gains of more than SEK 500 per inhabitant and 18 municipalities where these gains were under SEK –100 per inhabitant.

Figure 6 • Capital gains and development gains 2016
Net, SEK/inhabitant



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

Table 13 • Capital gains and development gains in 2016 per group of municipalities
Net, SEK/inhabitant

Large cities and medium-sized towns	953
Commuting municipalities near large cities	722
Municipalities in rural area with visitor industry	520
Small towns	297
Commuting municipalities near small towns	150
Commuting municipalities near large cities	149
Commuting municipalities with low commuting rates near medium-sized towns	112
Municipalities in rural areas	24
Total, unweighted average	**313**

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

Costs increased by 7.8 per cent compared with the average increase of 3.9 per cent in 2010–2015. Recalculated in constant prices costs increased by 4.9 per cent in 2016, which is exceptionally high. There is great variation between services (table 14). In »specially targeted action« there was a sharp cost increase for refugee reception. Preschools and schools also had high cost growth.

Table 14 • Total costs for actual activities in 2016 and share and development in current prices
SEK billion and share and development in per cent

Municipalities' costs	2016, SEK billion	Share %	2016, Dev. %	2010–2015 dev. % annual average
Political activities	6.8	1.1	3.2	2.8
Infrastructure and protection	43.3	7.0	4.6	3.1
Cultural and recreation services	29.8	4.8	4.0	3.6
Preschool services, pedagodical care	72.3	11.7	5.2	5.1
Compulsory school, preschool class, out-of-school centres	138.3	22.4	8.1	4.3
Upper secondary school, upper secondary school for pupils with learning disabilities	43.9	7.1	5.7	–0.1
Adult education and other education	9.3	1.5	6.1	3.1
Elderly care	117.5	19.0	3.2	3.5
People with disabilities	70.7	11.4	4.1	4.3
Individual and family care	43.5	7.0	2.7	4.1
Specially targeted action	38.5	6.2	78.9	13.6
Other activities	3.8	0.6	–24.8	1.6
Total costs	**617.7**	**100.0**	**7.8**	**3.9**

Note: There is also the item Commercial activities of SEK 24 billion, most of which is charge-financed. The item Other activities consists of health care, primary care and special transport services. The reason for the large decrease in 2016 is that the activities conducted by the common health and social care committee in the Municipality of Norrtälje (TioHundra) have been moved to a local federation. This reduces both the revenue and costs for the municipality regarding primary care and health care, but the net cost is unchanged.

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

The activity that increased most was refugee reception (this is part of the item Specially targeted action; that item also includes labour market measures). The costs of refugee reception increased by 120 per cent in 2016 at the same time as labour market measures only increased marginally.

Net income at consolidated level

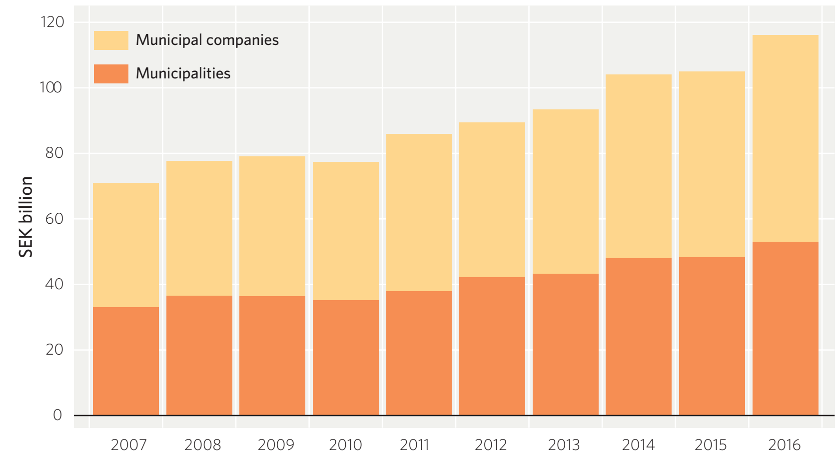
The municipalities' consolidated income (i.e. including municipal companies) before extraordinary items was almost SEK 40 billion in 2016. The main explanation is that these companies are doing well, but the figure also includes capital gains. In 2010–2015 the average net income of the consolidated municipalities was SEK 23 billion.

