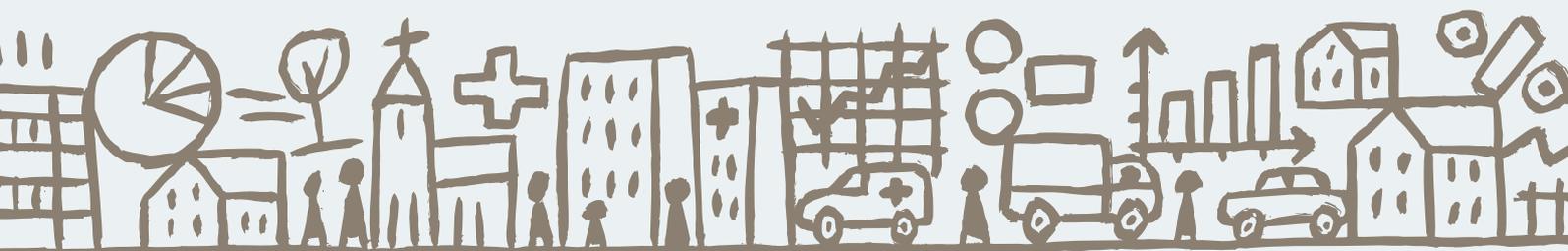


The Economy Report, October 2016

- ON SWEDISH MUNICIPAL AND COUNTY COUNCIL FINANCES



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 2020.

Up until 2020 the population of Sweden is expected to increase by 650,000, as a result of the large-scale immigration and a higher birth rate. In this autumn's report we give a picture of the challenges facing municipalities and county councils in adapting their services. Our calculations show how their financial situation is becoming more and more strained since the tax base is not expected to show corresponding growth.

This is an abridged version of the report. It contains the Summary and part of the chapters on Municipalities and County councils (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, November 2016

Annika Wallenskog
Section for Economic Analysis

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Summary

The local government sector is facing major challenges to its services and finances. It is now entering a phase in which the costs of demography are rising faster than revenue. To address this, a new approach to local government welfare services must be adopted and a number of measures must be taken by central government, municipalities and county councils.

The expected demographic drama is coming earlier

The strong future increase in demographic pressure had been expected to come after 2020, and to primarily be due to many more older people, which would mainly affect elderly care and health care. However, this demographic drama has been brought forward as a result of strong population growth. This is mainly to do with the historic high in refugee immigration, but is also a result of an increase in the birth rate. The number of births has increased steadily since bottoming out in 1999 and is expected to exceed the record year of 1990 in a few years. The number of children and pupils in preschool, compulsory school and upper secondary school is expected to rise by about 230,000 up until 2020, reaching 2.2 million. There will also be an increase in 0–1 year olds, which mainly affects health care.

In addition to schools, the strong population increase up until 2020, totaling approx. 650,000, will affect a number of other services: health care, public transport, social services, housing provision, rescue services, cultural services and technical services. Some way into the 2020s the situation will get even worse when the number of older people accelerates.

Since this spring's Economy Report the Swedish Migration Agency has made a downward revision of its forecast of the number of asylum seekers. This results in some downward revision of expected cost increases for the local government sector. But the overall picture of sharply increasing demographic pressure on costs still applies.

The economy is expected to return to a normal situation

The relatively high growth of the Swedish economy, with a rapid increase in the number of hours worked, has given a good boost to the tax base in real terms in recent years. This trend will continue a while longer but will already

slow down next year when the economy enters a calmer phase with lower employment growth. This year and next year the tax base will also be reinforced by extra rises in pension income.

There are ever clearer signs that we are in an economic boom. One growing problem in the Swedish economy is a growing shortage of labour. This has a negative impact on local government finances, chiefly because staff costs increase and there is a shortage of staff in certain occupations. One consequence is increasing costs for temporary/hired staff in municipalities and, especially, in county councils.

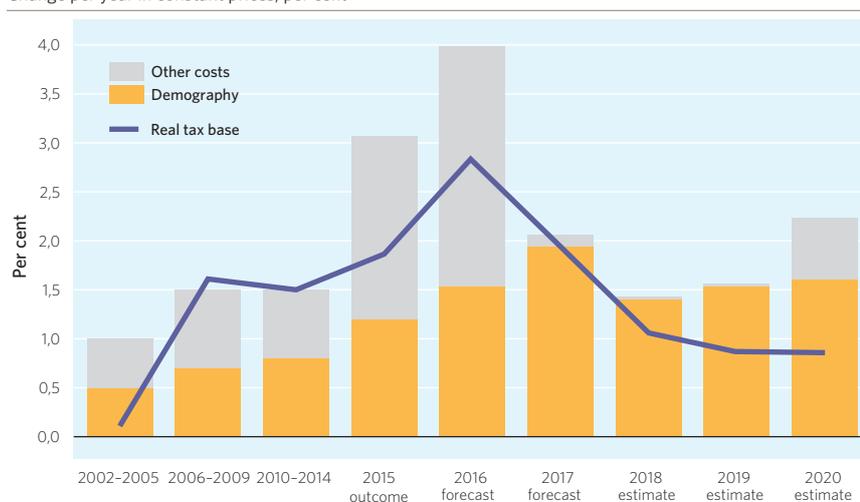
Beyond 2017 the real growth of the tax base will be lower. This is mainly a result of weaker employment growth as the economy turns down towards a normal situation. The effect will then be that the demographically driven costs of municipal and county council services will rise faster than the tax base as of 2017.

Costs of demography are growing faster than the tax base

Figure 1 illustrates the dilemma facing the local government sector in coming years. On account of demographic developments costs are expected to grow faster than the tax base. This is in clear contrast to developments in the period 2006–2016. Demographically driven costs are growing about one percentage point faster than in the early noughties, and this corresponds to about SEK 10 billion.

Figure 1 • Growth of costs and tax base

Change per year in constant prices, per cent



The tax base will increase more slowly than demographic costs in the future.

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

Population change is only one reason for increasing costs; others reasons include a higher level of ambition at both national and local level, transition costs, one-time events and pensions (see Other costs in figure 1). In 2015–2016 a key part of these other cost increases is costs for asylum seekers, which are, however, offset by central government, which is responsible for the costs of asylum reception. In the case of asylum seekers granted residence permits, and who are then counted in population statistics, the responsibility for costs is transferred to municipalities and county councils, and this is reflected in the larger demographic component. However, it is hard to know whether it captures all the cost effects of the larger number of new arrivals. In a separate study we present an analysis of the costs of refugee immigrants in health care in order to increase knowledge in this area.

One current challenge for the municipalities is to fulfil the requirements that follow from the Reception for Settlement Act. Under this Act the municipalities have an obligation to arrange housing for a certain number of new arrivals each year. The number of people who will settle in municipalities under the Act in 2016 and 2017 is expected to be large. The financial impacts are difficult to estimate. In addition to direct costs for investments there is also a risk of long-term impacts of greater borrowing, greater risk-taking and potential effects on financial assistance provided by municipal social services. Several municipalities have signalled that they are unable to cope with this assignment.

A further challenge is the need for education, training and other action that many new arrivals have in order to find employment; this action is needed to supplement the introduction programme of the Swedish Public Employment Service [Arbetsförmedlingen]. The lower employment is among new arrivals, the higher the municipalities' costs for income support risk being.

Cost increases over and above those resulting from demography have been pronounced in the county councils. In health care costs are currently increasing in almost all branches of these services, and this is largely explained by greater possibilities of providing treatment and increased costs for staff, including temporary staff hired from staffing agencies. The costs of this hired staff totalled SEK 4 billion in 2015, an increase of more than 60 per cent since 2011.

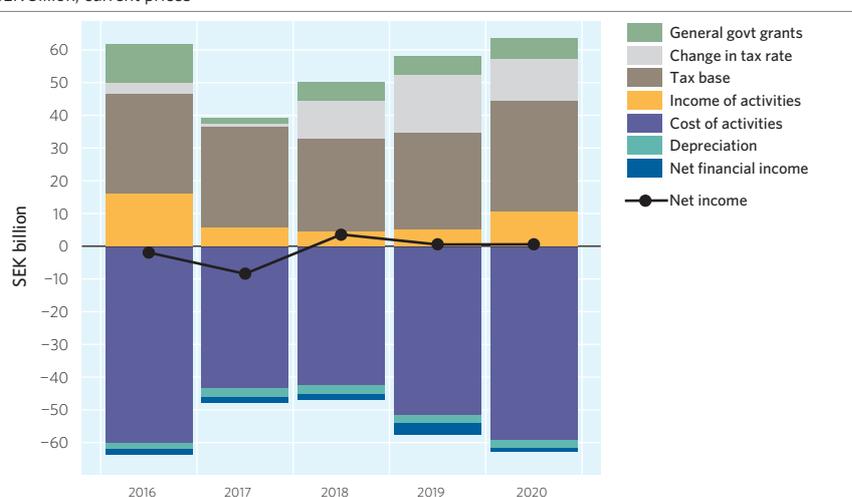
Net costs in public transport have increased by 60 per cent in constant prices since 2006 while the number of trips has increased by about 25 per cent in the same period. The underlying factors include ambitious traffic, environmental and climate objectives at both national and regional level.

