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 2022.

Economists have long warned of a coming period of difficult demographic developments. This report describes various signs that suggest that this period has begun, but also how this has been countered by strong growth in the Swedish economy. We also give a picture of what will happen in the future now that all the indications are that we have passed the peak of the economic cycle and that weaker growth is expected in the coming years.

A separate chapter discusses how various measures can be used to deal with the challenges facing the sector. Can services be made more effective by using new technology? Can cooperation with central government be improved?

This is an abridged version of the report. 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, December 2018

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Swedish Association of Local Authorities and Regions
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Summary

Economists have long been warning about the period that has now started. In the 1990s it started to become clear that demographic developments will make high demands on welfare services in the period from 2015. So far these warnings have not resulted in the predicted weakening of the economy. As regards the local government sector, this is mainly because of the rapid increase in revenue experienced by municipalities, county councils and regions. The real tax base has increased almost twice as fast per year since 2007 as in the period from 2000 up to 2007. But the coming period will offer much poorer conditions.

On the basis of our macroeconomic assessment and an assumption that costs in the sector will increase in pace with demographic demands, i.e. no change in staffing ratios, a gap between revenue and costs corresponding to SEK 43 billion opens up in the period to 2022. This is based on aggregate net income of 1 per cent as a proportion of taxes and government grants, which is below the objective for healthy finances. Several representatives of various parties have expressed a will to increase government grants. If we had a system of indexed government grants in Sweden, they would increase by SEK 17.5 billion up until 2022. In that case, the local government sector would still have to take responsibility for the remaining SEK 25.5 billion if central government did not provide additional funds. This means there is an extensive need for efficiencies and new ways of providing services in the sector, a development that is already under way.
Long period of growth and strong increase in tax base

We are now approaching the end of the strong growth that led to an economic boom. Our assessment is that the peak of the boom has now been passed, even though the labour market remains strong. The economy has been driven by strong international growth that has, along with a weaker krona, had a positive impact on the Swedish export industry. The sharp rise in housing construction has also been a strong injection into the Swedish economy. There are many signs of an approaching weakening of the economy. Global growth is shifting down to a slower tempo, and construction has entered a much slower phase. We expect GDP to increase by 1.0 per cent in 2019 and 1.2 per cent in 2020. The most important factor for municipal and county council tax revenue, namely the growth of hours worked, appears to be weak in the coming years.

The recovery after the financial crisis is not the only reason for the long period of strong tax revenue. Employment has increased faster than in previous economic upturns. Both labour force participation and the employment rate are at their highest levels since before the crisis in the 1990s. This has had a positive impact on tax revenue. The shortage of labour may also have been less than would otherwise have been the case, considering that the increase in needs arising from demographic pressure is already distinct, especially in health care. The fact that level is now so high means that it may be difficult to increase the supply of labour any more.

Growth has also had a positive impact on public finances, which have shown a surplus since 2015. Our estimates indicate that in 2020 general government net lending will need to be reinforced by around 0.5 per cent of GDP, just less than SEK 30 billion, if the surplus target for the public sector is to be attained. Our calculations take account of the budget for 2019 adopted by the Riksdag (Swedish Parliament) on 12 December.

Weak finances in county councils and regions

Up to now the pressure has been felt most in health care. It has been noticed in several ways. Low levels of net income in county councils and regions, which have not even reached 1 per cent as a share of taxes and government grants in the past ten years, even though all county councils and regions, apart from Stockholm County Council, have made one or more tax increases in this pe-
An extensive staff shortage, which has been solved to some extent by renting staff, something that county councils and regions are constantly working keep down. Despite more staff, at the same time as health care is constantly working on making efficiencies in services, the staff shortage has resulted in longer waiting times. Between 2008 and 2012 average waiting times in in-patient care were shortened by 10 per cent. Since then that trend has declined; there has been a gradual increase in the number of patients treated in out-patient care. It is only the most seriously ill patients who are admitted to in-patient care, and this has an upward impact on the care burden. Despite these efficiencies, health care costs at current prices have increased by 4.2 per cent per year since 2012. In constant prices the increase is around 2 per cent per year.

Since the county councils and regions, in all but three counties, are now responsible for all public transport, they are now also responsible for almost all financing of these services. The costs of public transport have increased by 75 per cent in constant prices since 2006. The reasons include more provision more tracked services and higher environmental and accessibility requirements.

As a result of population growth, new methods in health care and modernisation needs, investments by county councils and regions are rising substantially. Investment plans in the period 2018 to 2021 add up to SEK 166 billion.

In coming years the demographic pressure will remain at a high level. If costs increase in line with demography until 2022, county councils and regions will need to implement measures such as new ways of working and new working methods corresponding to more than SEK 12 billion, without higher government grants.

**Municipal finances – from strong to weak**

The municipalities have also felt the demographic pressure; so far mainly from children and young people, as yet there has not been so much pressure from the ageing population. The signs include major investments in preschools, schools and water and sewage plants. The large group of people born just after the second world war are now 73 years or younger and they will only have more extensive needs of elderly care in a few years’ time.

Municipal finances have been very strong in recent years. The reason is the rapid increase in tax revenue along with considerable revenue in municipalities from capital gains and development profits, positive net financial income and substantial payments from central government for refugee reception. As revenue from these sources decreases, municipal finances will also deteriorate. Since 2010 costs have increased by an average of 4.5 per cent per year in current prices, or an average rate of 1.8 per cent per year in constant prices.

The economic challenges are emerging gradually in many municipalities. This applies particularly to social services for individuals and families, where factors including the housing shortage and reductions in government payments for unaccompanied minors have meant that the rapid cost growth in recent years has led to budget deficits. There are also examples of central government reforms in 2019 in which the government has made a dubious interpretation of the local government financing principle. This leads to higher costs for reforms not accompanied by central government funding.

In the areas of schools the Government is introducing an equity grant that is expected to gradually increase to SEK 6 billion. To obtain the grant, schools’
costs must not decrease. The risk is that the efficiencies will have to be all the greater in other services, if municipalities are not able to set priorities on the basis of the local conditions for their school services.

In coming years the demographic pressure will remain at a high level. If costs increase in line with demography up until 2022, municipalities will need to implement measures such as new ways of working and new working methods corresponding to more than SEK 31 billion, without higher government grants.

How can the challenges be met?

We assume that efficiencies or resource increases amounting to SEK 43 billion are needed to maintain the present level of welfare services up until 2022, at present staffing ratios. Government grants are unchanged in nominal terms if no new decisions are made, and nor is there any link to price and wage increases or to higher costs of welfare services on account of demographic developments. Moreover, in recent years government grants have increasingly been linked to specific requirements and measures to be carried out in order to obtain the funding; this means that they do not produce the effect or the efficiency saving in services needed in view of the circumstances. We also note that, in several instances, central government is not following our interpretation in the established local government financing principle, i.e. compensating the local government sector for increased undertakings.

In this Economy Report we discuss three particular questions that SALAR sees are of great importance for the long-term possibilities of dealing with challenges in welfare services:

- **Consensus and collaboration between central government and the local government sector**

Better conditions are needed for the development and financing of welfare services. In this report we highlight the need to strengthen dialogue and consensus between central government and the municipalities, county councils and regions to foster more of a long-term approach in policy action. A more active dialogue between central government and the local government sector can create consensus around challenges and needs of change that will make it possible to agree on common action for
long-term sustainable changes – with shared responsibility and without
detailed central government regulation.

Local health care and good and equitable schools are two areas in which
a new model for collaboration between the Government and SALAR
could be tested.