Investments are increasing

The aggregate volume of investments in consolidated municipalities has been increasing for a long time. In current prices investments in consolidated municipalities have increased from SEK 72 billion in 2007 to SEK 116 billion in 2016 (i.e. by 61 per cent). In 2016 these investments increased by 10 per cent. It is the large cities that account for the largest investments per inhabitant, but investments in rural municipalities increased most.

Municipal companies account for just over half of municipal investments, and this is where the largest increase is found. The level of investment will probably continue to increase in the coming years. This is partly because a great deal of housing and services buildings were constructed in the 1960s and 1970s and now need to be renovated or replaced. Other explanations are the rapid rise in Sweden's population and urbanisation. A higher volume of investments means higher operating costs that will take more and more space in municipal operating budgets.

Figure 7 • Investments in municipalities and companies
SEK billion



Source: Statistics Sweden and Kommuninvest of Sweden.

Investments increased in the period from SEK 72 billion to SEK 116 billion.

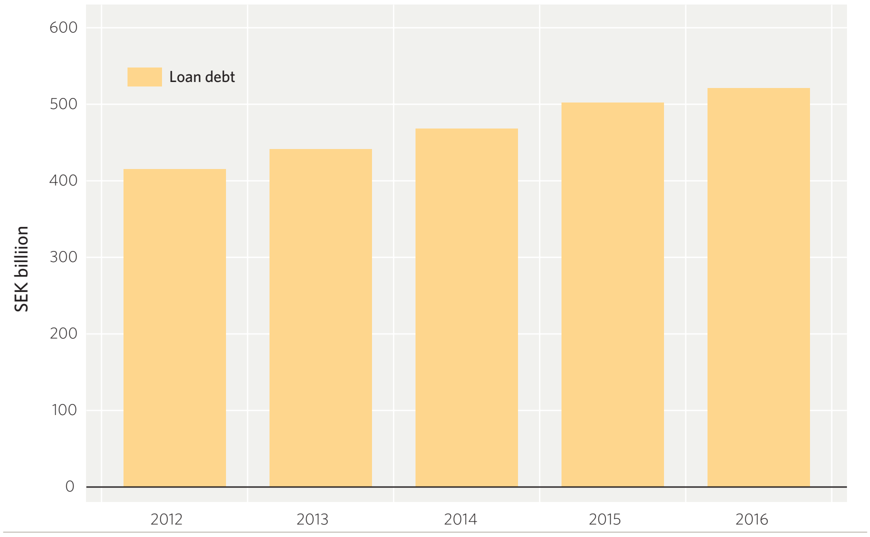
Municipal investments are primarily in properties for operating services, such as schools, infrastructure and water and sewage while the companies mainly invest in housing.

Investments can be financed by depreciation, positive net income, reduced liquidity or external borrowing. The sale of non-current assets is also a way of part-financing investments. In particular, the sale of housing from the non-profit stock has generated large positive cash flows in recent years. In 2016, 11,300 rented dwellings were sold and in the preceding year just over 4,000 were. The figure for 2016 is the highest since 2010. Växjö, Östersund, Malmö and Luleå are examples of municipalities that have sold large stocks.

More moderate rise in loan debt in 2016

The total level of investments for municipalities, including companies, increased in 2016 by SEK 11 billion to 116 billion. Their loan debt increased by SEK 18 billion to SEK 521 billion. This is the lowest increase in the loan debt since 2010. One explanation is the strong net income in 2016.