Pension costs are also increasing at an ever faster rate, especially for county councils. The reasons for this include higher pay and price indexation. In all, pension costs in the whole of the local government sector are expected to increase from SEK 50 billion this year, SEK 17 billion of which consists of pensions earned before 1998, to SEK 65 billion in 2020.

Risk for large tax increases

In the past ten years the aggregate net income of municipalities has, on average, been 2.8 per cent of taxes and general government grants. So municipa-

Figure 2 • Change in local government sector net income
SEK billion, current prices



Source: Swedish Association of Local Authorities and Regions.

The figure shows the annual change in the various income statement items for the whole of the local government sector.

lities have maintained a good margin to the 2 per cent that can be regarded as a rule of thumb for healthy finances. 2015 was no exception; in that year their aggregate net income totalled SEK 15 billion. They are also expected to report strong income in 2016.

The aggregate net income of county councils has been much weaker, 0.9 per cent on average in the past ten years. In 2015 their aggregate net income was SEK 0.7 billion, which is 0.2 per cent of taxes and general government grants, and no appreciable improvement is expected this year.

Figure 2 (on page 5) shows the future development of local government sector net income in our calculation and the contribution made by the various components of their income statement. The calculation is based on a projection of costs driven by demography plus trend-based additional funding for other factors as well as higher pay and prices. Costs are expected to increase each year by between about SEK 40 and 60 billion in current prices.

Added to this are higher depreciation allowances and poorer net financial income; together these amount to about SEK 4 billion per year, mainly on account of increased investments.

A part of local government sector costs is covered by revenue for services, including various charges and targeted government grants. Targeted grants for refugee reception account for a large part of the increase in 2016.

But the most important source of income is tax revenue. However, the underlying growth of the tax base is not enough to maintain net income at a fairly unchanged level. To balance the calculation both additional resources and other measures are required.

Our calculation assumes that general government grants increase by 2 per cent per year in real terms in 2018–2020. Taken together with the increase of SEK 10 billion in 2016 this would make the level of general government grants SEK 26 billion higher in 2020. In addition, our calculations show that income-enhancing measures of SEK 47 billion are required, corresponding to tax increases of 2.10 percentage points over and above the increase of 0.12 percentage points in 2016, which would impact on households' real incomes. However, tax increases of that magnitude are not likely. The response is more likely to be a combination of measures with action to increase efficiency as an important component.

New approaches are essential

It is clear that the local government sector is facing major challenges to its services and finances. Its cost increases are going to rise, while its revenue will increase more slowly. At best this scenario can be pushed a year or so into the future on account of temporary factors, but all calculations point to a development in a direction that will result in severe funding problems for municipalities and county councils. This is why it is essential to already have a strong focus at this time on measures that can slow cost growth down. There is no single solution and a number of different measures will be required for a long period of time.

Without a doubt, greater taxable capacity as more people get jobs is the most important fundamental that must be in place so as to be better able to finance welfare services. To achieve that it is important to greatly improve integration, to improve education and to also ensure that other welfare provision is working well.

Considerable improvements are also required in the efficiency of local government services, primarily through the introduction of new technology and new solutions regarding welfare services. When it comes to health care, the

most strategic steps to take from a long-term perspective are to prevent chronic diseases and to slow down the deterioration of existing ill health. County councils must work on prevention in order to reduce the prevalence of chronic diseases. There is great potential here since many of them can be prevented.

In schools there are considerable possibilities of individualised learning with the aid of technology.

Digitalisation is one of the technical breakthroughs of our age and has considerable potential to increase the efficiency of all information management, both internally in municipalities and county councils and in relation to users. Then there is also other technology such as automation, robotisation, artificial intelligence, voice control, real time language translation and so on. With the right cooperation there is a possibility here for Sweden to be a pioneer in the production of welfare services. The improved access to data about quality and efficiency in many areas and the development of new comparative methods needs to make a greater impact on work to increase the efficiency of various services.

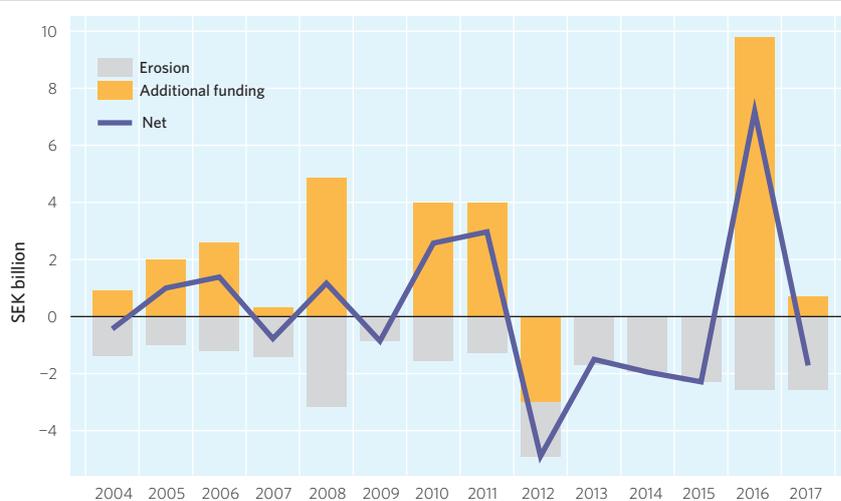
Consensus is needed between central government and the local government sector on the development of services and the level of ambition

It is questionable whether the present system of a large number of targeted government grants is fit for purpose. The initiatives associated with these government grants are often under-financed initially and subsequently drive costs at the same time as the results of these initiatives are dubious in many cases. The initiatives carried out should be selective, forward-looking, well-considered and well-anchored.

More appropriate financing of local government services is needed

Central government grants account for a large share of local government sector revenue. Diagram 3 shows the real change in general government grants, divided up into additional/reduced funding and erosion, for each year since 2004. General government grants need to be raised by more than SEK 2–3 billion each year in the future in order to remain unchanged in real terms. They also need to change in pace with demographic developments so as to make it possible to maintain an unchanged level of ambition.

Figure 3 • Annual change in general government grants to the local government sector
SEK billion, current prices



The value of the general government grants is eroded each year if they are not indexed upwards in line with increases in pay and prices. The additional funding provided for the sector is marginally greater than the erosion viewed over the whole period.

Source: Ministry of Finance and the Swedish Association of Local Authorities and Regions.

In 2004–2011 the local government sector mainly received real additional funding, largely thanks to the cyclical support in 2010, while the general government grant was reduced in 2012–2015 and eroded in real terms. The additional funding in 2016 was welcome and has restored the reductions made in recent years, but has not done more than that. If account is also taken of population change, a reduction can be noted instead, if anything.

As also shown in the figure the additional funding comes sporadically, making long-term planning in the local government sector more difficult.

The surplus target for general government net lending will probably be reduced (seven of the eight parties in the Riksdag, the Swedish Parliament, agree on reducing the target level) from 1 to 1/3 of one per cent over an economic cycle. One of the original ideas behind the target was to save in good times and then use the surplus when the demographic situation looks worse, which it is going to do in the future. This indicates that the time will be right to channel additional central government resources to the local government sector. The alternative will be savings and increases in local authority taxes.

However, there are disadvantages of greater dependence on government grants as indicated above. One alternative can be to transfer a tax base with natural growth to the local government sector.

Change in the reporting of pensions will have financial effects

In the spring an inquiry presented a proposal to replace the present mixed model for reporting pension costs with fully funded reporting. The chapter »Fully funded model – greater demands on financial management« (Fullfonderingsmodell – större krav på ekonomistyrningen) [not translated] describes what effects such a change would result in. One clear and immediate effect would be an increase in the volatility of net income, which would make financial planning more difficult and risk moving the focus away from more pressing issues. Another effect would be that net income would appear to improve despite unchanged income and expenditure. In the long term this risks leading to financial erosion for many municipalities and county councils, especially those that are already financially vulnerable at present. One conclusion of this is that new financial targets will need to be set if the proposal is implemented. It would, for example, be necessary to increase net income to a level that is more sustainable in the long term.

Municipal responsibility for housing provision – a challenge

In the chapter »Housing Policy« (Bostadspolitik) [not translated] we describe developments in the housing market and look at some topical local government finance issues in this context.

Housing policy has long been a dominant issue in the political debate; particular attention is given to the shortage for people who are not settled in the housing market, such as young people and new arrivals. This is especially true of municipalities in the parts of the country that have a growing population. Most municipalities own a non-profit housing provider than operates on market terms and is used to improve housing provision.

According to a new survey, municipalities think that the present rules for financial reporting are unclear on some points regarding the principles for writing up and down the value of housing properties. The present application of the rules provides incentives for the sale of properties as a way of responding to the need for new construction.

We also describe the design of the rules for the house-building bonus, which is not judged to provide any extra incentive to increase housing construction.

Municipal finances

Net income for the municipalities in 2015 totalled SEK 15 billion. This is a good level of net income that is well above the sector's rule of thumb for healthy finances. On account of the strong demographic pressure in 2016–2017, greater pension costs and the slowdown in tax base growth in 2018–2020 there will still be a need for measures corresponding to a tax increase of 1.30 percent points in 2020 to reach net income of 1 per cent of taxes and general government grants. That level of a tax increase is not likely, so we expect municipalities to take action to increase efficiency so as to meet parts of their funding requirement.

