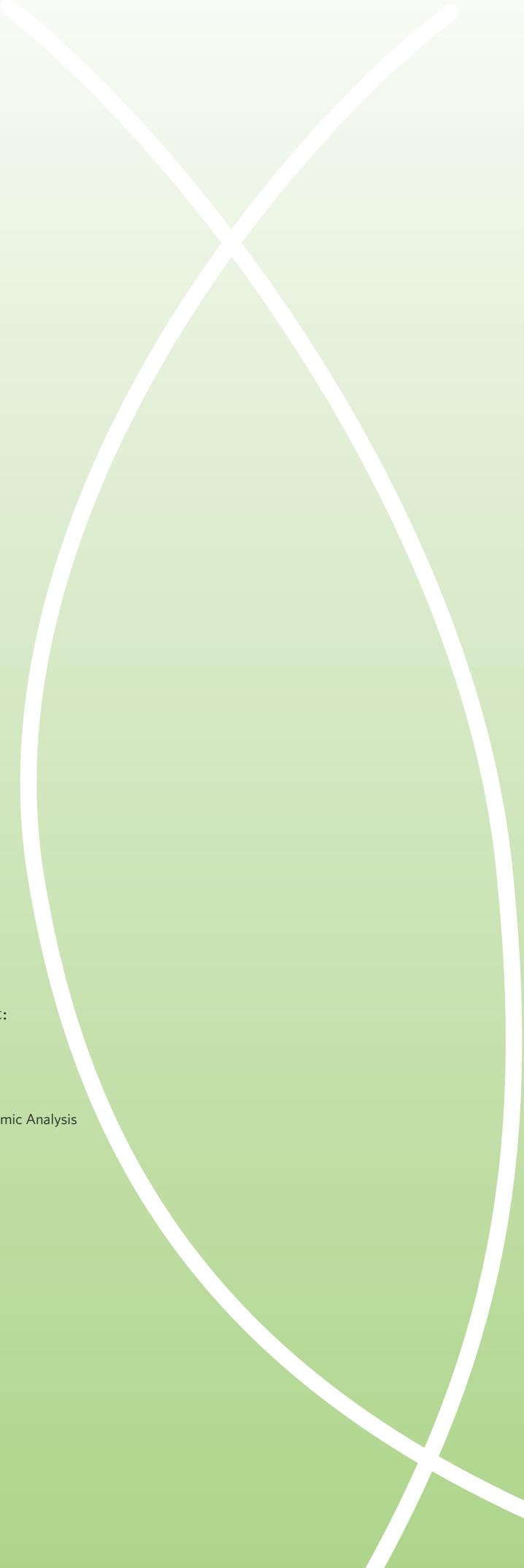


The Economy Report.

ON SWEDISH MUNICIPAL AND COUNTY COUNCIL FINANCES
- APRIL 2015



Swedish Association
of Local Authorities
and Regions



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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 2018.

In this spring report we describe the distribution of refugee reception between Swedish municipalities and the situation for investments. We also try to explain the causes of the tax increases in recent years in county councils and to describe future challenges. It is clear that there are great gains to be made through new forms of care for the frailest elderly people. We also present how we take account, in a different way, of refugee and family reunion immigration in the projection of the total workforce participation rate, unemployment and employment.

This is an abridged version of the report. It contains the Conclusions and summary (supplemented with some diagrams from the main report), and the a section from the Municipality chapter looking at the refugee reception (see Contents on page 2), as well as the Annex. 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, April 2015

Annika Wallenskog
Section for Economic Analysis

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Conclusions and summary

The finances of municipalities and county councils have been maintained for a number of years by non-recurring revenue. The present year, 2015, is the last year when the sector can count on a repayment of insurance premiums from the AFA Försäkring insurance company. This, along with the favourable development of tax revenue in 2015, means that the financial situation of, at any rate, the municipalities as a whole will be kept in check for yet another year. The differences between municipalities are great and, generally speaking, the situation for the county councils is more difficult. The future will bring greater demographic needs and tax revenue is expected to grow more slowly, with the result that tax increases will be needed both in municipalities and in county councils to enable them to keep net income above the zero mark.