• Greater use of new technology
Another important solution to the puzzle of coping with the future chal-

lenge is obviously to also change ways of working and working methods
by, for instance, making better use of new technology and digitalisation.
In view of the expected increase in the number of inhabitants aged over
80, the possibility of digital solutions is of particular interest in elderly
care. In the report we therefore illustrate the potential available in tech-
nical solutions that already exist in home care services in particular. If ex-
sting technology is used in a wise way, it is possible to be able to give
more users good care while maintaining quality even when it is difficult
to recruit new staff.

• Longer working life
The demographic challenges in the coming years will make higher de-
mands for longer working life so as to be able to finance and staff welfare
services when the share of people in work would otherwise decrease. The
report shows that the higher employment rate in the past decade is large-
ly explained by higher employment in the age groups 55–74 years. As an
example, the number of employees who are 65 years or older has increa-
sed in municipalities, county councils and regions.

At the end of the Economy Report we discuss future financing possibilities to
cope with welfare services in the long term. The purpose is to discuss various
potential new supplementary tax bases.

• Do municipalities, county councils and regions need new sources of revenue?
The need for greater resources in coming years is particularly strong in
municipalities, county councils and regions at the same time as their fi-
nancing is largely founded on a tax base where tax increases are often
questioned. If it is to be possible to restrain the rate of increase of local
government tax, the sector will become ever more dependent on addi-
tional central government funding in the form of government grants.

Against this background we discuss various alternatives to higher govern-
ment grants in the form of new supplementary tax bases. This can mean a
new additional tax base or a guaranteed part of a central government tax
base that, like income tax, increases in line with the economy so that mu-
nicipalities, county councils and regions can make long-term assump-
tions about developments.
Municipal finances

After some very strong years the economic situation in municipalities is more and more strained. In 2019 tax base growth slows down and services continue to be exposed to high demographic pressure. Municipalities are also being given more and more responsibility and more tasks even though they are not always compensated for this by central government. A couple of reforms give a discrepancy of SEK 2 billion, which SALAR considers that the municipalities ought to be entitled to under our interpretation of the local government financing principle. However, the municipalities expect to cope with 2019 by means of efficiencies without any increase in the average tax rate.

Things look tougher in 2020 and subsequent years. Strong demographic pressure and continued slow tax base growth mean that, without higher government grants, measures corresponding to SEK 31 billion are needed up until 2022 to achieve net income of 1 per cent of taxes and general government grants.

Municipal finances up until 2022

Poor compliance with the financing principle

On a number of occasions recently SALAR and the Government have had different views about the application of the local government financing principle. This is about large sums of money that risk crowding out other services.
But it is not too late for the Government and the Riksdag to finance the higher government requirements through general government grants.

**Working clothes in home care services etc.**

Working clothes for staff covered by the regulations of the National Board of Health and Welfare consist of an upper part (short-sleeved top) and an under part (trousers). Regulation (AFS 2018:4) of the Work Environment Authority provides that supplying working clothes of this kind is a work environment measure. The employer is responsible for work environment measures. This means that the employer has to meet the cost of these working clothes and of laundering them as part of its responsibility for the work environment.

Now the Work Environment Authority’s regulations, which entered into force on 19 November, have been amended so that it is the municipalities that have to meet these costs. SALAR largely shares the Authority’s impact assessment, while noting that the information about the number of employees needs to be updated. The costs involved are SEK 600–700 million per year. The matter ought to have been regulated in the Budget Bill for 2019 in accordance with the financing principle. This did not happen. The Government’s arguments are based on the fact that the regulations also apply to other employers, so the financing principle is not applicable. There is wording like that regarding the application of the financing principle, but in the view of SALAR it is being interpreted wrongly in this case. The reason is that, in practice, the regulations only apply to services financed by the municipalities, either direct or via agreements with private providers.

**Web accessibility directive**

A law (the Act on accessibility of digital public services) intended to lead to digital public services being more accessible, especially for people with disabilities, was recently adopted by the Riksdag. In its consultation response SALAR opposed more far-reaching implementation than follows from the EU directive and referred to the local government financing principle.

SALAR takes the view that the law, which entered into force on 1 January 2019, is more far-reaching than the directive and will be a strong driver of costs for municipalities, county councils and regions. According to the Government Bill, the costs for the municipalities alone are SEK 1.1–1.4 billion (implementation cost) and have to be financed in mainstream services. In view of the large costs the Government ought to have proposed a settlement in accordance with the local government financing principle. In this case the Government did not want to apply the financing principle since the law also applies to central government authorities (but not to other employers). In SALAR’s view, the fact that central government has costs, of the order of SEK 0.3 billion, is no reason to write off the financing principle. It is a law and must be paid for somehow; either by crowding out other services or by raising the tax rate.

**Targeted government grants lead to inefficiency – the example of equitable schools**

A new government grant to strengthen equity and knowledge development in schools was introduced in 2018. In its first year the grant is SEK 1 billion. In the Budget Bill for 2018 the Government proposed providing SEK 3.5 billion for 2019 and SEK 6 billion for 2020. The government grant is allocated in the basis of pupil numbers, weighted in the light of socioeconomic factors.
One condition for the grant is that school organisers do not reduce their own costs per pupil during the grant year compared with the average of the three preceding years. This applies to costs for staff in preschool classes and for teaching and school health and welfare services in compulsory schools. Exceptions can be made in the event of a considerable change in the conditions for the grant year.

Two thirds of the municipalities who replied to our survey say that they are going to apply for the 2019 grant without it affecting the financial limits for other services. Some of these municipalities state that they must reduce their costs, but that they hope to be able to use the »safety valve for exemptions«. 7 per cent of the municipalities are reducing the financial limits for other services. 3 per cent of the municipalities reply that they are not going to apply for the grant because they must reduce their costs. The remaining 24 per cent still do not know whether or not they are going to apply for the government grant. On account of the election and the time it took for municipal governments to be decided, many municipalities had not finished their budgets for 2019 at the time of the survey and were still examining whether it was possible to apply for funding without having too much of an adverse effect on other services.

SALAR’s view is that the design of the condition involves a system in which central government undermines local self-government and actually makes it more difficult for municipalities to assume responsibility for service provision as a whole.

Additional resources from central government to both schools and other areas of welfare services should take the form of general, indexed grants. The equalisation of differences in structural conditions between municipalities is best handled in the system of cost equalisation.

Worrying developments in social services for individuals and families

Despite the economic boom and the good performance of the labour market, as many as 75 per cent of the municipalities in our survey state that social services for individuals and families will not be able to keep to their original budget for 2018. Just under half of the municipalities state that cost increases in financial assistance explain some of the worries, as is also seen in the municipalities’ regular reports to the National Board of Health and Welfare. SALAR has previously pointed out that the costs of financial assistance would increase when many new arrivals leave the introduction programme after completing their measures. The increase will probably continue for many years to come. SALAR has also received signals that financial assistance in the »gap« – i.e. assistance in the period after an asylum decision and until introduction benefit can be paid out – has increased strongly in places. No solution to the issue of the »gap« has been implemented, despite promises.

Costs resulting from the housing shortage

A second explanation of the growth of costs in the area is the housing shortage. Municipalities are signalling higher direct costs for homelessness. The housing shortage also creates problems in care of young people, substance misuser care and work on violence in close relationships. When there is a lack of housing at reasonable costs for vulnerable target groups, the social services must rely on expensive short-term solutions. This often involves people being forced to stay on in, for example, sheltered housing, SIS homes or residential care homes, even though there is no real need of such care.
Costs of unaccompanied minors

The greatly reduced compensation payments for unaccompanied minors introduced on 1 July 2017 have contributed to deficits in this area in many municipalities. SALAR has examined how the municipalities have adapted their costs to the new payments. Many have succeeded in adapting their services to the standard compensation for minors, SEK 1350 per day. This is primarily because many placements in foster homes with consultant support and residential care homes have been phased out and a larger share of the children have been placed in supported accommodation and in foster homes. However, not all municipalities have managed to do so, and some have been forced to make expensive adjustments as the volume of the service decreases continuously.