Strong net income in 2015

The municipalities reported net income of SEK 15 billion in 2015. This corresponds to 3 per cent of taxes and general government grants. These figures include a repayment from the insurance company AFA Försäkring (3.6 billion) and the temporary support from central government for the refugee situation (SEK 0.9 billion). When adjusted for this additional funding, net income is 2.1 per cent of taxes and general government grants, which is also a good outcome. In aggregate, the municipalities have reported positive net income for the past ten years, amounting to an average of 2.8 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. It is, however, important to underline that it is up to each municipality to set its own targets for healthy finances. Our descriptions refer to net income for the year before extraordinary items and not net income according to the balanced budget requirement.

Figure 12 • Municipalities' net income before extraordinary items
SEK billion and percentage of taxes and general grants



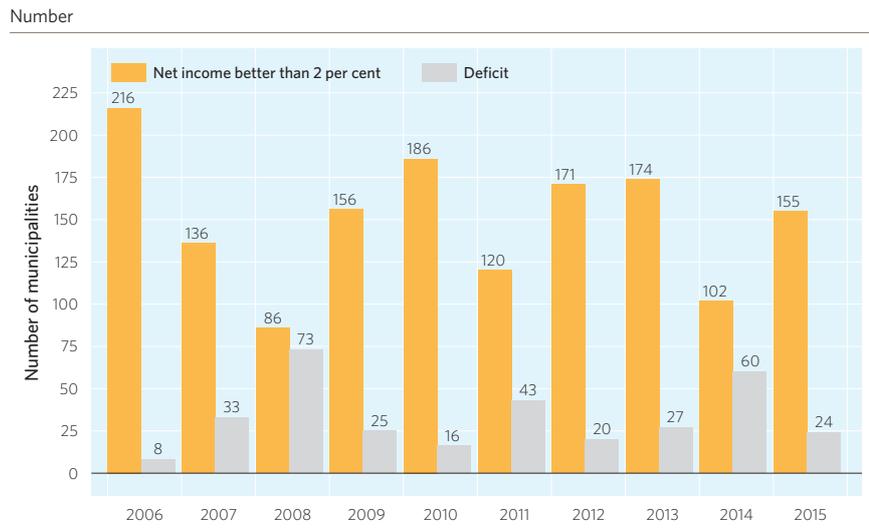
Source: Statistics Sweden.

In recent years aggregate net income has corresponded to 2.8 per cent of taxes and general government grants.

Overall, net income in the past ten-year period must be regarded as good. In the closing years of this period capital gains increased sharply. In 2006–2010 they averaged SEK 4 billion, in 2011–2015 that figure was SEK 7 billion. In 2015 income of activities showed an unusually sharp increase of more than 11 per cent. The explanation, in addition to the repayment from AFA Försäkring, is a sharp increase in targeted government grants, mainly compensation for costs of refugees, staffing in elderly care, higher pay for teachers and an initiative for junior-level pupils in compulsory school. Central government compensation for refugee reception increased by almost 90 per cent.

The volume of costs increased by 2.8 per cent in 2015, which is the biggest increase in the past fifteen years. There is great variation between services (table 16). In »specially targeted measures« there was a sharp cost increase for refugee reception. Preschools and schools have also had high cost growth. As regards political activities the decrease is because 2014 was an election

Figure 13 • Number of municipalities with negative net income and with net income corresponding to at least 2 per cent of taxes and grants



Note: Net income before extraordinary items (the municipality).
Total number of municipalities is 290.

Source: Statistics Sweden.

In 2015 half of municipalities kept to the rule of thumb for healthy finances, which corresponds to the average for the past ten-year period. On average around thirty municipalities per year have had a deficit.

Table 16 • Total costs for actual activities in 2015 and share and development in current prices
SEK billion and share and development in per cent

	2015	Share	Current 2015	Current/year 2000-2014
Political activities	6.6	1.1	-1.2	3.8
Infrastructure and protection	41.4	7.2	3.5	3.0
Cultural and recreation services	28.6	5.0	4.2	3.5
Preschool services, pedagogical care	68.7	12.0	5.0	5.1
Compulsory school, preschool class, out-of-school centres, compulsory school for pupils with learning disabilities	128.0	22.3	6.4	3.7
Upper secondary school, upper secondary school for pupils with learning disabilities	41.6	7.2	1.2	-0.4
Adult education and other education	8.8	1.5	4.2	2.8
Elderly care	113.8	19.8	4.2	3.3
People with disabilities	67.9	11.8	4.8	4.2
Individual and family care	42.3	7.4	5.0	3.9
Specially targeted measures	21.5	3.7	45.4	6.8
Other activities	5.1	0.9	1.0	1.7
Total costs	574.4	100.0	5.7	3.5

The activity that has increased most is refugee reception (part of specially targeted action) which almost doubled in 2015.

Note: Other activities consists of primary care and special travel services. There is also the item Commercial activities of SEK 2.4 billion, most of which is charge-financed.

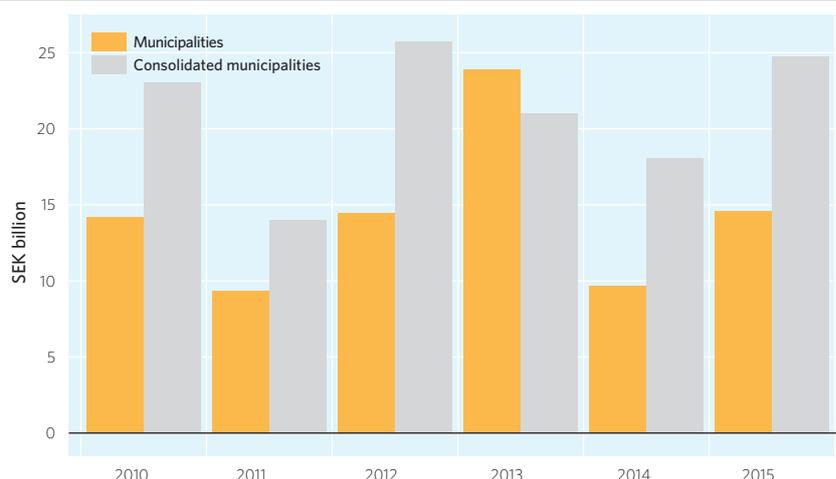
Source: Statistics Sweden and Swedish Association of Local Authorities and Regions.

year that includes the costs of holding the election. In current prices costs increased by 5.7 per cent, compared with the average increase of 3.5 per cent in 2000–2014.

Net income at consolidated level

The municipalities' aggregate net income was thus SEK 15 billion in 2015. If municipal companies' net income of SEK 10 billion is added, the aggregate net income is SEK 25 billion in 2015. This is the highest level since 2012.

Figure 14 • Net income for the year in municipalities and consolidated municipalities
SEK billion



High aggregate net income in consolidated municipalities in 2015.

Source: Statistics Sweden.

Since 2010 net income for consolidated municipalities has been between SEK 14 and 25 billion. The aggregate net income of consolidated municipalities has been higher than that of municipalities without their companies.³

3. With the exception of 2013, when the Municipality of Gothenburg had net income of just under SEK 10 billion in the municipality and 1.5 billion when consolidated on account of the sale of a municipal company.

In 2015 the municipalities spent more than SEK 48 billion on investments. This year their investment budget is SEK 64 billion. The great need for investments in new schools, housing for the elderly, homes and new infrastructure is one of several reasons why the municipalities need to have good net income.

To some extent this good net income is due to unforeseen factors. For example AFA insurance has once again refunded premiums paid in previous years; this time the amount repaid is SEK 3.6 billion.

The City of Stockholm reports the highest net income, SEK 2.6 billion. Taking account of population, Kiruna, Luleå and Skellefteå have the country's highest net income per inhabitant.

Kiruna's net income of SEK 2.3 billion includes payments booked for moving the town; here the LKAB mining company is paying compensation for what needs to be demolished. Without the urban regeneration and items affecting comparability, Kiruna has net income of SEK 45 million.

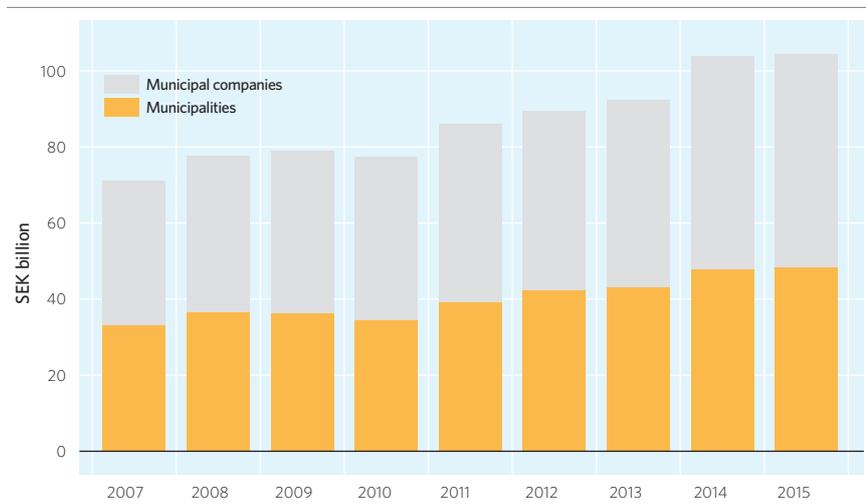
Luleå's aggregate net income of SEK 1.1 billion mainly consists of capital gains from the sale of housing and municipal properties for services to Rikshem. The reason for Skellefteå's net income of almost SEK 1 billion is a sale of a number of commercial properties.