Slow progress towards recovery

International growth is recovering slowly, after a few years of slow movement. As the same time as GDP growth in the euro area is picking up slightly, the relatively strong growth is continuing in both the US and the UK. This year Swedish exports will continue to make slow progress on the so important Nordic market: slightly better growth is not expected until next year. Export-weighted GDP in Sweden's trading partners is expected to increase by more than 2 per cent per year on average in 2015 and 2016. Considering that the world is in a recovery phase, this cannot be regarded as particularly strong growth. But, along with a weak krona, the increase in international growth is enough to strengthen exports.

Swedish growth will draw further speed from a continued increase in household expenditure on consumption. This is a result of the fact that, at the outset, households have higher savings and their incomes will continue to increase much faster than prices. We do not expect slightly lower savings until 2017, when this will be as a result of incomes not increasing as quickly.

The export increase and strong domestic demand will affect business sector investments, which are expected to rise at a relatively strong rate up until 2016. But as krona becomes stronger, this will affect exports, which will decline slightly.

Demand provides the potential for relatively strong growth, and we expect Swedish GDP to grow by 3.2 this year and 3.3 per cent next year. This will be followed by a return to slower growth.

After a number of years of extremely low productivity growth we now expect to see some increase in productivity. This means that the number of hours worked will not rise in line with growth.

The supply of labour is being held back by the decrease in the Sweden-born population and the fact that much of the population increase that does, in fact, occur is made up of refugee immigration with lower labour force participation. Overall, labour force participation will fall slightly as a result. When the supply of labour is no longer increasing as strongly, the increase in employment will be sufficient for unemployment to fall gradually to the level of 6.6 per cent in the middle of 2016, a level that we expect to be consistent with the Riksbank's inflation target. This will result in a gradual rise in pay increases to the level of 3.5 per cent.

Public finances approaching balance

General government net lending showed a deficit corresponding to 2.1 per cent of GDP last year. This deficit has increased gradually in recent years. We expect the deficit for the year to be almost halved as a share of GDP compared with the preceding year. The explanation is that growth will pick up more speed, bringing an increase in both revenue and expenditure for central government. Even if public consumption increases this year, it will not rise at the same rate as GDP. But in our calculations general government net lending does not reach the Riksdag target of a surplus of one per cent of GDP over a business cycle. To achieve this target in 2018, budget reinforcements of almost SEK 60 billion would be required in addition to the tax increases corresponding to SEK 20 billion that we have included for the local government sector.

Good rate of tax base growth in 2015 and 2016

As a result of the increase in employment, the automatic balancing mechanism in the pension system and relatively small increases in basic tax deductions, the tax base will grow strongly this year and next year. This growth is also an effect of the phasing down and removal of the tax deduction for pension savings. But this effect is offset by a reduction of the same size in the government grant. Adjusted for this, the tax base grows by 4.5 per cent in 2015 and 5.2 per cent in 2016.

The tax base is also growing rapidly in real terms: when account has been taken of price and pay rises for municipalities and county councils, the real growth is more than 2 per cent this year and next year. In 2017 and 2018 the real tax base is also expected to grow more than it has done on average in the 21st century.

One of the reasons for the high rate of tax base growth is that the population is now growing faster than it normally has. Measured per inhabitant, the tax base has grown, in real terms, by an average of 0.5 per cent per year in the 21st century. This year and next year the growth rate will be more than twice as high. But, in subsequent years, the growth of the tax base per inhabitant will fall to a level that is around the average for the 21st century.