The standard compensation for unaccompanied young people seems to be an even greater problem. The compensation is not designed so that young people have a placement decision covering the whole of the period when the compensation is payable. The idea is that the young people will support themselves, while the social services will only have costs for a certain period or for certain specific individuals and the compensation is intended to cover the municipality's costs as a whole. This is something that does not work in practice. Our survey shows that a large majority of unaccompanied 18–20-year olds have a placement decision. The municipalities see that many of these young people are in need of support, leading to placements in forms of accommodation governed by regulations and supervision. When the municipalities provide support according to needs, this leads to costs that are at least a third higher than the compensation, probably more.

Given the large number of unaccompanied young people, this adds up to annual deficits in the billions. It is now clear that the compensation was based on a different assessment of what ability and possibilities this group has to study and support themselves. The compensation needs to be increased substantially if the municipalities are to be compensated for the costs arising from the needs of this target group.

Other causes of cost increases in social services for individuals and families

In addition to these three circumstances, municipalities testify to a number of other factors than can explain rising costs. These include a rise in misuse problems among young adults, more reports of concern about large groups of siblings, more cases of honour-related violence, more cases of violence in close relationships, more instances of »complicated« placements of children and young people.

Some municipalities also mention changes in market conditions, with a distinct change in the cost situation for external providers. But it also seems to have to do with the ability of society to handle the problems. Reports by municipalities include resource shortages in, and deficient collaboration with county council psychiatry services for children and young people as well as problems in their own skills planning and provision. Many of the country's municipalities are working actively to reduce their costs for renting social workers, but in some places these costs are still high. Inexperienced social workers being quickly given unsupported responsibility for complicated child care cases, sometimes resulting in emergency placements, may be another explanation of the increased costs.
**Strong demographic pressure**

According to calculations based on Statistics Sweden’s population forecast, needs caused by demography will increase by an average of 1.1 per cent per year in the coming ten years. In 2018–2022 the average is 1.3 per cent per year. This can be compared with 0.6 per cent per year for 2000–2015.

In a demographic projection different ‘price tags’ are used for different age groups when costs for a service are spread per inhabitant in the age group concerned.

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**Figure 12 • Estimated demographic needs**

*Annual percentage change*

The figure shows the annual increase in demographic needs. There has been a rapid change to a higher gear in demographic needs that lasts for the foreseeable future. Between 2017 and 2022 the increase amounts to 8 per cent.

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**Wide variations in service growth**

The growth rate is expected to be highest in compulsory school and in elderly care in the next few years. The service expected to show the clearest decrease is refugee reception, and this keeps the total down. In all, the volume increase is just over 5 per cent up until 2022.

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**Figure 13 • Estimated volume changes in various services**

*Index 2017=100*

It is primarily in schools and elderly care that cost increases are expected to be highest in the next few years. Lower costs associated with refugee reception (not shown in the figure) bring the total down.
Investments stabilise at a high level

In 2017 investments increased by SEK 10 billion, or 20 per cent – the biggest increase for a very long time. Municipal budgets are planning for the high level of investments to continue in both 2018 and 2019. The forecast and calculation are based on municipal budgets and plans, but have been adjusted downwards slightly more than the historical pattern. For 2020–2022 that means that investments average 12 per cent of taxes and general grants.

In a survey done ahead of the Economy Report, May 2018 heads of finance in many municipalities replied that they are going to make major investments in infrastructure, water supply and sewerage, housing, schools and preschools. For 2018–2021 this involves 750 preschools and 350 compulsory schools, for instance.

SALAR has started a framework agreement procurement of preschool buildings along with SKL Kommentus Inköpscentral. A prestudy in 2017 pointed to a very great need of new preschools in most municipalities.

The procurement of the framework agreement is intended to make it possible to offer municipalities preschools of high quality and of different sizes for permanent use with short delivery times. The preschools will be available both as turnkey buildings and with the possibility of making various local adaptations. Through the framework agreement procurement, SALAR hopes to be able to contribute an alternative that is attractive in terms of quality and price to the municipalities that need new preschools. The hope is to complete the framework agreements by the end of 2019. There are already two framework agreements for housing that can be used for ordinary housing and can also be used for the municipalities’ needs of special housing for social psychiatry, people with disabilities and elderly care and also for sheltered housing.

Pension costs increase chiefly in 2018 and 2020

Ever higher provisions for defined-benefit pensions will mean sharp increases in pension costs in the future. This affects the development of costs for social security contributions, chiefly in 2018 and 2020. However, it should be stressed that this development is strongly linked to the assumptions about...
prices and wages underlying the calculation. The uncertainty increases with each year of the projection.

**Tax rate for 2019 unchanged according to the forecast**

Many municipalities describe a difficult financial situation in 2019. In their survey responses, 79 per cent think their economic situation is worse in 2019 than in 2018, 12 per cent that it is unchanged and 9 per cent that it is slightly better. Known municipal decisions and an assessment of the survey responses suggest that in 2019 the tax rate will be raised in around ten municipalities and reduced in about the same number. Despite a declining tax base and costs increases regarding demographic changes, financial assistance, personal assistance, investments and pensions, the average tax rate will probably not change in 2019. However, tax shifts in some counties lead to a change of ~0.02 per cent for the municipalities and the opposite for the regions.

Figure 15 • Tax rate changes and average tax rate

In 2018 and 2019 fewer municipalities than usual have increased their tax rate. The main reason is the large surpluses that most municipalities have had in recent years. There is not expected to be any change in the average tax rate ahead of 2019.

### Table 10 • Key indicators for municipal finances

Percentage change unless otherwise stated

<table>
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<tr>
<th>Outcome</th>
<th>Forecast</th>
<th>Calculation</th>
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<tbody>
<tr>
<td><strong>Average tax rate</strong>, level in % (excl. Gotland)</td>
<td>20.68</td>
<td>20.67</td>
</tr>
<tr>
<td>Tax revenue and general gvt grants, current prices</td>
<td>4.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Tax revenue and general gvt grants, constant prices</td>
<td>1.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Costs of activities**, current prices</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Costs of activities**, constant prices</td>
<td>-0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Implicit price index*** (Price index for municipal activities [PKVI])</td>
<td>3.7</td>
<td>2.4</td>
</tr>
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</table>

*Including tax shift in 2019 for public transport, corresponding to ~0.02 percentage points of the tax rate.

**Costs for actual services excluding financial assistance (social assistance).

***In 2017 the teachers’ pay initiative is included as 0.3 percentage points.

The method we used

The estimates are based on the assessment presented in the introductory chapter “Macroeconomic situation” [not translated]. The starting point is the transitional government’s Budget Bill for 2019, including the level of the targeted government grants. However, we count the increase in government grants in the central government budget adopted of SEK 3.5 billion for 2019. A forecast of cost growth is presented for 2018 and 2019. The estimates for 2020–2022 are more standardised calculations based on costs rising in line with demographic needs. The same wage growth is assumed for municipal employees as for the rest of the labour market. In 2020–2022 the general government grants in the calculation are also adjusted upwards by 2 per cent in real terms, even though this requires new decisions by the Riksdag.
In the calculations for 2020–2022 it is assumed that the general government grants are adjusted upwards by 2 per cent over and above price and wage increases. This means that the Riksdag is assumed to provide an additional SEK 13 billion in 2022. On the cost side, in 2020–2022 we start from the changes in demographic needs. Historically, costs have increased by more than demography. A cost increase of 0.5 per cent per year in 2020–2022 over and above demography means a further SEK 9 billion in 2022. Since the compensation for refugees is being phased out in line with residence permit decisions up until 2021, the volume growth slows down in these years. There is great uncertainty about the targeted grants in the central government budget, and this uncertainty risks continuing for quite some time to come.