Investments standing still...

The aggregate volume of investments in consolidated municipalities has been increasing for a long time. In current prices they have increased from SEK 72 billion in 2007 to SEK 105 billion in 2015 (i.e. by 45 per cent). The investments of municipalities and consolidated municipalities are at about the same level in 2015 as in 2014. However, municipal budgets contain plans for a distinctly higher level of investments in the coming two years.

Municipal companies account for the bulk of municipal investments. The level of investments will probably continue to increase in the coming years. One explanation for this is that many of the housing and services properties built in the 1960s and 1970s need to be renovated or replaced with new units. Another explanation is that Sweden's population is growing quickly at the same time as urbanisation is increasing. A higher volume of investments re-

Figure 15 • Investments in municipalities and companies
SEK billion



Source: Kommuninvest.

Investments have increased sharply, but were at about the same level in 2015 as in the previous year.

sults in both higher depreciation and higher operating costs that will take more and more space in municipal operating budgets.

Municipal investments are primarily in properties for operating services, such as schools, infrastructure and water and sewage. Their companies' investments are mainly made in housing.

Investments can be financed by depreciation, positive net income 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.

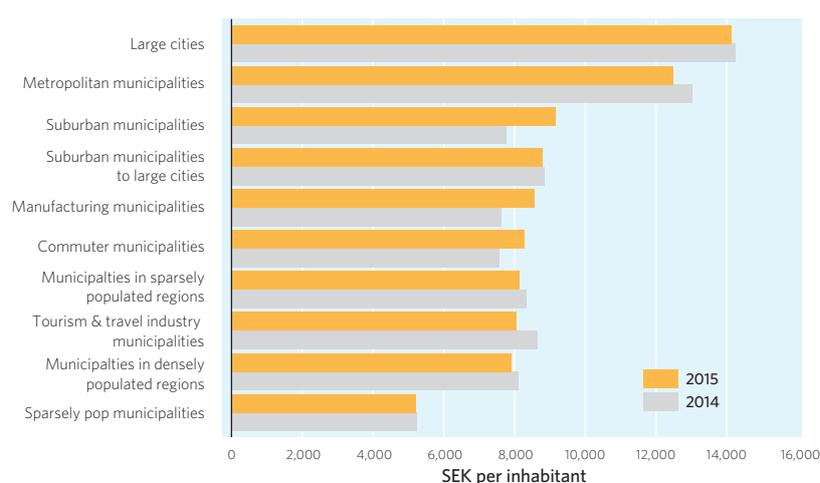
Investments per group of municipalities

The figure below shows the volume of investments per inhabitant in 2014 and 2015 per group of municipalities for consolidated municipalities, i.e. including municipal companies.

In 2015 the average municipal investments were just over SEK 10 000 per inhabitant, about the same level as in the previous year.

Metropolitan municipalities and large cities had a significantly higher level of investments than other groups of municipalities, while sparsely populated municipalities had the clearly lowest level. However, the spread between municipalities in the same group of municipalities is often greater than the spread between groups of municipalities.

Figure 16 • Investments in consolidated municipalities
SEK/inhabitant



Large and growing municipalities invest most.

Source: Kommuninvest.

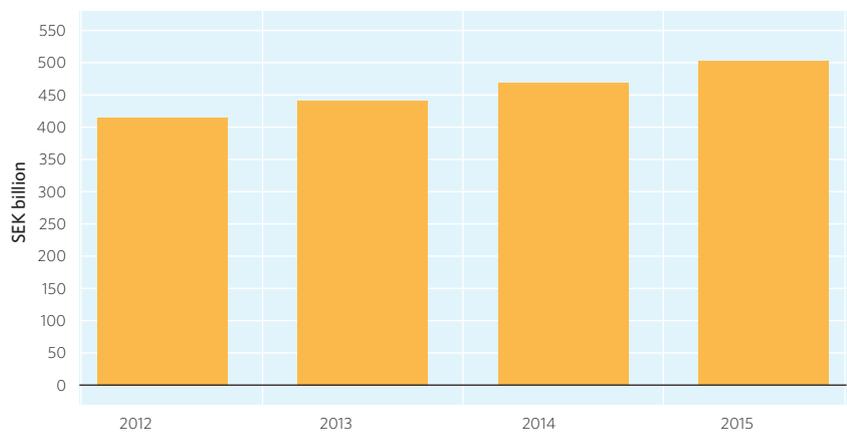
According to Kommuninvest the most important individual explanations of differences in the level of investment are the volume of existing non-current assets (per inhabitant) in municipal companies and population growth in the municipality. That is, the more non-current assets and the more population growth that a municipality has, the higher its level of investments.

...and loan debt is increasing

Even though total investments were at the same level in 2015 as in 2014, the loan debt continues to increase. At the end of 2015 the loans debt was SEK 502 billion, an increase of more than 7 per cent on the previous year.

It is mainly in the municipal group of large cities that the loan debt is high and rising, both per inhabitant and in total. Many large municipalities have signalled that they need external financing for the large investments they are making and plan to make.

Figure 17 • Loan debt in consolidated municipalities
SEK billion



Loan debt is rising faster than investments.

Source: Kommuninvest.

County council finances

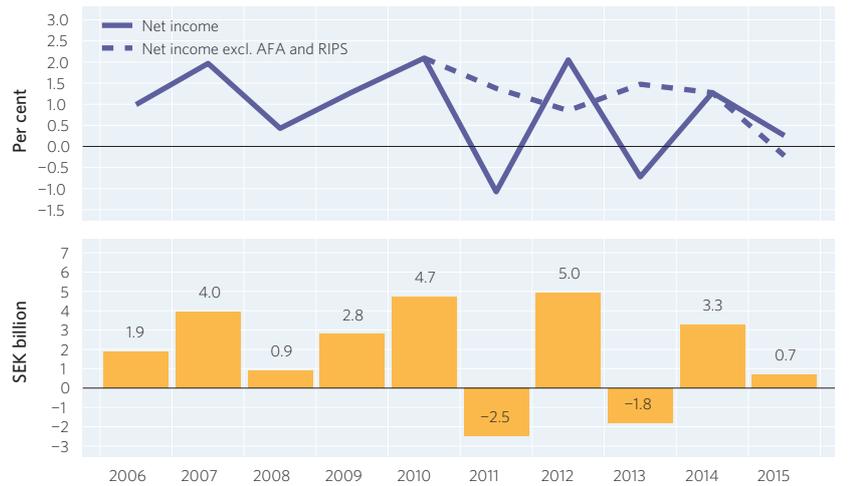
Cost growth in the county councils remains high in all branches of health care as well as in public transport. Rising costs for hired staff and greater volumes in care of asylum seekers contributed to the costs of primary care rising fastest in 2015. In specialised care the rate of cost growth was still high, too. Even though forecasts for 2016 suggest that the rate of cost growth has moderated slightly compared with 2015, weak levels of net income are also expected this year and several county councils are expected to show deficits. Skills provision remains a major problem. Financing ever increasing health care needs driven by demography and ambitious public transport targets requires the setting of priorities but will probably also result in further tax increases. An integrated approach to effective resource utilisation is required in all county councils.

Historically weak net income in county councils in 2015

The county councils' aggregate net income in 2015 of SEK 0.7 billion corresponded to only 0.3 per cent of taxes and government grants. The negative net income in 2011 and 2013 included costs of SEK 5.7 and 8.4 million respectively for the recalculation of pensions. Net income was reinforced in 2012, 2013 and 2015 as a result of premium repayments from the AFA Försäkring insurance company. Adjusted for the effects of temporary revenue and costs, net income was negative in 2015, for the first time since 2004. So net income for 2015 is historically weak.

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

Figure 24 • County councils' net income before extraordinary items
SEK billion and per cent of taxes and government grants

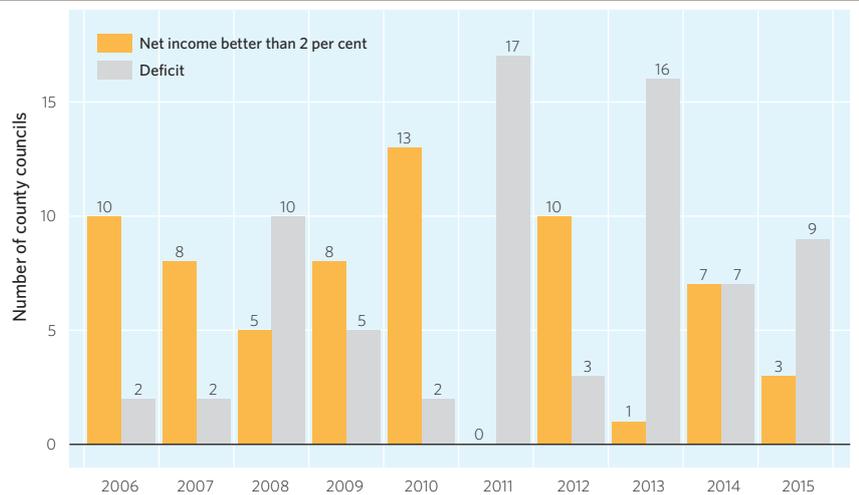


Source: Statistics Sweden.