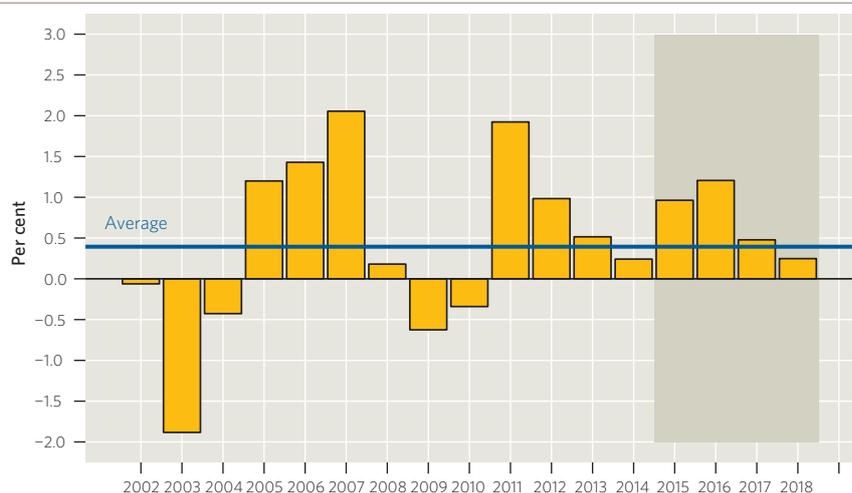
Different population forecasts

The population projection we use is the most recent one published by Statistics Sweden (May 2014). Both the National Institute of Economic Research and the Ministry of Finance use later, unpublished, forecasts. They have a much faster population increase (greater refugee immigration).

In comparisons of the growth of the tax base for different years it is important to also take account of the needs facing municipalities and county councils, not only because the number of persons increases but also because the composition of the population changes. Older people and children and young people are increasing rapidly as a share of the population. The current period for municipalities and county councils corresponds to much higher cost increases for demography than any other year so far in the 21st century.

Diagram 1 • Real percentage change in the tax base per inhabitant and year

Per cent



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

During the IT and financial crises the tax base decreased, in real terms, per inhabitant and year. In 2014 growth was also weak. In 2015 and 2016 the increase will be higher than the average for the 21st century, but after that the growth rate will decrease again. At present the demography-generated costs of municipalities and county councils are increasing faster than the population because the composition of the population is changing in a way that is driving costs up.

Non-recurring revenue strengthened net income for the local government sector in 2014

Net income for municipalities and county councils was just less than SEK 14 billion in 2014, of which SEK 10 billion related to the municipalities. This is a slightly stronger level of net income than in the forecasts made during the year. The difference mainly relates to the municipalities. One reason for this is substantial revenue from sales and special payments for municipal infrastructure in a few municipalities.

This year, again, the municipalities and county councils will receive non-recurring revenue in the form of repayments of insurance premiums. This repayment relates to premiums paid in 2004 to AFA Försäkring, about SEK 5 billion, that the municipalities and county councils will now get back. This is the last time a repayment will be made to the local government sector.

Moreover, this year and next year the tax base will grow strongly. In all, this means that net income for the municipalities especially will continue to be relatively strong in 2015; we expect the sector figure to be SEK 11 billion, with the municipalities accounting for SEK 9 billion.

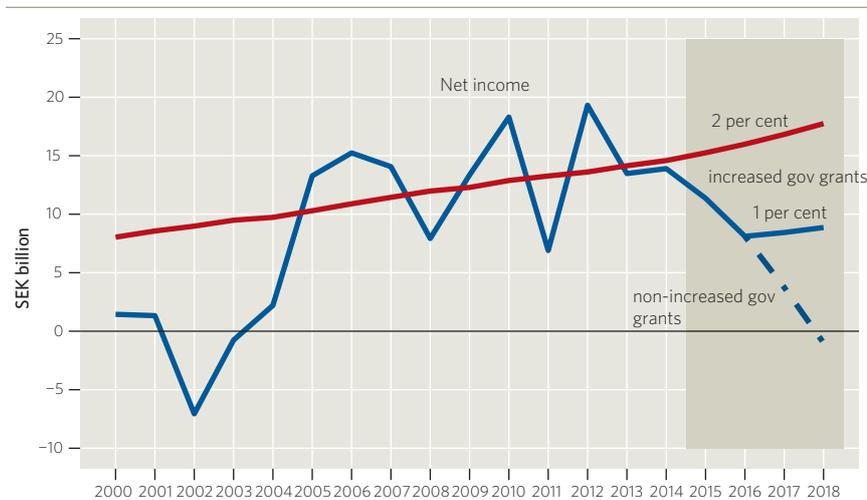
It can be seen that the tax rate for the local government sector is gradually creeping upwards. The average tax rate has increased by 1.61 percentage points in the 21st century, and since 2013 the average tax rate in municipalities and county councils has increased by 0.26 percentage points, mainly because the county councils have been forced to increase their tax rates.