### Table 11 • Tax revenue and general government grants, level and calculated additional funding

<table>
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<th>Forecast</th>
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<tr>
<td></td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>Tax revenue &amp; general government grants*</td>
<td>562.6</td>
<td>584.6</td>
</tr>
<tr>
<td>of which index-linked government grants</td>
<td>4.1</td>
<td>8.5</td>
</tr>
<tr>
<td>of which additional measures</td>
<td>3.9</td>
<td>12.6</td>
</tr>
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</table>

*Tax shifts between municipalities and regions have an impact of ~0.02 percentage points on the average tax rate. The effects of the reduction are included, but give a corresponding cost reduction.

Source: Swedish Association of Local Authorities and Regions.

### Table 12 • Cost increase of various components, annual change

<table>
<thead>
<tr>
<th>Outcome</th>
<th>09–11</th>
<th>12–14</th>
<th>15–17</th>
<th>Forecast</th>
<th>Calculation</th>
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<tr>
<td>Demographic needs</td>
<td>0.6</td>
<td>0.8</td>
<td>1.6</td>
<td>1.4</td>
<td>1.2</td>
</tr>
<tr>
<td>Refugee reception</td>
<td>_</td>
<td>_</td>
<td>0.7</td>
<td>-1.6</td>
<td>-0.1</td>
</tr>
<tr>
<td>Other services</td>
<td>0.7</td>
<td>0.4</td>
<td>0.2</td>
<td>1.2</td>
<td>-0.2</td>
</tr>
<tr>
<td>Total volume change</td>
<td>1.2</td>
<td>1.3</td>
<td>2.5</td>
<td>1.0</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: Swedish Association of Local Authorities and Regions.

Net income in the past ten-year period must be regarded as good, even considering the fact that temporary money has improved the situation during the period. Capital gains and development profits have reached a new level in recent years, and it is hard to assess whether that level will be maintained. In the calculation we assume that these gains and profits that are lower than in 2017 but higher than in previous years. To achieve net income of 1 per cent of taxes and grants in 2022, measures totalling SEK 31 billion are needed in 2022. The indexation that we have assumed amounts to SEK 13 billion; despite this additional measures corresponding to SEK 18 billion are required to reach net income of 1 per cent of taxes and grants.
For 2019 we have assumed an increase of SEK 3.5 billion in government grants according to the central government budget. In our calculations we set the objective for net income at a level that corresponds to 1 per cent of taxes and general government grants in 2020–2022. We also assume that central government will increase government grants to the municipalities by 2 per cent in real terms in 2020–2022, corresponding to an increase of SEK 13 billion in their level in 2022. To achieve net income of 1 per cent, additional measures amounting to SEK 18 billion are needed in 2022, if we assume that costs only rise in line with demography.
2. Municipal finances
County council and regional finances

Costs in county councils and regions are continuing to rise rapidly, while tax base growth is slowing down. Their aggregate net income is expected to be a surplus of SEK 1.8 billion in 2018; but several regions will report deficits. To achieve balance in their finances three regions are increasing their tax rate in 2019 and the average tax rate rises more than for several years. There is great investment pressure in both health care and public transport, which means that expenditure is rising rapidly. Greater debt reinforces the need for greater productivity and cost control in their services.

County council and regional finances in the medium term – 2022

Higher level of investment growth

On average, investments have increased by 9 per cent per year in the past five years. In health care major investments are being made and further major investments are to come on account of population growth and the need to modernise older buildings. This year county council investments are expected to rise by as much as 17 per cent.

According to county council and regional budgets and plans and to survey responses, there are plans for investments of SK 134 billion in 2018–2021. If investments in county council-owned companies are included the plans add up to just over SEK 166 billion. In county councils, the level of implementa-
tion has been around 80 per cent of budgeted investments. Investment plans at the end of the period are often underestimated. In our forecast for county councils and regions, investments are estimated at SEK 150 billion in 2018–2022.

In addition to major investments in, for instance, new hospitals, operating rooms and psychiatry buildings, there is also a strong increase in investments in public transport. In terms of SEK/inhabitant, Stockholm has the largest investments. This involves upgrading existing infrastructure for health care and public transport in the form of buildings, track and vehicles. But population growth means that it increasingly also involves new build and expansion.

As a whole, county councils and regions are facing extensive investments in the coming years. The higher investment expenditure leads to a greater need for funding and therefore to higher capital costs in the long term.

For the long term we assume a cost increase in pace with demographic needs
In 2020–2022 the rate of tax base growth slows when the labour market is assumed to be in balance. In our calculation, costs are assumed to grow in line with population change. The financial and recruitment situation does not permit costs increases in line with the historical trend, which is just under 1 per cent per year on top of cost increases due to demography. This would have required further increases in revenue of about SEK 3 billion per year. The demographic pressure remains high, on average 1.2 per cent per year; with an average rate of price and wage increases of 2.6 per cent per year, the total cost growth in current prices is 3.8 per cent per year during the period of the calculation.

Table 18 • Cost increase of various components, annual change  

<table>
<thead>
<tr>
<th></th>
<th>Outcome 09-11</th>
<th>12-14</th>
<th>15-17</th>
<th>Forecast 2018</th>
<th>2019</th>
<th>Calculation 2020-2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic needs</td>
<td>0.9</td>
<td>1.0</td>
<td>1.4</td>
<td>1.3</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Other services</td>
<td>0.8</td>
<td>1.2</td>
<td>1.2</td>
<td>0.6</td>
<td>0.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Total volume change</td>
<td>1.6</td>
<td>2.3</td>
<td>2.5</td>
<td>1.9</td>
<td>1.8</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: Swedish Association of Local Authorities and Regions.

In our calculations we set the objective for net income at a level that corresponds to 1 per cent of taxes and general government grants in 2020–2022. With costs that only grow in pace with demography, there is a need up to 2022 for tax increases, efficiencies or other cost-reducing or revenue-enhancing measures corresponding to SEK 12 billion. We assume the increase in government grants of SEK 1.5 billion according to the central government budget for 2019. After that we assume that government grants will be indexed upwards by 2 per cent in real terms in 2020–2022, corresponding to an increase of SEK 4.7 billion in their level in 2022. Achieving net income of 1 per cent of GDP requires additional measures amounting to SEK 7.5 billion up to 2022.

Net income falls below zero next year without the additional funding announced

Net income for county councils is expected to fall this year, and – despite relatively low cost growth in 2019 – it also falls next year. At the time of publication, there is great uncertainty about revenue in 2019 from targeted central government grants and this uncertainty is likely to continue for quite some time to come.

Table 19 • Tax revenue and general government grants, level and additional funding

<table>
<thead>
<tr>
<th></th>
<th>Forecast 2018</th>
<th>2019</th>
<th>2020</th>
<th>Calculation 2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes and general government grants</td>
<td>313.8</td>
<td>329.4</td>
<td>345.3</td>
<td>358.6</td>
<td>372.7</td>
</tr>
<tr>
<td>of which index-linked government grants</td>
<td>1.6</td>
<td>3.1</td>
<td>4.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which additional measures</td>
<td>5.6</td>
<td>7.1</td>
<td>7.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which higher tax rate</td>
<td>1.8</td>
<td>1.8</td>
<td>1.9</td>
<td>1.9</td>
<td></td>
</tr>
</tbody>
</table>

Source: Swedish Association of Local Authorities and Regions.