The net income of county councils has been affected by one-time items on both the revenue and the cost side. Revenue has been reinforced by premium repayments from AFA Försäkring from 2004–2008. Since 2009 the premium has been zero and this means that no further premiums will be repaid. The one-time effects on the cost side occurred in 2011 och 2013 on account of the change in the 'RIPS' interest rate used in pension calculations. Excluding these one-time effects, net income in the county councils has corresponded to just over 1 per cent of taxes and government grants in the past ten years.

Figure 25 • Number of municipalities with a deficit and with net income corresponding to at least 2 per cent of taxes and grants

Number of county councils



Source: Statistics Sweden.

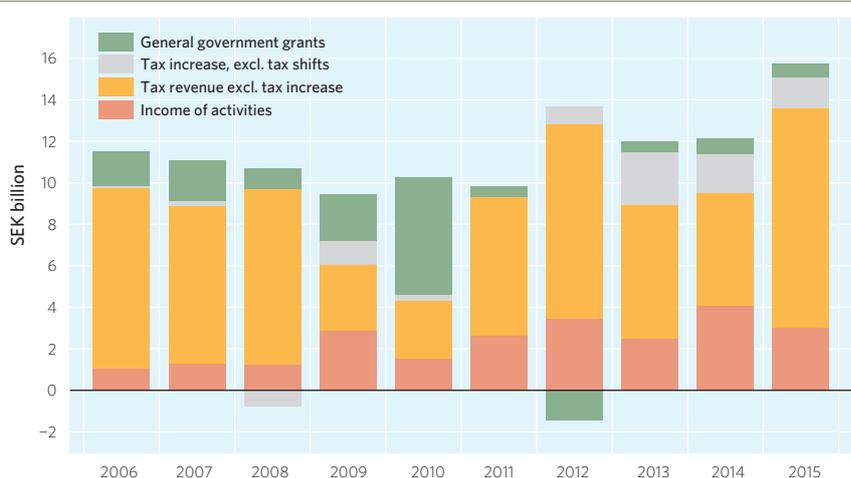
Almost half of the county councils reported negative net income in 2015 despite temporary revenue from AFA Försäkring. Only three county councils reported net income corresponding to 2 per cent of tax revenue and government grants.

For many county councils achieving balance in their finances is a difficult challenge. More than half the county councils 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.

Tax increases reinforce revenue

Tax revenue is the county councils' main source of funding, corresponding to 71 per cent of total revenue in 2015. With the exception of the period after the financial crisis, when the tax base grew more slowly, the tax base has increased by more than 4 per cent per year for the past ten-year period. In 2015 the tax base increased by 4.8 per cent, which is above the average.

Figure 26 • Contribution to change per revenue type
SEK million



Source: Swedish Association of Local Authorities and Regions.

Along with their tax rate the growth of their tax base determines the county councils' tax revenue. Despite relatively good tax base growth it has been necessary to reinforce revenue by raising the tax rate in recent years. The average tax rate has increased by 0.37 percentage points since 2011 excluding tax shifts with municipalities.

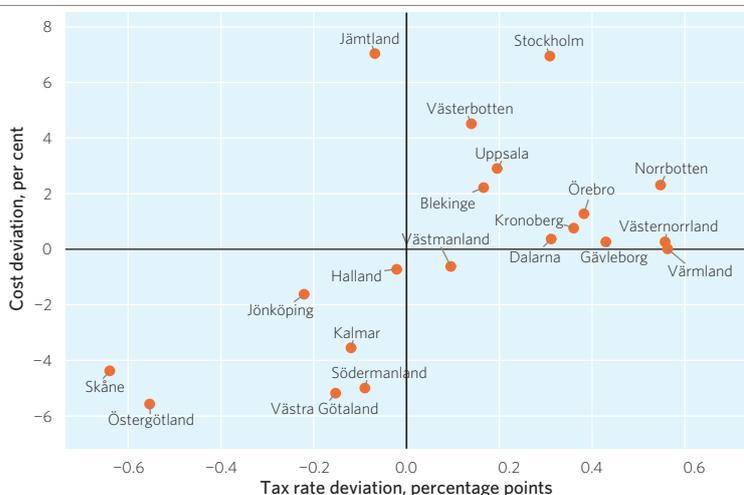
General government grants have also included various regulations that do not affect net income, unlike the figure in the summary, which only shows supplements and reductions that affect net income.

Despite the strong tax base growth since 2012, all county councils except Stockholm County Council, have increased their tax rate at least once in recent years.

Differences in tax rate and structurally adjusted costs

County council tax rates vary between 12.08 in Stockholm County Council and 10.68 in Region Skåne. Since the assignments of the county councils vary depending on which tasks have been covered by tax shifts with the municipa-

Figure 27 • Deviation from adjusted tax rate in 2016 and structurally adjusted health care in 2015
Per cent



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

Tax rates vary between county councils, as do health care costs. A low tax rate provides greater room for manoeuvre than a high tax rate. Stockholm County Council has a high cost for health care compared with structural characteristics and a relatively high tax rate. Jämtland has just as high an adjusted cost for health care while its tax rate is close to average. But the municipalities in the County of Jämtland have a higher tax rate than the municipalities in the County of Stockholm.

lities in their county, for public transport and home health care for example, their tax rates are not wholly comparable.

When differences in their assignments are equalised by adjusting the tax rate by the equivalent of an average role for public transport and home health care in particular, we get a different picture of the tax rates in different county councils. When that adjustment is made, the county councils that have a low tax rate are Region Skåne and Östergötland County Council. They also have a low cost for health care adjusted for differences in structure according to the variables in the equalisation system. The county councils that have the highest cost adjusted for structural factors are Jämtland and Stockholm, where Jämtland has an average tax rate and Stockholm has a higher rate.

Cost growth remains high

The main reason why the county council tax rate has needed to increase in recent years is the rapid cost growth in health care. 2015 was the second successive year with cost increases of almost 5 per cent. There are several explanations of the rapid cost increases: the population is growing rapidly, more people are getting older and older and needing more health care, a greater need for hired staff, a greater range of new drugs and a sharp increase in the number of asylum seekers, which has mainly affected primary care.

Table 23 • Costs of health care, current prices, per service
SEK billion, shares and percentage change

County councils' costs	SEK bn	Shares %	2015, growth %	2009–2014, growth % annual average
Health care (excl. dental care and political activities)	262.2	100	4.9	3.6
<i>Of which:</i>				
Primary care	47.7	18	5.7	3.9
Specialised physical care	135.4	52	4.1	3.9
Specialised psychiatric care	23.5	9	3.6	3.4
Drugs (benefits and in-patient)	29.2	11	5.1	0.7
Other healthcare	26.3	10	9.0	5.4

Source: Statistics Sweden.

Health care costs rose faster in 2015 for all branches of health care than the average for the previous five years. Specialist physical care accounts for the largest share of these costs followed by primary care. Other health care includes ambulance and transport services and disability and assistive devices services.

Costs are increasing in all branches of health care

The costs of primary care account for about a fifth of health care costs. In the period 2009–2014 the costs of primary care increased by an average of 3.9 per cent per year. In 2015 these costs rose significantly faster, by 5.7 per cent in current prices. At the same time the number of visits to doctors in primary care fell by 1.1 per cent. But there was a sharp increase, of 3 per cent, in the number of visits to other groups of professionals in primary care. One reason for the cost increase in primary care in 2015 is the increase in the number of asylum seekers (figure 31).

In recent decades there has been an ambition to increase the resources in primary care and the importance of this service in health care. The most recent inquiry on the efficiency of health care also proposes strengthening primary care. With more and more older people, and therefore more and more people with chronic disease, shorter care periods at hospitals and more complex and advanced care in patients' homes, primary care will probably need to be reinforced in the coming years.

The costs of in-patient physical care are continuing to rise rapidly

The costs of specialised physical care have risen rapidly in recent years. Physical specialist care also accounts for more than half of the total costs of health care. In previous reports we have shown how new technology and access to increasingly advanced treatment methods have resulted in ever increasing demands on specialist care. Research and development concerning new technologies, practices and methods makes it possible to prevent and treat ill health. It improves the possibilities of treating more and more conditions. This also means that the resources required increases every time a diagnosis group gets access to new possibilities of treatment.

Even though the costs of physical care rose more than the historical average in 2015, the growth rate was considerably lower than in the previous year.

Statistics about the average number of places available in care show a sharp decrease between 2014 and 2015. In total, the number of places decreased by 3 per cent, and the largest decrease, 3.5 per cent, was in physical care. The number of visits to doctors increased marginally, by 0.4 per cent, in specialist physical care, while it increased by 1.4 per cent in specialist psychiatric care.