Strong demographic pressure on local government sector finances

We expect that municipalities and county councils will have to increase their tax rates to cope with their financial situation in the future. Despite assumptions of increases in government grants of two per cent per year in real terms

as of 2017, we expect the municipalities to have to increase their tax rates by 0.40 percentage points and the county councils to have to increase their rates by 0.48 percentage points, compared with their present level, up to 2018 in order to achieve net income corresponding to 1 per cent of taxes and government grants. The government grant increases assumed require new decisions by the Riksdag (Swedish Parliament). But we still assume an increase in government grants since an unchanged level of government grants is unsustainable in the long term. Net income at the level of 1 per cent of taxes and government grants is much lower than the target for healthy finances that the sector ought to have and leads to a lower capital/assets ratio and an increase in the local government sector's loan debt. Without increased government grants, net income would fall and be negative in 2018, despite tax increases corresponding to 0.88 percentage points compared with 2015.

Diagram 2 • Net income in municipalities and county councils
SEK billion



To achieve net income corresponding to 1 per cent of taxes and government grants, municipalities and county councils must increase their aggregate tax rate by 0.88 percentage points up to 2018 compared with the present level, even though we assume that government grants will increase, in real terms, by 2 per cent per year. The red line corresponds to net income of 2 per cent of taxes and government grants.

Source: Swedish Association of Local Authorities and Regions.

One reason why the municipalities and county councils must have surpluses is to finance their high level of investments. The budgets and investment plans of municipalities and county councils show that the needs are great. County council investments have more than doubled in the past ten years. The explanation is the generational shift under way in healthcare premises, which requires new investments. At the same time, public transport is expanding, which means investing in trains and buses, for example.

The period that municipalities and county councils are now entering makes much higher demands on municipal and county council finances. According to a long-term trend, costs in municipalities and county councils have increased by about 1 per cent over and above what is required by demography. In addition, the sector is now entering a period that will be increasingly unfavourable in economic terms with respect to the development of the age group-mix of the population. The costs for demography are rising much more quickly than they have in the past twenty years. Children and old people are the individuals who cause the highest costs in municipalities and county councils. Up until 2030 the number of people who are 80 years or older will increase by more than 60 per cent. At the same time, the number of people aged 20–64 years, who generate the lowest costs, will only rise by 3 per cent.

It can be added that the population is rising as a result of immigration. According to the Swedish Migration Agency's forecast between 80,000 and

105,000 asylum seekers will come to Sweden in 2015. In 2014 the number of municipalities whose population decreased was 40. Without immigration, as many as 168 municipalities would have lost population. One problem is that refugee reception is so unevenly distributed across the country. 85 per cent of the refugees who come choose by themselves where they want to settle. This means that many choose to move to the same municipalities. So it is not possible for a municipality to predict, or to govern, the size of refugee reception it will have. One consequence of this is that the refugee reception in the ten municipalities that received most refugees in relation to their own population in 2014 was 70 times larger than the reception in the ten municipalities that had the lowest reception of refugees.

Preventive work to stem the rise in costs

A tougher situation means that municipalities and county councils must work to moderate cost increases. In the report we describe how some municipalities are actively engaged in preventive work with the aid of social investments. In the county councils preventive work has an effect. A considerable part of the resources of healthcare are allocated to the care of people with chronic diseases. These diseases become more common as people get older. For cardiovascular diseases, for example, both new cases and mortality have decreased by more than 25 per cent in the past 30 years. About half of the decrease is due to various preventive interventions. Better health, especially among older people, makes it possible to slow down cost increases in health care and contribute to sustainable finances.

Municipalities and county councils also have the joint task of together creating more effective care for older people with extensive needs of both social care and health care. Today the care of these individuals typically involves toing and froing between their own home and hospital, with some stays in short-term accommodation*. About 15 per cent of patients aged over 65 years who are discharged from an emergency hospital are readmitted again as emergency cases within 30 days. This can be contrasted with the new forms of services that have evolved within the framework of the national initiative for the frailest older people in recent years. These new forms of services are based on bringing together different competences from municipalities and county councils in teams centred around older people in their homes. The results are good. The older people feel better and both they and their close relatives feel more secure. The acute readmissions have decreased, as has the need for short-term places.

Rapid cost increases for pensions

The pension debt of municipalities and county councils has attracted a great deal of attention. It has often featured on news placards and has been a matter of concern for many years. This is, of course, because the sums involved are staggering. In 2014 the total debt amounted to about SEK 490 billion, of which about SEK 250 million refers to the municipalities. The debt has increased in nominal terms for a very long time, but in 2014 it decreased. The question is whether there has now been a break in the trend.