The central government budget provides an additional SEK 1.5 billion in 2019. We count these as general government grant even though that is not how they are booked in the central government budget. For 2020-2022 the indexation is estimated at 2 per cent in real terms.
3. County council and regional finances

Figure 26 • County council and regional net income and the equivalent of 2 per cent of taxes and grants

![Graph showing net income and grants from 2008 to 2022. 2020-2022, government grants are adjusted so as to achieve net income of 1 per cent of taxes and grants. This is a way of illustrating the pressure for change facing county councils.]

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

During the period of the calculation, 2020–2022, government grants are adjusted so as to achieve net income of 1 per cent of taxes and grants. This is a way of illustrating the pressure for change facing county councils.

Potential for efficiencies by transitioning to Local health care

This fact box illustrates what type of efficiencies can follow from a transition to local health care. The examples presented concerning new ways of working for the group of older people with multiple illnesses demonstrate the possibilities of reducing the consumption of health care at hospitals. The section “Local health care supported by new technology” below shows the potential for better accessibility and prevention, for example.

“From acute hospital to local health care”

The government inquiry report *Effective health care* [Effektiv vård] found that health care in Sweden is far too centred on acute hospitals and that this causes ineffectiveness. On the basis of this conclusion, an inquiry was appointed by the Government to propose a transition in health care that makes primary care more important. The inquiry is working with the vision “from acute hospital to local health care”, where primary care is the hub of local health care and interacts with both with specialised health care and with municipal health care and social services.

As part of its remit, the inquiry is to produce a national plan for this restructuring, and this is to be done in dialogue with representatives of all county councils, government agencies and other relevant parties. Its final report is to be presented on 31 March 2020.

The inquiry chair has worked in close collaboration with the county councils and regions, and it is already the case that the vision of local health care very much guides developments in county councils.

The transition is needed so as to be able, in a new demographic situation, to meet people’s changing expectations and greater health care needs and in order to be able to cope with skills provision and financial constraints.

The inquiry’s starting points

To enable primary care to be the hub of national health care, it is proposed that primary care be given a nationally defined role, according to which it has the primary acute care role and is the people’s point of first contact with health care. The idea is that people will then turn to hospital emergency departments to a lesser extent and will instead receive acute care in primary care.

Reinforced primary care should also be able to perform a coordinating function regarding patients in need of health care and social care from several different providers. This group is dominated by older people with multiple illnesses. It is of key importance for these people that primary care is more proactive in its cooperation with municipal home health care and elderly care so as to avoid any unnecessary deterioration. This means that fewer patients than at present will need to be given care at hospitals and that, even when this is necessary, it will be for as short a time as possible.

At present this group does not have sufficient support at home; there are frequent hospital admissions and acute re-admissions are also common. There is great insecurity for both patients and staff. Local health care is also intended to increase the focus on prevention. Instead of concentrating all interventions in a reactive way on people when they are already ill, the point is to be proactive in countering ill health and especially the occurrence of chronic diseases. For people with chronic diseases, there has to be a switch to a proactive way of working focusing on retaining health with the patient as a co-participant. The objective is health care in the future that is more accessible and is better at countering ill health. This is also a more coherent approach and is therefore capable of dealing with long-term health care needs and chronic diseases. >>
New ways of working in practice

There are quite a number of places that have tried out other ways of organising the care of frail elderly.** The designs used differ, but also share many features. And they are all in line with the vision for local health care.

One core aspect of these ways of working is their good preparedness for patients receiving home health care. For example, a visit by a home health care team has to be available the same day or no later than the next day. Ambulance health care also offers a visit by a doctor from primary care the same day or no later than the next day as an alternative to an emergency department. It is simpler for home care staff to contact a doctor or district nurse if there is any sign of an incipient deterioration. When a patient is admitted to hospital, primary care staff are alerted no later than the next day and can make an immediate start on care planning for care in the home.

Home health care is organised in inter-professional mobile teams in which various professional groups cooperate around the patients being cared for at home. Primary care doctors are attached to these teams. Home health care staff have 24/7 access to medical expertise. A great deal of the contacts are digital.

Monitoring and follow-ups*** show that, for the people covered, this approach consistently succeed in reducing the number of in-patient discharges, the number of days of hospital stays and the number of acute readmissions as well as reducing the need for municipal short-stay accommodation. It often deliver radical improvements. Another typical feature is greater security for patients and staff.

The cost follow-ups carried out consistently show great cost reductions for the groups covered. This cost effect has mainly been achieved by reducing the consumption of hospital health care. However, it is consistently the case that these new ways of working cover small populations and have not spread on a large scale to whole county councils or health care regions.

Local health care supported by new technology

The introduction of digital health care and modern technology opens up possibilities for completely new accessibility.

The possibilities for chats and video meetings offered by digital health care today will, with more AI support, be even more effective in the future. They will also have continuous access to updated medical guidelines in a way that is not possible today.

The possibilities for early discovery of disease risks and of applying counter-measures will develop in the same transformative way. On the basis of state of health, life style and, if available, DNA, health care providers will be able to give individuals customised advice about action to improve their chances of good health.

Individuals can also bear sensors that continuously follow vital parameters and that can both give prior warning of acute conditions like heart attacks and of slow changes that increase the long-term risk of diabetes. Reminders can be given in mobile phones about what needs to be done to maintain and improve health and well-being.

In the future, health care will not just be a place – a health centre or a hospital – where people can get a diagnosis and treatment when required, but will also be an opportunity for people to have a continuous interaction to have better control of their health. With access to information about what lifestyle changes benefit a particular person’s health. When they do get ill, diagnosis and treatment will take place at a much earlier stage with better access to current knowledge.

Digital monitoring enables people with chronic diseases to slow down the deterioration that is otherwise typical of many chronic diseases, and therefore their need of hospital care. Digital technology and advanced medical equipment are now moving even more of health care currently provided in hospitals to patients in their home.

The shift enables patients to be more independent with more individualised treatment based on their personal needs. Portable sensors and equipment for treatment enable prevention and treatment to be based on real time data. Patients can steer their health at home, at the same time as care providers have current information making it possible to adapt the interventions.

*Effective health care [Effektiv vård], SOU 2016:2.
**Examples include Närvården in Västra Skaraborg, Trygg Hemgång in Ronneby, and Hemsjukhuset in the Municipality of Borgholm.
***A report from Region Östergötland, dated 15 October 2018, Daring to be at home – An ecosystem for eHealth [Våga vara hemma – Ett ekosystem för e-hälso] has compiled evaluations of several examples of the local health care concept.
3. County council and regional finances
How can the challenges be met?

We assume that efficiencies or resource increases amounting to SEK 43 billion for the sector will be needed to maintain the present level of welfare services up until 2022, with no change in staffing ratios. Government grants are unchanged in nominal terms if no new decisions are made, and there is no link either to price and wage increases or to higher costs of welfare services on account of demographic developments. The challenges must therefore mainly be dealt with in municipalities, county council and regions.

Better conditions for the development and financing of welfare services

If it is to be possible to maintain and develop welfare services in the future, the dialogue and consensus between central government and the municipalities, county councils and regions needs to be strengthened and more of a long-term approach is required in policy action.

The need for a long-term approach even from a short-term perspective

In previous sections and in previous Economy Reports we have described the major challenges facing municipalities, county councils and regions in the coming years – especially increased needs of schools, health care and social care on account of more young people and more older people. Changes are needed to meet them. Services must become more effective to cope with
the needs using the resources available and, in particular, the personnel available.