Cost per patient in physical care

Costs in specialised physical care are increasing rapidly. New medical progress means better treatment methods leading to good outcomes for patients. This has also made it possible to shorten care periods and to perform treatments in out-patient care, reducing the need for costly hospital care.

The KPP database, which now covers more than 70 per cent of physical care, can be used to study the move from in-patient to out-patient care and to see the distribution of discharges and visits between different age groups. It shows that the average care

periods are continuing to decrease, especially in older age groups. However, in the youngest age group, 0–19 years, average care periods are increasing slightly. When the number of discharges in in-patient physical care is studied, it turns out that they have decreased overall in recent years while there has been a sharp increase in specialised out-patient care. The age group figures show increases in the oldest age groups in both in-patient and out-patient care. This is explained by demographic change with a population that is ageing.

Demographic needs scale up

The needs that follow from a growing population whose age structure is changing, i.e. needs driven by demography, have almost doubled from 0.9 per cent per year on average in 2005–2014 to reach 1.7 per cent per year in 2017. The main explanation of the large increase is refugee immigration in 2015, as the people who arrived at that time are expected to become part of the registered population in 2017. But the Swedish Migration Agency's downward revision of its forecast of refugee immigration results in lower increases in needs as of 2018, compared with the figures we used in the *Economy Report* in April this year.

Table 24 • Estimated demographic needs with two population forecasts

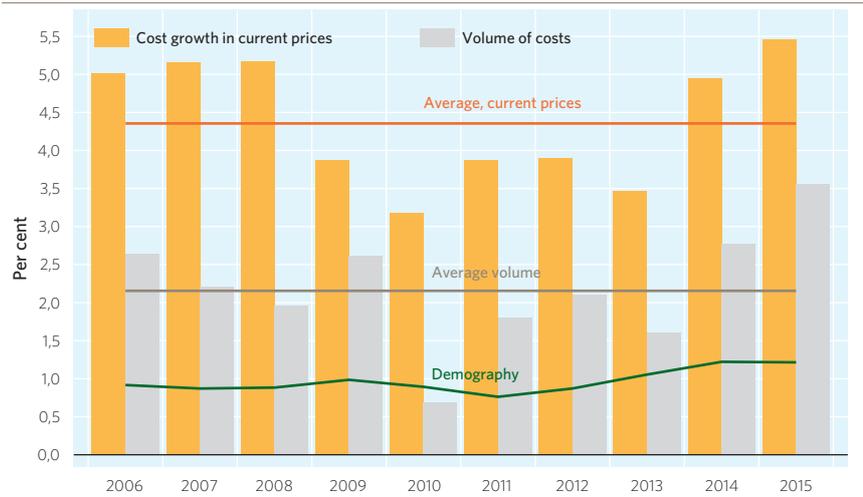
Annual percentage growth and change in the period

	2016	2017	2018	2019	2020	2016-2020
2016, May	1.5	1.7	1.3	1.4	1.5	1.5
2016, April	1.4	1.7	1.8	1.6	1.6	1.6
Difference	0.1	0.0	-0.5	-0.2	-0.1	-0.1

Source: Statistics Sweden and Swedish Association of Local Authorities and Regions. Calculation by SALAR using the 2016 population forecasts (April and May) from Statistics Sweden.

The needs due to population change are increasing sharply. The increase is due both to high refugee immigration and to a change in the population structure with a higher share of older people and large cohorts of children in the next few years.

Figure 28 • County councils' cost growth and demographic needs
Per cent



Costs have increased by an average of 4.4 per cent per year in the county councils, corresponding to a volume increase of 2.2 per cent in constant prices. On average demographic needs have corresponded to 1.0 per cent. This means that in the past ten-year period costs have increased by 1.2 per cent over and above demographic needs in the county councils.

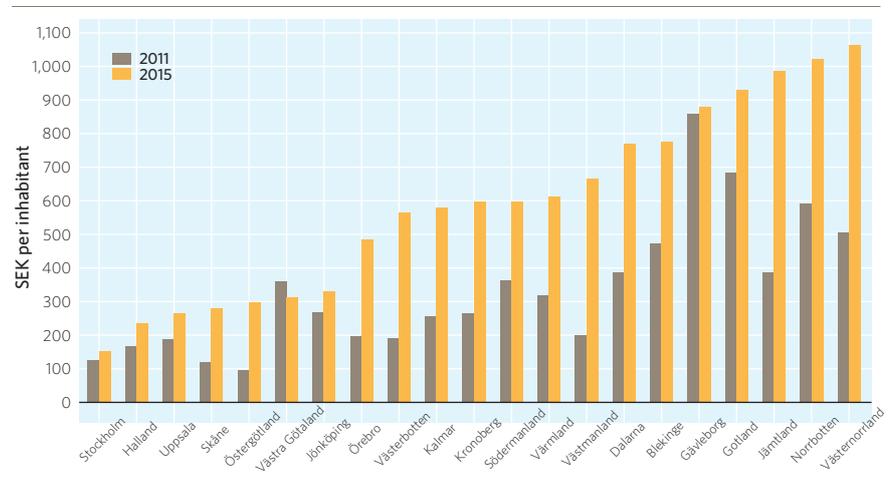
Source: Swedish Association of Local Authorities and Regions..

The costs of hired staff have increased by 60 per cent since 2011

The costs of hired staff totalled SEK 4 billion in 2015, which corresponds to 4 per cent of county council staff costs, an increase of more than 60 per cent since 2011. Despite many attempts to reduce the use of hired staff, these costs continue to rise. The use of hired staff has increased and has spread to new professional groups. But the differences between county councils are great. There are several explanations of the increased need:

- Large numbers of retirements and difficulties recruiting replacement staff.
- Greater need for health care and greater demand for health care professionals. The market for staffing agencies is growing and their employees see advantages: Higher pay plus flexibility (more chance of choosing assignments).
- Staffing problems (as we showed in the *Economy Report* from October 2015) with weak resource utilisation and possibilities of making improvements in areas like scheduling and cooperation between units.

Figure 29 • Costs of hired staff
SEK/inhabitant

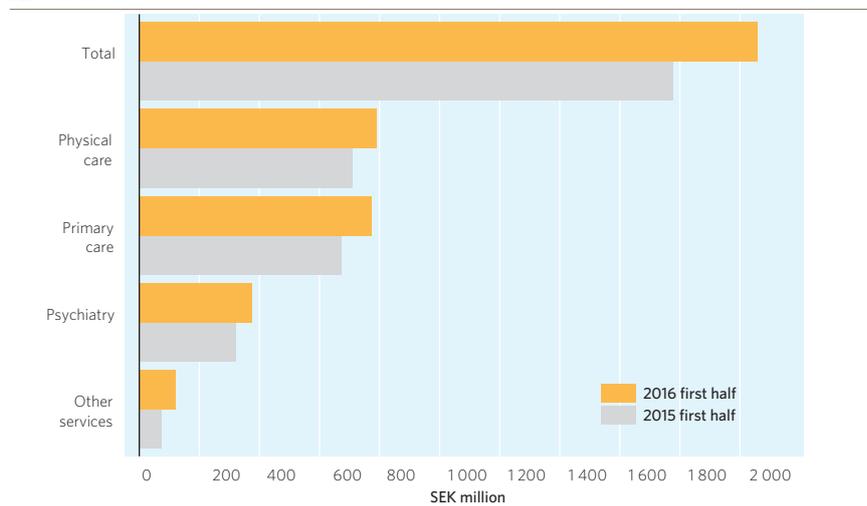


Dependence on hired staff varies between county councils measured in SEK/inhabitant. While the cost corresponds to less than SEK 300 per inhabitant in Stockholm, Halland, Uppsala and Skåne, it is about SEK 1000 per inhabitant and more in Jämtland, Norrbotten and Västernorrland. The greatest needs of hired staff are mainly in the most sparsely populated parts of the country.

Source: Swedish Association of Local Authorities and Regions.

The costs of hired staff increased by an average of 13 per cent per year from 2011 to 2015. The strongest increase was between 2013 and 2014 (19 per cent). In 2015 the rate of increase moderated slightly to 16.5 per cent. It also appears to be continuing to grow at that rate in 2016, judging from the picture in the first half of the year, in all county councils except Västra Götaland Region and Dalarna and Värmland County Councils.

Figure 30 • Costs of hired staff per service
SEK million



Source: Swedish Association of Local Authorities and Regions.

The costs of hired staff increased in all branches of health care at an overall rate of almost 16 per cent in the first half of 2016 compared with the corresponding period in the preceding year. The costs of hired doctors correspond to 76 per cent of the total hire costs. Nurses account for 20 per cent but are the part that is increasing fastest, by almost 25 per cent in the first half of 2016.

There are several reasons to reduce the dependence on hired staff. In addition to high costs, high dependence on hired staff results in poorer continuity, which can lead to risks from a patient safety perspective and to the experience of a lower level of safety among patients and employees.

Measures with an effect on hire costs

Examples of the measures mentioned in the county councils that have reduced their costs for hired staff are putting in place a ban on engaging hired nurses and doctors and encouraging their own staff by providing further professional development or arranging internal temporary staffing solutions, for example organ specialists working in primary care and collaboration in primary care. As part of the Government's extra posts initiative some county councils have employed staff for care-centred services that relieve staff providing health care.