But it is the pension *costs* that are of importance for local authority budgets and that affect the scope for services. Since 2000 these costs have risen sharply, especially in the county councils. One part of the explanation is that there are double costs, both for the old pension system and for current employees. The payments of the old debts now appear to have culminated and will now remain at a relatively high level for the next ten years.

*Short-term accommodation is a special form of elderly housing where people stay for a limited period of time.

Table 18 • Pension debt in municipalities and county councils including payroll tax
SEK billion

	Municipalities		County councils		Total	
	2013	2014	2013	2014	2013	2014
Before 1998	228	219	159	153	387	372
From 1998	31	33	78	82	109	115
Total	259	252	237	235	496	487

Sources: Statistics Sweden, Government Communication 2014/15:102 and Swedish Association of Local Authorities and Regions.

We clear up the terms

During their period as asylum seekers, individuals are either offered a place in one of the Swedish Migration Agency's accommodation centres or arrange their own accommodation. Asylum seekers are not included in refugee reception since refugee reception only relates to people with residence permits. After receiving a residence permit, refugees are normally covered by the introduction programme of the Swedish Public Employment Service and can be allocated a placing in a municipality through that programme. The allocable places in each municipality build on a figure per county that is based on population, the distribution of asylum seekers and various labour market variables. Each county administrative board then negotiates with its municipalities about allocable places on the basis of the county figures.

But, as is the case with asylum seekers, people holding residence permits also have the right to arrange their own accommodation, and the municipalities have no control over this. A large majority choose to do so. Refugee reception also includes family members who may arrive in Sweden at a later stage. Family member immigration and the refugees' own selection of accommodation means that the agreed places only correspond to a small part of the total reception by the municipalities. For various reasons a place does not correspond to the actual reception of a refugee either, so the refugees who ultimately accept a municipal allocation only correspond to about 15 per cent of refugee reception.

One explanation for why the debt now appears to have peaked at the same time as costs continue to increase rapidly is that the old debt is being repaid in pace with the high payments of pensions.

In a special chapter in the report we present a picture of local government occupational pensions, the costs for them and the pension debt (not translated).

Uneven refugee reception

The refugee reception in the ten municipalities that received most refugees in relation to their own population in 2014 was 70 times larger than the reception in the ten municipalities with the lowest reception. The Government has called the uneven distribution across the country »unreasonable« and is considering legislation. Legislation or »greater possibilities of allocation« as it can also be called, is already in place for the reception of unaccompanied minors. The Government is not alone in having views on the distribution. SALAR and many municipal representatives have also pointed out the problems associated with the uneven distribution. See diagram 18 on page 9.

However, most of the refugee reception is not dependent on the good will of municipalities but follows from the freedom that refugees have to settle where they like. See the fact box »We clear up the terms«.

So it is not possible for a municipality to predict, or to govern, the size of refugee reception in the municipality. The responsibility of the municipalities for asylum seekers, who are thus not included in the above figures and are completely out of the control of the municipalities, must also be included to present the overall picture of the reception of new arrivals. The reception of unaccompanied minors, which is based on a separate agreement, must also be included. But new rules about »ties« have meant that these agreements have become less important and have further increased the uncertainty for the municipalities.