Municipalities, county councils and regions are already working to cope with the coming challenges and bring about the changes necessary. Ways of working and structures need to be developed and renewed. The implementation of digital technology must be accelerated. Better systems need to be designed for monitoring. Better use must be made of people’s own capabilities. There is a need for training for change and a better working environment for people working in health and social care and schools.

These changes can be facilitated and supported through a clear and conscious overall strategy and, in particular, by long-term basis for finances and planning. A more active dialogue between central government and the local government sector can create consensus around challenges and needs of change that make it possible to agree on common initiatives for long-term sustainable changes – with shared responsibility and without central government regulation.

Greater mutuality in a turned-round process

In previous Economy Reports and elsewhere, SALAR has long described problems concerning the large quantity of targeted grants to municipalities, county council and regions. There are, for instance, many targeted grants in school services as well as in a number of agreements mainly in health care. The conditions for the various initiatives have not been that good – there has often been a lack of forward planning and dialogue around grants and agreements; there has seldom been any common analysis of the problems that the grants are intended to solve and there has often been a short period for implementation. The grants are not always geared to the local needs and priorities and often involve detailed regulation and also lead to more administration and higher costs.

The Government and the sector need to have a common picture of the challenges to the achievement of the long-term objectives for welfare services. In the present process the Government often takes short-term initiatives (funding) in the budget bill that come very late in relation to the budget process in municipalities, county council and regions. Since there has not been space for a common analysis and for deliberation about various solutions, they are not always well-targeted and there is no time to build acceptance among the target group for any requirements set up. On the other hand, SALAR and the sector are not good enough at formulating and communicating their picture of the problems and challenges in the sector in a systematic, integrated and timely way. There is also room for improvement by SALAR in strengthening its own process so as to become a better and more proactive partner in a dialogue with the Government in its cooperation with its members.

There are many areas where central government and the sector have common development interests and where agreements can be a good way forward. These agreements have more prospects of success if they are shaped in dialogue, are forward-looking in a way that permits anchoring and planning and contain mutual undertakings for both parties. Here success means that the action taken has a better effect and that resource utilisation is more effective as a whole.

Legislation in various areas is one of the ways in which a common long-term vision for the sector is expressed. The Government and SALAR need to jointly identify what the challenges are to reaching the objectives. This needs
to take place in a dialogue at several levels about the analysis of problems, needs for change and action in both the near and longer term. The knowledge about services that is available in government agencies, in SALAR and in municipalities, county councils and regions needs to be fed into the analysis of problems. This dialogue can result in long-term contracts in strategic areas, which do not necessarily need to be linked to money, in which both the Government and municipalities, county council and regions, through SALAR, give clear undertakings. Agreements can be combined with adjustments of the general grants and be supplemented with shorter funding initiatives. In cases where targeted grants and initiatives are nevertheless applied, they should be temporary and clearly defined and be aligned with the vision and the jointly identified challenges.

The model described here can be used in different areas in which both the Government and municipalities, county councils and regions see needs of reinforcement and collaboration to reach welfare objectives. This would pave the way for substantial improvements in the effectiveness of the use of public resources in the welfare sector.

Possibilities for better collaboration

A better process for collaboration between the Government and SALAR can be designed gradually and applied to areas in which there are particularly great challenges in the future. This applies to areas including local health care, schools and digitalisation.

Local health care

The section on county council finances above describes the desirable development in the direction of local health care. This is about developing cooperation between municipalities and county councils/regions on local health care – which can reduce the pressure on hospitals and contribute to much better, more patient-centred and effective health care. It is also about making a transition in health care and increasing preventive interventions so as to reduce the need for health care. The objective is health care in the future that is more accessible and is better at countering ill health. This is a more coherent approach and is therefore capable of dealing with long-term health care needs and chronic diseases.

Local health care is an area in which the model described for collaboration between the Government and SALAR could be tested. There are good prospects of succeeding since there is broad acceptance of the vision set out, SALAR’s members share the problem analysis presented as part of the inquiry on local health care of good quality and there is a great need for a long-term approach. The area also affects both municipalities and county councils/regions.

Work is already under way in many places on making the move to more local health care. Municipalities, county councils and regions need to work in an active and conscious way with this transition and this means their collaboration has to improve. The change also needs to be supported by central government and be carried out in collaboration between central government and the sector. A common longer-term strategy/vision, mutual undertakings, joint monitoring along with some transitional, temporary action may be a way forward.
Schools

We have previously (in *Economy Report, October 2017 and May 2018*) described the problems associated with the great quantity of government grants in the schools area and how they complicate the governance of schools. We have also presented a model for how these government grants could be transformed into fewer initiatives focusing more on development and how some could be transferred to the general grants.

The governance of schools by central government very much needs to be designed so as to enable municipalities and school organisers to meet the challenges and development needs and it needs to focus more on results and less on how government grant money is used. Preschools and schools are facing great challenges in several areas. The question of skills planning and provision is crucial. This is not just about training more people but is also about making the right use of skills. More than 1000 new preschools and schools need to be built by 2021, and, on top of that, there is a need to upgrade existing premises and develop learning environments. Digitalisation has great potential. However, comprehensive measures are required to promote equitable access to the opportunities provided by digitalisation. Central government, service organisers and staff in schools and preschools need to take joint responsibility for the conditions, financing and governance of schools and preschools to ensure they can expand and develop with good quality and that equity is enhanced and integration improved.

Digitalisation

**A strategy for increasing effectiveness through digitalisation**

One way of meeting the rapid growth in demand for welfare services is to make better use of technology. Digital solutions and other technology can help to ease both financing and skills planning and provision.

The report *Automation of work* [Automatisering av arbete] contains a synthesis of some international reports indicating that there is considerable potential in the automation of various work tasks. Globally this involves, in broad terms, a potential of about half of all tasks within a couple of decades. There are, however, differences between countries and industries and between different work tasks, with predictable work tasks being easier to automate. When it comes to the production of welfare services in Sweden, with a large proportion of cognitive and non-predictable work tasks often in contact-centred occupations, the potential is lower, but still substantial. In the longer term this potential is expected to increase, as technology, working methods and other key conditions develop. In the short term the impact is likely to be greatest in areas such as administration, accounting, services, transport and technology.

A suitable strategy should include measures aiming at both the short and the long term in parallel. In the short term, this is about making use of existing technology and increasing the efficiency of simple work tasks as well as gathering experience, etc. In the longer term it is about building skills and an organisation able to cope with future transitions in its core activities.

Large and small municipalities are in different situations. It is more difficult for smaller municipalities to drive this kind of development on their own; however they are able to gradually implement ways of working, systems and methods developed by others or along with others.

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Automation generally means that work tasks are performed in new ways. One reason is that the work tasks performed by people today are naturally also adapted to people. Another reason is that digital technology permits completely different types of solutions. One example is that a night-time camera can replace a home care service visit. The work task is changed because the supervision is performed via a monitor instead. In itself, this solution is adapted to a human since that is where the forefront of technology is at present. In the longer term it will be possible, using AI solutions, to also perform the actual assessment of whether there is any deviation. And then the dividing line between what a human and a machine can do will shift even more. If this scenario is linked to the strategy mentioned above, it is possible, in the short term, to install night-time cameras, which can, by itself, result in a considerable efficiency saving. In the longer term it may, for example, involve adapting in-house skills to more technology-centred services and preparing future users of home care services for changes.

In view of the expected increase in the number of inhabitants aged over 80, the possibility of digital solutions is of particular interest in elderly care. When a service is expanded, it is possible to accommodate more users without a corresponding increase in staff if wise use is made of existing technology. At the same time, it is possible to shift skills in the direction of new ways of working when recruiting replacement staff following retirements. For instance, greater skills are needed in leading change when new working methods and technical solutions are implemented.