Strong increase in volumes in health care of asylum seekers

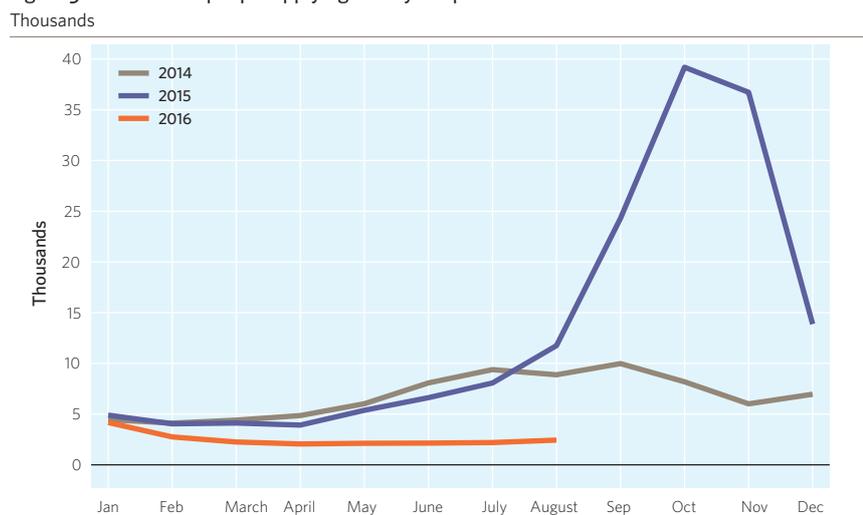
In 2015, 163,000 people applied for asylum in Sweden, and this was twice as many as in the preceding year and far above the levels that had applied previously. The closest in volume terms is the immigration during the Balkan crisis in the 1990s. Most asylum seekers arrived in the closing months of the year, about 70 per cent of asylum seekers in 2015 applied for asylum in the last four months of the year.

The large number of asylum seekers has resulted in greater pressure on health and social care and on education. For primary care, dental care and emergency care the situation has been strained but manageable, according to analyses from the National Board of Health and Welfare.

Children who are seeking asylum have to be offered health care and dental care to the same extent as other children. Health care for adult asylum seekers is limited to care that cannot be deferred, maternity care, care when seeking abortion and contraception advice. All asylum seekers must also be offered a health examination. The purpose is to detect acute illnesses so as to avert any risk to the asylum seeker's health. Such an examination is also important so as to be able to establish their other health care needs. In addition, a health examination is of great importance for the speedy detection of diseases that come under the Communicable Diseases Act.

The number of doctors' visits per person is higher for asylum seekers than for the rest of the population. Visits in primary care increased from 1.1 in 2014 to 1.6 in 2015. But the changes in other physical care health care are relatively small. One possible explanation is that a large proportion of the asylum seekers came at the end of the year and did not have time to come into contact with specialised care. Many county councils focused on reaching out with offers of health examinations. In connection with these health examinations health care needs at the primary care level were identified.

Figure 31 • Number of people applying for asylum per month



Source: Swedish Migration Agency.

Table 25 • Comparison of consumption of health care for asylum seekers and people registered in the population register In 2015

Number	Per asylum seeker	Per registered person
Doctors' visits in primary care	1.6	1.5
Doctors' visits in specialist out-patient care	0.8	1.4
Care days in physical care	0.56	0.70
Discharges in physical care	0.12	0.15
Care days in psychiatric care	0.15	0.21
Care days in child and youth psychiatric care	0.07	0.01

Source: Swedish Association of Local Authorities and Regions..

The health examinations almost doubled between 2014 and 2015, from almost 36,000 to more than 64,000. The number of health examinations performed corresponds to 39 per cent of asylum seekers in 2015, a reduction from 46 per cent in 2014. Most asylum seekers in 2015 came in the closing months of the year, and this means that many of them did not have their health examination until the start of 2016.

As a result, a large proportion of asylum seekers did not come into contact with specialised care. But visits in primary care increased. In psychiatry the number of interventions per asylum seeker have decreased over time. But in terms of the number of care days and discharges they increased from 2014 to 2015.

The start of 2016 shows a sharp decrease with about 15,000 asylum applications in the first half of the year. The Swedish Migration Agency's July forecast sets out a planning scenario for the full year of 34,500 asylum seekers. This means that both the county councils' costs and their revenue from the Swedish Migration Agency for asylum seeker health care will decrease.

On account of the high number of asylum seekers in 2015 processing times for residence permits have increased, and that has made the asylum period longer. For the great majority of those who came in 2015 their asylum applications will not be examined and residence permits granted until 2017.

Public transport costs are rising with high ambitions

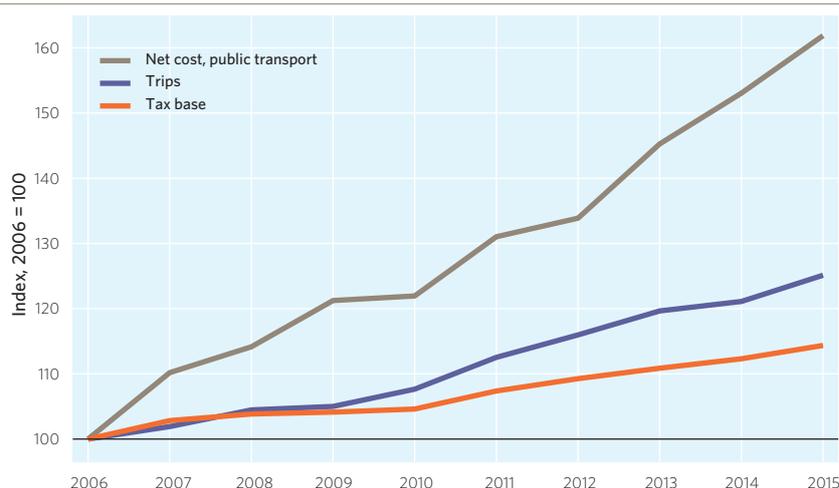
The national and regional objectives for public transport are ambitious and have probably contributed to the rapid growth of public transport in recent years. The Riksdag has decided that Sweden's overall transport policy objective is to ensure that citizens and the business sector in all parts of the country are provided with transport that is socially efficient and sustainable in the long term (Govt Bill 2008/09:93, adopted by the Riksdag in 2009). This objective has also been supplemented with an objective describing how the transport system is to be developed to take account of traffic safety, environment and health and with a functional objective. In 2008 the organisation Partner cooperation to double public transport [Partnersamverkan för en fördubblad kollektivtrafik] was formed with the objective of doubling the market share of public transport in the long term. One milestone set was that the number of trips by public transport in 2020 was to be twice as many as in 2006. Since 2012 there is a regional public transport authority in each county with the task of deciding on public transport provision in the county. Situations and levels of ambition vary between counties, but a number of these authorities have adopted objectives of doubling ridership. So there is high cost pressure in the area of public transport.

Since 2006 the costs of public transport have increased by an average of 5.3 per cent per year while revenue has only grown by 4.0 per cent per year. County council and municipal costs for public transport consist almost entirely of grants to cover the deficits that arise when the services do not generate sufficient revenue.⁸ About half of the costs of public transport are covered by ticket revenue and other service revenue.

In constant prices the net costs of public transport have increased more than four times as fast as the tax base and more than twice as fast as the number of trips (figure 32). In current prices this corresponds to a net cost increase of 90 per cent between 2006 and 2015.

Figure 32 • Development of net costs in constant prices for public transport and real tax base and number of trips

2006=index 100



Source: Statistics Sweden, Swedish Tax Agency and Transport Analysis.

The costs of public transport increased in the period 2007–2012, mainly on account of rising pay and price increases for the resources used to make public transport function and because more transport was provided. It has also

Partner cooperation

Partner cooperation originally consisted of the Swedish Public Transport Association, the Swedish Bus and Coach Federation, the Swedish Taxi Association, the Association of Swedish Train Operating Companies and SALAR. Later the Swedish Transport Administration and the state-owned company Jernhusen AB also joined.

Since 2006 the net cost of municipalities and county councils for public transport has increased more than four times as fast as the local government tax base. This means that a higher tax rate has been needed to finance this service. The cost per trip in constant prices has increased by an average of almost 3 per cent per year.

8. For a long time responsibility for regional public transport was shared by county councils and municipalities, but in recent years it has been transferred to the county councils in stages. The development of the costs and financing of public transport is therefore best described from an overall perspective covering the aggregate net costs of county councils and municipalities.

been of great importance that the increase in transport largely consisted of rail transport, which is a much more expensive mode of transport per kilometre than buses. Another important factor is that the environmental and accessibility standard of the vehicles was raised.