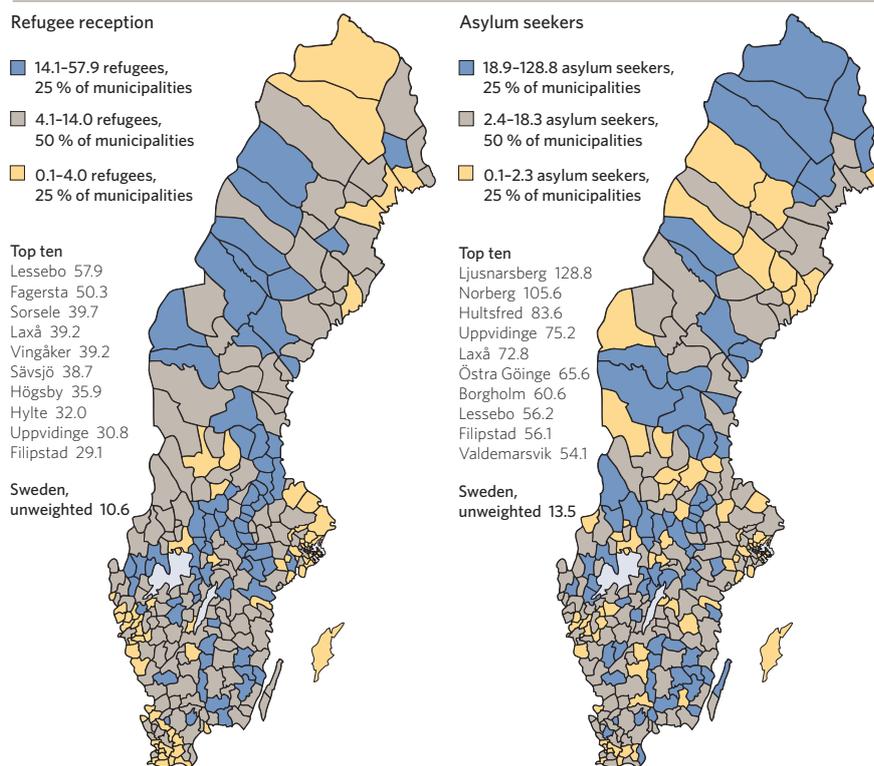
To see what »responsibility« different municipalities take, or are faced with, these different parts must therefore be added together. The maps of Sweden on page 9 illustrate the distribution of refugee reception and asylum seekers registered in the Swedish Migration Agency's reception system per 1,000 inhabitants.

This distribution can also be illustrated by giving some examples:

- **Eskilstuna** had an agreement in 2014 for 15 allocable places for refugee reception. Its actual refugee reception in 2014 amounted to 945 persons, including 380 children and young people up to the age of 20. In addition, the Municipality was allocated 69 unaccompanied minors seeking asylum, including 47 on grounds of family ties. At the end of the year the number of asylum seekers living in the Municipality in their own accommodation or in accommodation centres was 921, including 207 who were under 18 years of age.

Diagram 18 • Refugee reception in the past 24 months (map on left) and asylum seekers registered in the Swedish Migration Agency's reception system (map on right)

Number per 1,000 inhabitants, 31 December 2014



Sources: Swedish Migration Agency and the Swedish Association of Local Authorities and Regions.

- **Uppvidinge** had an agreement for 8 allocable places in 2014. Its total refugee reception in 2014 amounted to 169 persons, including 88 children and young people under the age of 20. The municipality was allocated 45 unaccompanied minors seeking asylum, including 39 who had family ties as grounds. On 1 January 2015 the total number of asylum seekers in the Municipality of Uppvidinge was 698, including 245 under 18 years, most of them in accommodation centres.
- **Södertälje** did not have an agreement about allocable places for refugee reception in 2014. Nevertheless, its total refugee reception amounted to 1,189 persons, including 411 children and young people under the age of 20. At the end of the year there were also 1,089 asylum seekers living in their own accommodation in the Municipality, including 239 under the age of 18. In addition, the Municipality was allocated 33 unaccompanied minors seeking asylum in 2014, including 31 on account of family ties.

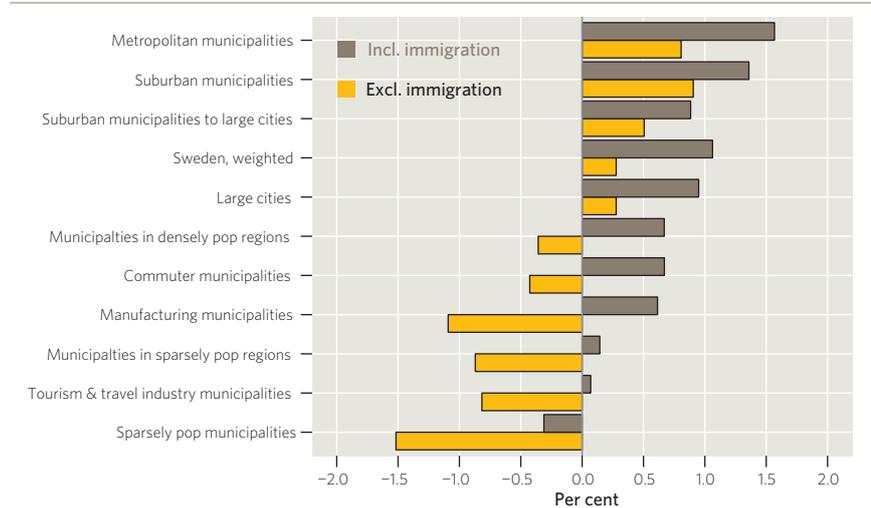
In the whole of the country there were, in 2014, agreements for a total of 8,300 allocable places. In practice, 6,200 people were allocated, but the actual refugee reception, including the refugees' own selection of accommodation and family members, amounted to 45,800 persons. The municipalities were also allocated a total of 7,100 unaccompanied minors seeking asylum, including 2,800 on grounds of family ties. At the end of 2014 there were in the municipalities, in addition to this, 79,400 asylum seekers and people registered in the Swedish Migration Agency's reception system, two-thirds of whom were living in accommodation centres.