Figure 8 • Loan debt in consolidated municipalities
SEK billion

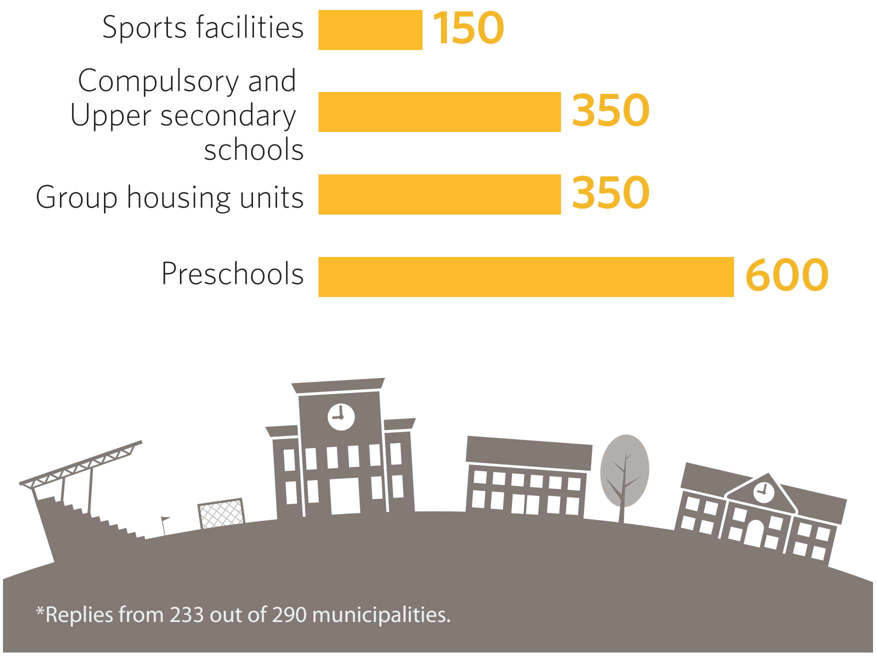


Source: Kommuninvest of Sweden.

The loan debt increased in the period from SEK 415 to 521 billion.

PLANNED CONSTRUCTION

Number of plans for construction in 2017–2020 according to SALAR's survey*.



Graphics: TT Nyhetsbyrån.

CHAPTER 3

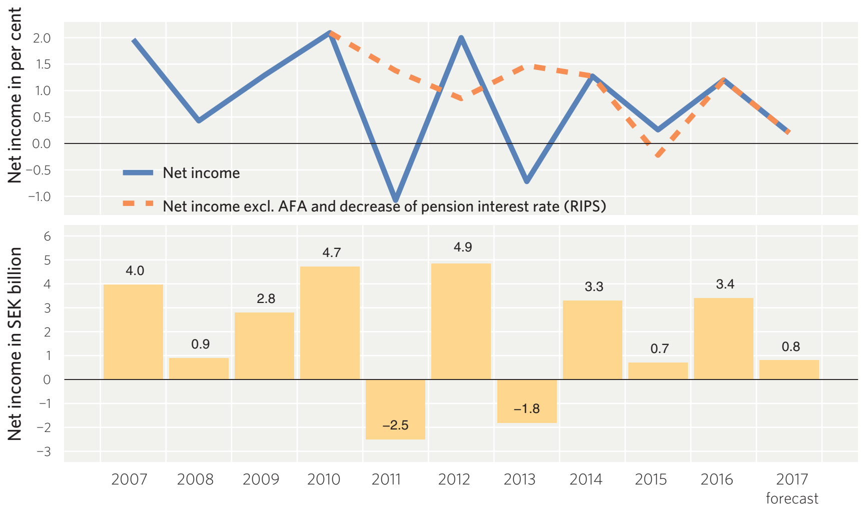
County council finances

Net income for county councils has been weak in the past ten years. In aggregate, net income has not even reached 1 per cent as a proportion of taxes and grants. After a weak year in 2015 the finances of the majority of county councils recovered in 2016 and only three county councils reported deficits. The main source of the recovery was higher tax revenue and government grants, but slower cost growth was also a factor. Tax revenue also continues to grow at a rapid rate this year; but since net costs increase even more quickly, net income deteriorates again. The county councils are expected to report aggregate net income of SEK 0.8 billion, and several county councils will have deficits in 2017. In the future county councils will be challenged by large cost increases due to by demography at the same time as the growth rate of the tax base will slow down. This will require greater efficiencies than the county councils have been capable of up to now to attain financial balance.

Net income recovered temporarily in 2016

The county councils' aggregate net income in 2016 of SEK 3.4 billion corresponded to just over 1 per cent of taxes and government grants. But this was still a recovery compared with their historically weak net income for 2015, when almost half of county councils reported deficits.