**Potential of technical solutions**

The number of municipalities using various technical solutions has increased recently but their use is spreading slowly. There may be several reasons for this. There seems, for instance, to be a cautious attitude to taking a lead in using new technology and a difficulty in handling the required transitions in ways of working. But there is also considerable scepticism as to whether it is possible to demonstrate any gain in the final analysis. So there is a need to cast light on the issue of the efficiency potential of digital services and how the gains can be realised.

The following is a description of some digital services judged to have considerable potential for efficiencies on the basis of a study perfumed by RISE Research Institutes of Sweden et al.

**Home care services**

**Digital night-time supervision** Using a camera and microphone a home care service recipient can be supervised at night without the home care service needing to make a physical visit. The home care service recipient does not need to have their night-time sleep disturbed, and it also means less travelling time for home care service staff, as well as lower transport costs. The fact box »Calculation – night-time supervision« describes the potential in three different example municipalities.

**Digital daytime supervision** Using video communication equipment the home care service recipient is able to initiate contacts with their home care service, doctor and relatives. In part, the gains are the same as in night-time supervision but this service can also contribute to greater security and independence for the home care service recipient.

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Digital medicine reminder  A digital solution can be used instead of a traditional dose dispenser. It registers that the home care service recipient has taken the right medicine at the right time. This makes it possible to reduce home visits for the purpose of help in taking medicine. If the home care service recipient has not taken their medicine, a message is sent to the home care service.

Digital key handling  Traditional locks can be replaced with digital locks steered via an app on a phone or tablet. This makes it possible to avoid handling physical keys. The efficiency arises in less travelling time for collecting and returning keys, in the case of both planned and acute visits.

The various technical solutions described above can also be used in special housing. Västerås has, for instance, conducted successful trials that have involved being able to reduce night-time staffing while increasing security for residents and improving the work situation of staff.15

Financial assistance  The possibilities of making efficiency savings mainly cover the municipality’s internal processes in managing documents and decision support. Application procedures can be simplified by the applicant filling in their own applications electronically. The rest of the process can be speeded up by automating simple steps like entering information and compiling supporting information for decisions. Other gains are the simplification of documentation and the production of statistics as well as a more standardised and secure decision-making process.

Administrative e-services  Municipalities provide a large number of services that can be digitalised. For instance, there is judged to be great potential in building permit applications and other permit cases linked to homes. The main efficiency savings arise from fewer manual tasks for case officers.

How great is the potential  Table 20 presents an estimate of the national potential for each service on the basis of the RISE study. As is seen, the potential can be considerable, almost SEK 4.5 billion for the country as a whole, for these services alone. But the situation differs from municipality to municipality on account of various factors such as settlement structure, share of users with digital solutions, baseline costs for the analogue equivalents, how well the municipality has been able to adapt its ways of working, etc. It will soon be possible for municipalities to use an estimating tool to make estimates based on their own situation.16

In some cases the potential may be greater – in, for instance, rural municipalities with a high proportion of older people and long travelling times in their home care service. The following calculation for home care services is based on 5 per cent of users having night-time supervision. If that figure rises, there is a corresponding increase in the potential.

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16. The estimating tool was developed by RISE/AB Stelacon as a commission from the Swedish Post and Telecom Authority (PTS) and will be available on the PTS website as of 31 January 2019.
Table 20 • Estimate of national potential of some digital services
SEK million and SEK per inhabitant

<table>
<thead>
<tr>
<th>Service</th>
<th>Potential, mSEK</th>
<th>Potential, SEK/inhabitant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home care services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Day supervision</td>
<td>400</td>
<td>40</td>
</tr>
<tr>
<td>Night supervision</td>
<td>1 400</td>
<td>140</td>
</tr>
<tr>
<td>Medicine reminder</td>
<td>700</td>
<td>70</td>
</tr>
<tr>
<td>Key handling</td>
<td>700</td>
<td>70</td>
</tr>
<tr>
<td><strong>Total, home care services</strong></td>
<td><strong>3 200</strong></td>
<td><strong>320</strong></td>
</tr>
<tr>
<td>Financial assistance</td>
<td>600</td>
<td>60</td>
</tr>
<tr>
<td>Building permits etc.</td>
<td>600</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: RISE Research Institutes of Sweden and own calculations.

Methods for estimates and realising gains

The potential described in the above table is defined as cost reductions after full implementation. But it is not necessarily lower costs that are wanted. The aim can also be to cope with higher volumes without needing to recruit new staff on the same scale or to have staff use the time freed up to raise quality in another area. So a distinction should be made between the potential available and how it is used (use made of gains). Another question is how to realise the intended benefit (realisation of benefit).

One success factor is to make comparisons with other municipalities and share experience 17.

Calculations to estimate the potential

Various calculation methods are available to assess the financial benefit. A capital investment appraisal can be appropriate when large initial expenditure is involved. It can be designed in various ways; for example by calculating how long it takes to recover the cost of an investment (payback method). The present value of expected expenditure/income can also be calculated (present value). It is also necessary to calculate the effect on costs. Then the expected payment stream is transformed into costs and revenue for the investment for each year until its full effect has been attained.

In addition to economic benefits, there may be qualitative benefits and they have to be measured separately. That is more difficult, but various methods are available, such as SEROI (Social Economic Return On Investment) 18.

Another classification is direct and indirect benefits. Indirect benefits can, for instance, be environmental impacts or transparency in exchanges of information between the municipality and inhabitants.

Making use of gains

The purpose of an investment should be made clear in advance. This can, for example, be to cope with a volume increase in the future without needing to increase staff to the same extent. Other purposes can be a wish to achieve an improvement in quality for users in some respect or a better work environment.

Realising benefits

As pointed out above, experience shows that it can be difficult to obtain the intended effect from initiatives taken and investments made. Realising benefits is a management strategy that is intended to realise the benefits

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17. See, for example, SALAR’s digital sharing portal DelaDigitalt.
18. See, for example, http://seroi.plus/about/, http://www.sroi.se/index.html
sought and includes management by objectives, portfolio management, project management, change management, measurement and monitoring\textsuperscript{19}.

### Calculation – night-time supervision

Table 21 shows the result of the calculation regarding digital night-time supervision for three example municipalities with different conditions mainly regarding low population density. The longer the distance between users, the greater the gain from digital support in home care services.

The efficiency potential consists of the difference between what the supervision costs at present and what supervision supported by night-time cameras costs. The calculation assumes that the proportion of home care service recipients with digital night-time supervision is 5 per cent. The cost of the digital supervision consists of the costs for equipment, broadband connection, operating costs, licences and staff costs. However, the costs of work on change are not included since this item can differ greatly in terms of the need for training, project management and external consultants, for instance.

The calculation builds on values taken from or calculated on the basis of official statistics. In the estimating tool\textsuperscript{*} it is possible to change these values when more specific information is available.

The tool can also be used for sensitivity analyses. For example, it is possible to examine what happens if the proportion using the digital service can be increased.

#### Table 21 • Efficiency potential – digital night-time supervision

<table>
<thead>
<tr>
<th>Examples</th>
<th>Medium-</th>
<th>Municipality</th>
<th>Commuting municipality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of supervision today</td>
<td>25.6</td>
<td>1.4</td>
<td>4.8</td>
</tr>
<tr>
<td>Cost of digital supervision</td>
<td>4.8</td>
<td>0.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Potential for efficiencies</td>
<td>20.8</td>
<td>1.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Potential SEK/inhabitant</td>
<td>151</td>
<td>454</td>
<td>71</td>
</tr>
</tbody>
</table>

Source: RISE Research Institutes of Sweden.