New demographic playing field

The population increase in Sweden last year was record-breaking. The population decreased in 40 municipalities, which is the lowest number since 1989, and it is no longer only suburban municipalities in the Stockholm region that make the list of the fastest growing municipalities.

Diagram 19 • Population change with and without immigration

Average percentage change by municipality group



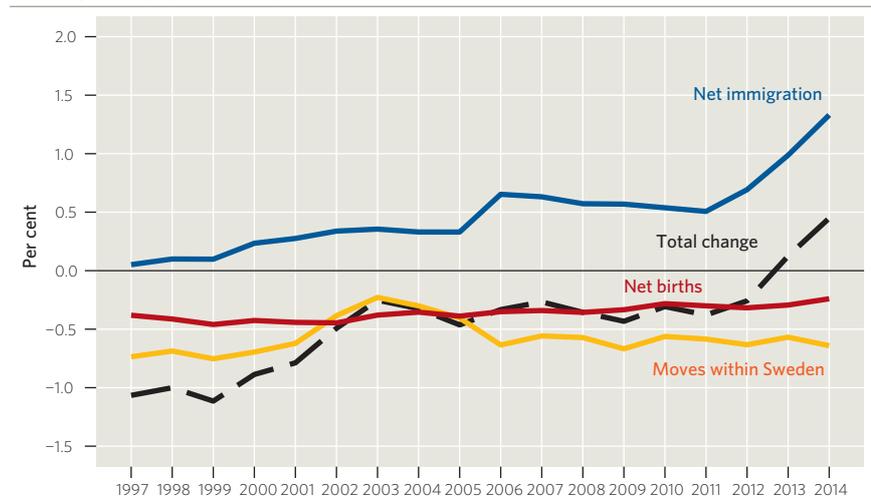
Source: Statistics Sweden.

It is only the municipality group of sparsely populated municipalities that had an average population decrease in 2014. Without immigration, a majority of the municipal groups would have had an average population decrease.

Otherwise the population changes in recent decades have been fairly predictable, showing negative net migration figures and low birth rates, with immigration as the only, but insufficient, item on the plus side for large parts of the country outside the metropolitan regions. There have been few examples of municipalities that have succeeded in turning round a declining population, but the past two years have meant a turn-round for many.

Diagram 20 • Net migration, net births and net immigration in 1997–2014 for three aggregated municipality groups: sparsely populated municipalities, municipalities in sparsely populated regions and manufacturing municipalities

Percentage of the population each year



Source: Statistics Sweden.

In the three aggregated municipality groups of sparsely populated municipalities, municipalities in sparsely populated regions and manufacturing municipalities population would have decreased overall throughout the 21st century. But since 2003 the population has been maintained by immigration. In 2014 there was a substantial population increase on account of immigration.

It is immigration that explains most of the population growth in the country and the break in the trend in many municipalities. However, immigration is not synonymous with refugee reception. Immigration is a broader term that covers students, labour immigration, returning Swedes, EU citizens and other groups. The largest number of immigrants came from Syria and Norway. Without immigration the population would have decreased in 168 municipalities in 2014. But the news is not that immigration is the cause of population growth in many municipalities. This has long been the case. What is new is that a relatively large number of municipalities have turned round a negative trend and that it is refugee immigration specifically that has been of decisive importance for this.

Moving patterns and birth rates have a natural link to age. The age profile of immigrants is very similar to that of people who normally move within Sweden, and this means that secondary migration of many new arrivals, i.e. their moves within Sweden within a period after their first placement in a municipality, confirm existing rural-urban migration patterns. The break in the trend we are now seeing in certain municipalities therefore risks only being a bump in the curve.