Figure 14 ▪ County councils' net income before extraordinary items
SEK billion and percentage of taxes and general government grants



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

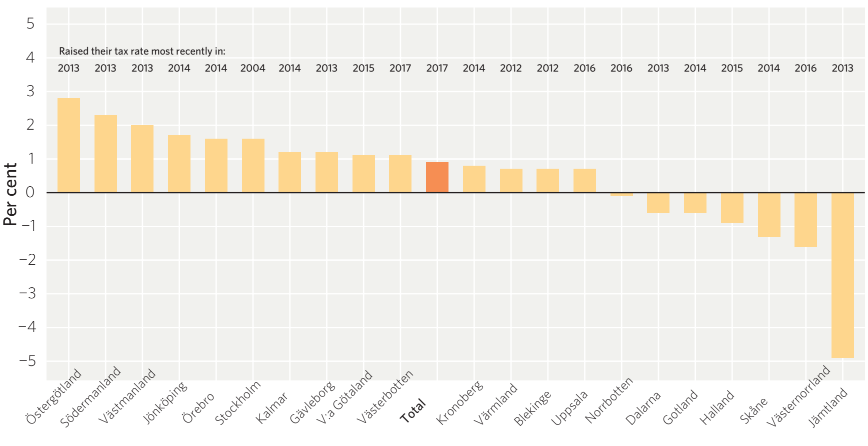
Several times in recent years the net income of county councils has been affected by one-time effects. When net income is corrected for repayments from the insurance provider AFA, 2010 is the only year in which it corresponds to 2 per cent of tax revenue and government grants, the measure used as a rule of thumb for good finances. In aggregate, county council net income has not even reached half of the rule of thumb, i.e. 1 per cent of tax revenue and government grants.

Few county councils achieve net income of 2 per cent

Many county councils have apparent problems in achieving financial balance. A third have reported deficits in at least three of the past five years. Only Stockholm County Council has reported a surplus in each of the past five years.

A rule of thumb for healthy finances often used in the local government sector is that net income should correspond to 2 per cent of tax revenue and general government grants. Only three county councils have had average net income that reaches the rule of thumb in the past five years. In aggregate, net income in the county councils corresponds to only 0.9 per cent of taxes and grants and seven have negative net income on average.

Figure 15 ▪ Average net income in 2012–2016 as a percentage of taxes and grants and year of latest tax increase
Per cent



Note: The figure shows all county councils with pension costs reported according to the mixed model. In their governance Region Östergötland, Jönköping and Skåne report pension costs according to the fully funded model. Net income has been adjusted for items affecting comparability, including refunds from AFA Försäkring and costs relating to the interest rate used in pension calculations (RIPS). Average net income gives a somewhat broader picture of financial management than net income for a single year.

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

Only three county councils have had average net income that reaches the rule of thumb for healthy finances. All county councils except Stockholm County Council have raised their tax rate at least once in the past five years.

Tax revenue accounts for 72 per cent of county council financing. In addition to the growth of the tax base, tax revenue is also affected by the tax rate. The average tax rate has increased by 0.40 percentage points in county councils since 2012 excluding tax shifts with municipalities. All county councils except for Stockholm County Council have increased their tax rate at least once in the past five years, and one in three county councils have increased their tax rate at least twice.

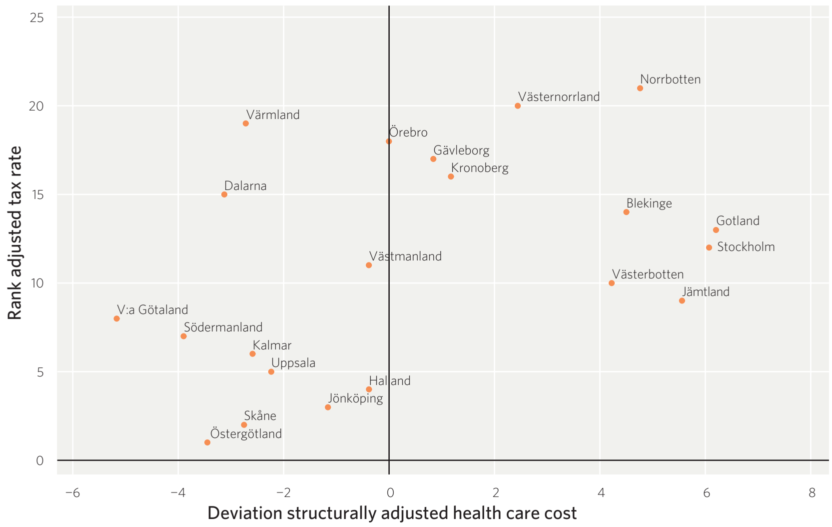
High costs are often financed by a high tax rate