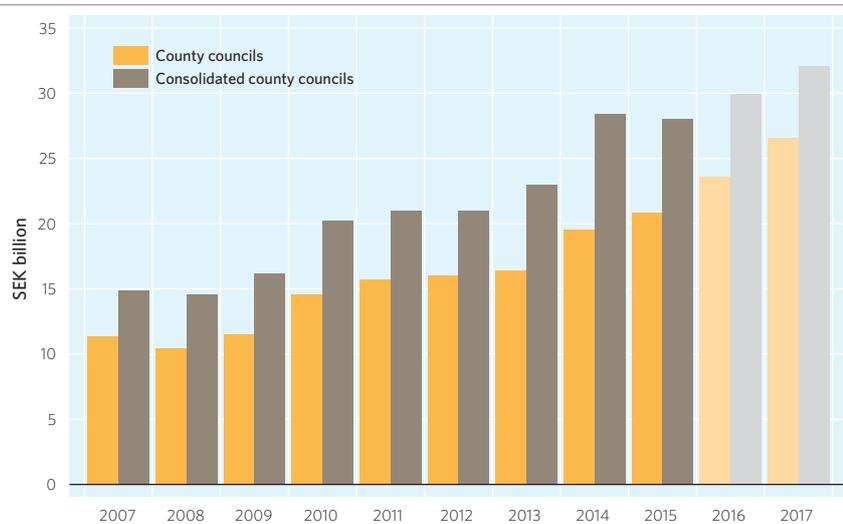
One purpose of the new legislation that entered into force in 2012⁹ was to improve the possibilities of exercising political control of public transport and linking political decisions about it more closely with other nearby services. Since then the costs of public transport have increased more rapidly, as has revenue, although not to the same degree.

In our forecast of the cost growth of public transport this year and next year we have taken account of more transport to and from refugee accommodation centres. For the development of costs in later years we have built our forecast on the trend in the growth of the provision of public transport per inhabitant.

Investments and debts increase in county councils

The investments of consolidated county councils (i.e. county councils and their companies) have increased from SEK 15 billion in 2007 to SEK 28 billion in 2015. That corresponds to an increase of 88 per cent in current prices. Investment expenditure at the consolidated level mainly relates to Stockholm County Council. It includes investments in infrastructure for both health care and public transport. In 2007 investments in county councils corresponded to 6 per cent of net costs, a figure that has increased to 8 per cent in 2015.

Figure 33 • Investments in county councils and consolidated county councils
SEK billion



Source: Swedish Association of Local Authorities and Regions.

Since 2007 county council investments have almost doubled. The needs for investment in health care buildings are still great. Many hospitals were built in the 1960s and 1970s and now need to be replaced with new buildings. The health care of the future is also leading to investments in new technology and infrastructure regarding digitalisation and e-Health. In the metropolitan areas in particular further investments in public transport are planned. Investments in consolidated county councils vary between SEK 6,400 per inhabitant in Stockholm County Council and about SEK 600 per inhabitant in Västernorrland County Council.

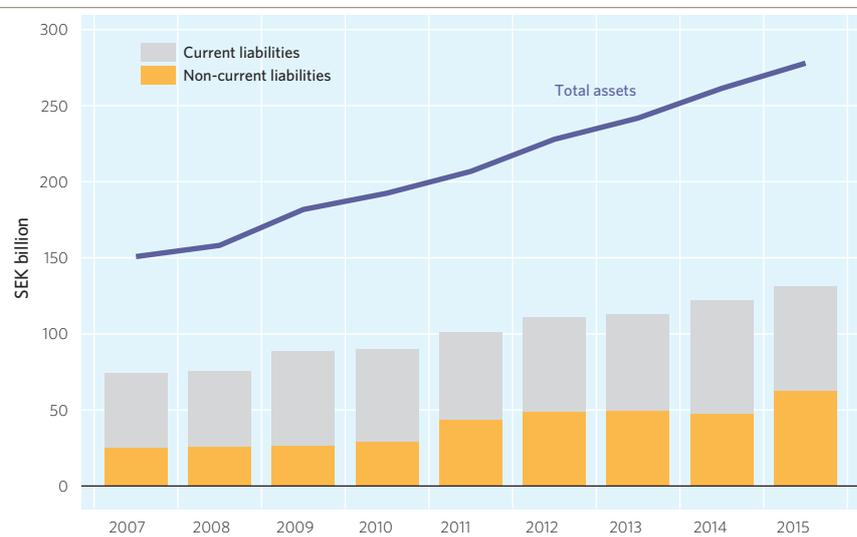
Land and buildings account for 68 per cent of investments in county councils, while other investments and medical equipment account for 20 and 12 per cent respectively of the total volume of investments. Large investments include new hospital buildings and refurbishments.

The current and non-current liabilities of consolidated county councils have increased from SEK 74 billion in 2007 to SEK 131 billion in 2015. This corresponds to an increase of 78 per cent. Some county councils have targets for internal financing according to which net income for the year and depre-

9. The Public Transport Act that entered into force in 2012 provides that public transport is still a shared responsibility of municipalities and county councils, but decisions on what regional public transport to provide may no longer be delegated to companies but must now be taken by a regional public transport authority. There has to be a regional public transport authority in each county and it can be located in either the county council, an association of local authorities, a regional association or a joint committee.

ciation have to cover investment expenditure while the levels of investments in other county councils require increased borrowing. In the aggregate balance sheets for consolidated county councils assets have also increased, from SEK 151 billion in 2007 to SEK 278 billion in 2015.

Figure 34 • Assets and liabilities in consolidated county councils
SEK billion



Source: Statistics Sweden.

Liabilities are increasing in consolidated county councils. There are great differences between the county councils. On average their liabilities were SEK 13,300 per inhabitant in 2015. The highest liabilities, measured in SEK per inhabitant, are in Stockholm County Council with SEK 32,700 and the lowest liabilities are in Västernorrland County Council with SEK 4,700.

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

	Outcome		Forecast	Estimate		
	2015	2016	2017	2018	2019	2020
Average tax rate, %	31.99	32.10	32.14	32.71	33.53	34.19
municipalities, incl. Gotland	20.70	20.75	20.75	21.09	21.61	22.05
county councils*, excl. Gotland	11.35	11.41	11.46	11.68	11.98	12.20
	Outcome	Forecast		Estimate		
	2015	2016	2017	2018	2019	2020
No of employees**, thousands	1,127	1,154	1,167	1,183	1,202	1,226
Municipalities	849	872	882	894	909	928
County councils	278	281	285	289	293	298
Volume change, %	3.1	4.0	2.1	1.4	1.6	2.2
Municipalities	2.9	4.5	2.1	1.2	1.2	2.1
County councils	3.5	2.9	2.0	1.8	2.4	2.6

*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 37 • Aggregate income statement for the sector

SEK billion

	Outcome	Forecast		Estimate		
	2015	2016	2017	2018	2019	2020
Income of activities*	194	210	216	220	226	236
Expenses of activities	-915	-975	-1,019	-1,061	-1,113	-1,172
Depreciation	-30	-32	-34	-37	-40	-42
Net expenses of activities	-751	-797	-837	-878	-927	-978
Tax revenue	634	668	700	740	787	834
Gen. gov. grants and equalisation	128	140	141	147	153	159
Net financial income	4	3	1	-1	-4	-5
Net income before extra-ordinary items	16	14	5	9	9	10
Share of taxes and grants, %	2,1	1,7	0,6	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 38 • Income statement for the municipalities

SEK billion

	Outcome	Forecast		Estimate		
	2015	2016	2017	2018	2019	2020
Income of activities*	142	157	161	164	166	173
Expenses of activities	-602	-646	-676	-705	-738	-777
Depreciation	-21	-22	-23	-25	-26	-28
Net expenses of activities	-480	-511	-538	-566	-599	-632
Tax revenue	410	432	452	477	507	538
Gen. gov. grants and equalisation	81	88	89	93	97	102
Net financial income	4	3	2	2	0	-1
Net income before extra-ordinary items	15	13	4	6	6	6
Share of taxes and grants, %	3,0	2,5	0,8	1,0	1,0	1,0

*The non-recurring effect of repayments of AFA premiums of SEK 3,5 billion is included in Income of activities for 2015.

Table 39 • Income statement for the county councils

SEK billion

	Outcome	Forecast		Estimate		
	2015	2016	2017	2018	2019	2020
Income of activities*	54	55	57	59	62	66
Expenses of activities	-315	-331	-344	-358	-377	-397
Depreciation	-9	-10	-11	-12	-13	-14
Net expenses of activities	-271	-286	-299	-312	-328	-346
Tax revenue	224	236	248	263	280	296
Gen. gov. grants and equalisation	48	51	53	54	56	57
Net financial income	-0	-1	-1	-2	-4	-4
Net income before extra-ordinary items	1	1	1	3	3	4
Share of taxes and grants, %	0,3	0,3	0,2	1,0	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, October 2016

On Swedish Municipal and County Council Finances

Up until 2020 the population of Sweden is expected to increase by 650,000. This mainly has to do with the high level of refugee immigration, but is also a result of an increase in the birth rate. This affects almost all services in municipalities and county councils, not least schools. The number of births has increased steadily since bottoming out in 1999 and is expected to exceed the record year of 1990 in a few years. The number of children and pupils in preschool, compulsory school and upper secondary school is expected to rise by 230,000 in the period, to 2.2 million.

For municipalities and county councils this means that they face a major challenge in adapting their services. At the same time their financial situation is expected to be increasingly strained as the tax base is not expected to show equivalent growth.

The strong future increase in demographic needs had been expected to come after 2020, primarily on account of many more older people, which would mainly affect elderly care and health care. But it now looks as if the demographic drama has been brought forward.

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. Choose In English and then Publication and reports.

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