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 21 • Key indicators for municipalities and county councils, 2014–2018
Per cent and thousands of people

	Outcome		Forecast	Calculation	
	2014	2015	2016	2017	2018
Average tax rate, %	31.86	31.99	32.04	32.37	32.86
municipalities, incl. Gotland	20.65	20.70	20.70	20.86	21.10
county councils*, excl. Gotland	11.26	11.35	11.41	11.58	11.83
	Outcome	Forecast		Calculation	
	2014	2015	2016	2017	2018
No of employees**, thousands	1,104	1,125	1,143	1,163	1,181
Municipalities	834	852	866	881	895
County councils	270	274	278	282	286
Volume change, %	2.1	2.2	1.9	2.0	2.0
Municipalities	1.8	2.2	1.7	1.8	1.8
County councils	2.7	2.2	2.4	2.4	2.4

*The tax base of Gotland is not included, which is why the totals do not add up.

**Average number of people in employment according to the National Accounts.

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

Table 22 • Aggregate income statement for the sector, 2014–2018

SEK billion

	Outcome	Forecast		Calculation	
	2014	2015	2016	2017	2018
Income of activities*	175	184	189	198	209
Expenses of activities	-868	-907	-951	-997	-1,047
Depreciation	-28	-30	-32	-34	-36
Net expenses of activities	-721	-753	-794	-833	-875
Tax revenue	602	636	672	708	749
Gen. gov. grants and equalisation	127	127	128	133	139
Net financial income	6	2	3	0	-4
Net income before extra-ordinary items	14	11	8	8	9
Share of taxes and grants, %	1.9	1.5	1.0	1.0	1.0

Note: Purchases between the sectors have been consolidated.

*The non-recurring effect of a repayment of AFA premiums of SEK 5 billion is included in Income of activities for 2015.

Table 23 • Income statement for the municipalities, 2014–2018

SEK billion

	Outcome	Forecast		Calculation	
	2014	2015	2016	2017	2018
Income of activities*	127	135	138	145	152
Expenses of activities	-573	-599	-628	-658	-690
Depreciation	-19	-21	-21	-23	-24
Net expenses of activities	-464	-485	-511	-536	-562
Tax revenue	390	411	434	456	480
Gen. gov. grants and equalisation	80	80	80	85	88
Net financial income	5	3	2	1	-1
Net income before extra-ordinary items	11	9	6	5	6
Share of taxes and grants, %	2.3	1.8	1.1	1.0	1.0

*The non-recurring effect of repayments of AFA premiums of SEK 3.4 billion is included in Income of activities for 2015.

Table 24 • Income statement for the county councils, 2014–2018

SEK billion

	Outcome	Forecast		Calculation	
	2014	2015	2016	2017	2018
Income of activities*	49	51	52	55	59
Expenses of activities	-297	-310	-325	-340	-358
Depreciation	-9	-10	-11	-12	-13
Net expenses of activities	-257	-268	-283	-297	-313
Tax revenue	212	224	238	252	268
Gen. gov. grants and equalisation	47	47	47	49	50
Net financial income	1	0	1	-1	-3
Net income before extra-ordinary items	3	3	2	3	3
Share of taxes and grants, %	1.3	0.9	0.9	1.0	1.0

*The non-recurring effect of repayments of AFA premiums of SEK 1.4 billion is included in Income of activities for 2015.

Source: The Swedish Association of Local Authorities and Regions.



The Economy Report. April 2015

On Swedish Municipal and County Council Finances

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 2018.

In this spring report we describe the distribution of refugee reception between Swedish municipalities and the situation for investments. We also try to explain the causes of the tax increases in recent years in county councils and to describe future challenges. It is clear that there are great gains to be made through new forms of care for the frailest elderly people.

We expect net income for the sector to be around SEK 11 billion this year, corresponding to 1.5 per cent of taxes and general government grants. This positive level of net income is largely explained by non-recurring additional funds in the form of repaid premiums totalling SEK 5 billion from the insurance company AFA Försäkring. Thereafter net income is expected to weaken slightly and is estimated at around SEK 9 billion in 2018. But this will require tax increases of 0.88 percentage points even though we assume that government grants will be increased by SEK 10 billion.

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

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