The actual tax rate of the county councils varies between 10.69 in Skåne and 12.08 in Stockholm. However, a comparison of tax rates should take account of differences in mandates, depending on which services have been subject to tax shifts with the municipalities in each county. The adjusted tax rate is the county council's own tax rate with a supplement or deduction depending on whether, overall, the county council has more or less responsibility for services than other county councils.

The structurally adjusted cost of health care shows the actual cost, excluding dental care, adjusted for structural charcteristics according to cost equalisation. A comparison of structurally adjusted cost of health care and adjusted tax rate shows that a low tax rate is accompanied by relatively low costs, but there are exceptions. For example, Jämtland has an average tax rate but very high costs, and in recent years this has been reflected in very weak net income.

Figure 16 • Deviation from structurally adjusted cost of health care and rank in relative tax rate in 2016

Per cent and ranking*



**High deviation in per cent = higher than expected costs. High ranking = high tax.

Source: Swedish Association of Local Authorities and Regions.

The structurally adjusted cost of health care shows what net cost the county council has after adjustment for structural characteristics according to the equalisation system. A positive deviation means that the costs are higher than expected as a result of differences in efficiency, ambitions or health care consumption.

Stockholm also has high costs and an average adjusted tax rate, but has, in contrast, had strong net income. One explanation is that Stockholm has the highest tax capacity and therefore, despite equalisation, revenue from taxes and grants that is higher than the national average.

SALAR's *Performance overview for 16 health care areas*[3] places Halland, Jönköping and Kalmar in the top positions in terms of general indicators that reflect broad aspects of health care quality. This measure includes health

3. *Performance overview for 16 health care areas* – Comparisons between county councils and regions on the basis of a selection of indicators in Health care in Figures. [*Resultatöversikt för 16 hälso- och sjukvårdsområden* – Jämförelser mellan landsting och regioner baserat på ett urval av indikatorer i Vården i siffror.]

care-related addressable mortality, patients with health care-related infections and discharge-ready patients in hospital. These county councils have low costs in relation to their structural characteristics. In the area of waiting times the comparison gave Gotland, Östergötland and Halland the highest rankings. The correlation between net income and costs is not strong here either. The aggregate measure for all quality aspects compared ranks Jönköping, Halland and Blekinge highest. At the same time, it is important to bear in mind that, in principle, the cost data are comprehensive, while the description of quality is always based on a selection of measures.

The rate of cost increases slowed in 2016

The costs of health care increased by 4.5 per cent in current prices in 2016. This is lower rate of growth than in 2014 and 2015 but higher than the average for the past five years.

In aggregate, costs in health care increased faster in 2016 than the average for the past five years. The cost of drugs is rising fastest and then comes specialised physical care. Specialised physical care accounts for the largest share of costs followed by primary care. Other health care includes ambulance and medical transport services and disability and assistive devices services.

Table 19 • Costs of health care, current prices, per service
SEK billion, shares and percentage change

County councils' costs	2016, SEK billion	Share %	2016, growth %	2010–2015 growth % annual average
Health care (excl. dental care and political activities)	273.9	100	4.5	4.0
of which:				
Primary care	49.6	18	3.8	4.4
Specialised physical care	142.1	52	4.9	4.1
Specialised psychiatric care	24.2	9	3.0	3.6
Drugs (benefits and in-patient)	31.3	11	6.9	1.4
Other health care	26.7	10	1,8	6.7

Source: Statistiscs Sweden .