\textsuperscript{*}The estimating tool was developed by RISE/AB Stelacon as a commission from the Swedish Post and Telecom Authority (PTS) and will be available on the PTS website as of 31 January 2019.
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 25 • Key indicators for municipalities and county councils
Per cent and thousands of people

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Average tax rate, %</td>
<td>32.12</td>
<td>32.12</td>
<td>32.21</td>
<td>32.21</td>
<td>32.21</td>
<td>32.21</td>
</tr>
<tr>
<td>municipalities, incl. Gotland</td>
<td>20.75</td>
<td>20.74</td>
<td>20.72</td>
<td>20.72</td>
<td>20.72</td>
<td>20.72</td>
</tr>
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</table>

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipalities</td>
<td>896</td>
<td>90</td>
<td>903</td>
<td>909</td>
<td>915</td>
<td>918</td>
</tr>
<tr>
<td>County councils</td>
<td>288</td>
<td>292</td>
<td>294</td>
<td>296</td>
<td>298</td>
<td>299</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipalities</td>
<td>-0.5</td>
<td>1.0</td>
<td>0.9</td>
<td>0.8</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>County councils</td>
<td>1.5</td>
<td>1.9</td>
<td>1.8</td>
<td>1.2</td>
<td>1.3</td>
<td>1.2</td>
</tr>
</tbody>
</table>

*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 26 • Aggregate income statement for the sector

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Income of activities</strong></td>
<td>225</td>
<td>222</td>
<td>227</td>
<td>234</td>
<td>241</td>
<td>249</td>
</tr>
<tr>
<td><strong>Expenses of activities</strong></td>
<td>-1,019</td>
<td>-1,054</td>
<td>-1,094</td>
<td>-1,138</td>
<td>-1,188</td>
<td>-1,235</td>
</tr>
<tr>
<td><strong>Depreciation/amortisation</strong></td>
<td>-34</td>
<td>-34</td>
<td>-37</td>
<td>-39</td>
<td>-41</td>
<td>-43</td>
</tr>
<tr>
<td><strong>Net expenses of activities</strong></td>
<td>-828</td>
<td>-866</td>
<td>-904</td>
<td>-943</td>
<td>-987</td>
<td>-1,029</td>
</tr>
<tr>
<td><strong>Tax revenue</strong></td>
<td>704</td>
<td>724</td>
<td>749</td>
<td>771</td>
<td>801</td>
<td>834</td>
</tr>
<tr>
<td><strong>Gen. govt grants and equalisation</strong></td>
<td>146</td>
<td>153</td>
<td>165</td>
<td>180</td>
<td>197</td>
<td>210</td>
</tr>
<tr>
<td><strong>Net financial income</strong></td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>-1</td>
<td>-3</td>
</tr>
<tr>
<td><strong>Net income before extra-ordinary items</strong></td>
<td>26.5</td>
<td>15.9</td>
<td>12.3</td>
<td>9.7</td>
<td>10.1</td>
<td>10.6</td>
</tr>
<tr>
<td><strong>Share of taxes and grants, %</strong></td>
<td>3.1</td>
<td>1.8</td>
<td>1.3</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

*Note: Purchases between the sectors have been consolidated.*

### Table 27 • Income statement for the municipalities

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Income of activities</strong></td>
<td>170</td>
<td>162</td>
<td>166</td>
<td>170</td>
<td>175</td>
<td>181</td>
</tr>
<tr>
<td><strong>Expenses of activities</strong></td>
<td>-675</td>
<td>-694</td>
<td>-720</td>
<td>-749</td>
<td>-783</td>
<td>-816</td>
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<tr>
<td><strong>Depreciation/amortisation</strong></td>
<td>-23</td>
<td>-23</td>
<td>-25</td>
<td>-27</td>
<td>-28</td>
<td>-30</td>
</tr>
<tr>
<td><strong>Net expenses of activities</strong></td>
<td>-529</td>
<td>-555</td>
<td>-579</td>
<td>-605</td>
<td>-636</td>
<td>-665</td>
</tr>
<tr>
<td><strong>Tax revenue</strong></td>
<td>455</td>
<td>467</td>
<td>482</td>
<td>496</td>
<td>516</td>
<td>536</td>
</tr>
<tr>
<td><strong>Gen. govt grants and equalisation</strong></td>
<td>92</td>
<td>96</td>
<td>103</td>
<td>111</td>
<td>124</td>
<td>135</td>
</tr>
<tr>
<td><strong>Net financial income</strong></td>
<td>6</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Net income before extra-ordinary items</strong></td>
<td>23.8</td>
<td>14.0</td>
<td>11.1</td>
<td>6.1</td>
<td>6.4</td>
<td>6.8</td>
</tr>
<tr>
<td><strong>Share of taxes and grants, %</strong></td>
<td>4.4</td>
<td>2.5</td>
<td>1.9</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

### Table 28 • Income statement for the county councils

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Income of activities</strong></td>
<td>57</td>
<td>62</td>
<td>63</td>
<td>66</td>
<td>68</td>
<td>71</td>
</tr>
<tr>
<td><strong>Expenses of activities</strong></td>
<td>-346</td>
<td>-362</td>
<td>-377</td>
<td>-391</td>
<td>-406</td>
<td>-422</td>
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<tr>
<td><strong>Depreciation/amortisation</strong></td>
<td>-10</td>
<td>-11</td>
<td>-12</td>
<td>-12</td>
<td>-13</td>
<td>-13</td>
</tr>
<tr>
<td><strong>Net expenses of activities</strong></td>
<td>-299</td>
<td>-311</td>
<td>-325</td>
<td>-338</td>
<td>-351</td>
<td>-364</td>
</tr>
<tr>
<td><strong>Tax revenue</strong></td>
<td>249</td>
<td>257</td>
<td>267</td>
<td>275</td>
<td>286</td>
<td>297</td>
</tr>
<tr>
<td><strong>Gen. govt grants and equalisation</strong></td>
<td>54</td>
<td>57</td>
<td>62</td>
<td>70</td>
<td>73</td>
<td>75</td>
</tr>
<tr>
<td><strong>Net financial income</strong></td>
<td>-1</td>
<td>-1</td>
<td>-3</td>
<td>-3</td>
<td>-4</td>
<td>-4</td>
</tr>
<tr>
<td><strong>Net income before extra-ordinary items</strong></td>
<td>2.6</td>
<td>1.8</td>
<td>1.2</td>
<td>3.6</td>
<td>3.7</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Share of taxes and grants, %</strong></td>
<td>0.9</td>
<td>0.6</td>
<td>0.4</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

*Source: The Swedish Association of Local Authorities and Regions.*
The Economy Report, December 2018

On Swedish municipal and county council finances

All the signs are that the Swedish economy has now peaked and that growth will be weaker in the coming years. Internationally, a slow-down next year is highly likely in some important economies, such as the US, China and Germany, which will dent global growth and foreign trade. Here at home, the building boom seems to be over; we can expect housing construction to decrease throughout 2019. These are two main explanations of a downward shift in Swedish growth. Weaker employment growth leads to substantially lower growth of the local government tax base.

Economists have long warned of a coming period of difficult demographic developments. We are now seeing ever clearer signs that this period has begun, especially in terms of cost growth in the local government sector and the possibilities of recruiting key staff. This has mainly affected the county councils; quite a number have had to raise their tax rate and yet are unable to maintain a long-term sustainable level of net income. For the municipalities, the favourable macroeconomic development has made it largely possible to avoid weaker net income and higher tax rates. Now that this period of strong growth in the Swedish economy is coming to an end, more difficult times await.

A separate chapter discusses how various measures can be used to deal with the challenges facing the sector. Can services be made more effective by using new technology? Can cooperation with central government be improved?

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 2022.

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