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

	Outcome		Forecast	Estimate		
	2016	2017	2018	2019	2020	2021
Average tax rate, %	**32.09**	**32.11**	**32.15**	**32.98**	**33.68**	**34.46**
municipalities, incl. Gotland	20.74	20.75	20.75	21.29	21.78	22.32
county councils*, excl. Gotland	11.41	11.42	11.46	11.76	11.96	12.21
	Outcome	**Forecast**		**Estimate**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
No of employees, thousands**	**1,171**	**1,193**	**1,204**	**1,231**	**1,268**	**1,288**
Municipalities	888	908	916	939	974	989
County councils	282	286	288	293	294	298
Volume change, %	**4.2**	**2.1**	**1.3**	**1.3**	**1.8**	**2.1**
Municipalities	4.9	1.9	0.9	1.0	1.7	2.1
County councils	2.6	2.5	2.2	2.2	2.2	2.1

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

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

Table 24 • Aggregate income statement for the sector
SEK billion

	Outcome	Forecast		Estimate		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Income of activities	220	220	227	228	238	245
Expenses of activities	–977	–1,021	–1,065	–1,107	–1,166	1,224
Depreciation/amortisation	–32	–34	–36	–39	–41	–44
Net expenses of activities	**–789**	**–835**	**–873**	**–918**	**–969**	**1,024**
Tax revenue	670	702	725	770	816	867
Gen. govt grants and equalisation	140	146	153	159	165	171
Net financial income	4	1	1	–1	–2	–4
Net income before extra-ordinary items	**25**	**15**	**5**	**9**	**10**	**10**
Share of taxes and grants, %	*3.1*	*1.8*	*0.6*	*1.0*	*1.0*	*1.0*

Note: Purchases between the sectors have been consolidated.

Table 25 • Income statement for the municipalities
SEK billion

	Outcome	Forecast		Estimate		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Income of activities	166	166	166	166	172	178
Expenses of activities	–648	–677	–703	–731	–770	–810
Depreciation/amortisation	–22	–24	–25	–26	–28	–29
Net expenses of activities	**–504**	**–535**	**–562**	**–592**	**–626**	**–661**
Tax revenue	433	453	468	497	527	561
Gen. govt grants and equalisation	89	92	96	100	104	107
Net financial income	4	3	3	1	1	–1
Net income before extra-ordinary items	**22**	**14**	**5**	**6**	**6**	**7**
Share of taxes and grants, %	*4.1*	*2.6*	*0.8*	*1.0*	*1.0*	*1.0*

Table 26 • Income statement for the county councils
SEK billion

	Outcome	Forecast		Estimate		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Income of activities	56	56	63	64	68	69
Expenses of activities	–331	–346	–363	–378	–398	–417
Depreciation/amortisation	–10	–10	–11	–13	–14	–15
Net expenses of activities	**–285**	**–300**	**–311**	**–327**	**–344**	**–363**
Tax revenue	237	249	257	273	288	306
Gen. govt grants and equalisation	51	54	57	59	62	64
Net financial income	0	–2	–2	–2	–2	–3
Net income before extra-ordinary items	**3**	**1**	**1**	**3**	**3**	**4**
Share of taxes and grants, %	*1.2*	*0.2*	*0.2*	*1.0*	*1.0*	*1.0*

Source: The Swedish Association of Local Authorities and Regions.

The Economy Report, October 2017

On Swedish municipal and county council finances

The positive development of the Swedish economy means that employment, and therefore the local government tax base, rise at a relatively fast rate this year and next year. As of 2019 the economic situation is assumed to return to normal, which means that the tax base is expected to grow more slowly in the future. The situation of the local government sector will become problematic when the need for schools and health and social care continues to grow at a rapid rate at the same time. In recent years net income has generally been good in municipalities, and less good in county councils. In the years ahead a gradually growing gap opens up between revenue and costs. To some extent this can be handled by providing additional resources in the form of higher general government grants. In the next few years tax increases, poorer net income and cutbacks in various areas cannot be ruled out either.

But in the long term it is essential to increase the efficiency of local government services. This is about being able to handle larger volumes without costs rising at the same rate and without a drop in quality. The foremost challenge is to find other ways of working based on new technical solutions. Another essential step is to improve cooperation between the local government sector and central government, with central government helping to provide good conditions regarding grant provision, regulations, etc.

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

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