



The Economy Report, May 2021

ON SWEDISH
MUNICIPAL AND REGIONAL FINANCES

Information

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Foreword

When work on this Economy Report concludes, we are in the midst of the third wave of the pandemic. Health care is working at high pressure, but it looks as though this wave is on its way to slowing down.

In this report we make the assessment that the economy is going to get stronger, both globally and in Sweden. However, there is great uncertainty about the pace of the recovery.

We also give a picture of what happened during the pandemic year 2020, and why it came about that the local government sector reported record net income. Both regions and municipalities have major backlogs of needs, and when it comes to describing future prospects, our surveys to finance officers in the sector have been of great importance. Better central governance and a transition to Local Health Care is one way of making it easier to deal with coming challenges. In this report we describe how work on this is advancing and what can be done to make it easier for municipalities and regions to deal with future challenges.

The Economy Report web page at skr.se has presentations of the tables and figures from the most recent report. On our website you can also find a selection of supporting information from our reports on the *Sektorn i siffror* page. Presentations containing charts of costs and revenue are available for download.

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 Jons-son. We are very grateful to the municipalities and regions that have contributed basic data to our report.

Stockholm, June 2021

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Summary conclusions

2020 will go down in history as the year when the whole of the world was affected by the pandemic. We are still living in an uncertain and different time. The pressure on Sweden's welfare services, and health and social care especially, has been and still is enormous. Despite this, all regions and 274 municipalities showed financial surpluses for 2020, partly thanks to large government grants.

Ready-to-use vaccines and vaccination have come faster than anyone could have foreseen a year ago. The development of both the global and the domestic economy has been surprisingly positive, thanks, to a great extent, to major central government support, combined with how societies and populations have adapted life to the pandemic.

Despite financial surpluses in municipalities and regions, major challenges await round the corner. To cope with them, a long-term approach, collaboration, trusting governance by central government and a transition to local health care are essential.

The macro economy

Despite extensive restrictions and waves of high transmission, the economy is in a recovery phase, both globally and in Sweden. In the course of 2021 the economic situation is expected to strengthen ever faster, and the forecast for Swedish GDP growth is just over 3 per cent, which would mean taking back

the plunge in 2020. GDP reaching virtually the same level as two years previously – that would normally be described as two lost years. But given the roller coaster that the pandemic has put the global economy in, the recovery looks more like a success, considering the dramatic downturns in economies in spring 2020.

Already this year, the second year of the pandemic, all adults in Sweden who so wish will be able to get vaccine protection. As the spread of infection falls and pressure on health care decreases, it will be possible to lighten various types of restrictions, which can be presumed to give an extra boost to the economy, especially in the autumn. In particular, this development will benefit the domestic service industries that were slowed most by the pandemic and restrictions. But the fight against the pandemic is far from being won. That will take time. The pandemic cannot be “eradicated locally” and much of the global vaccination work will probably remain to be done in 2022, especially in the poorer part of the world. There are many indications that Sweden, and a number of developed countries, will come a fair way in 2021.

Estimates show high GDP growth both this year and in 2022. In Sweden and other countries, growth is assumed to be very much driven by household consumption, which can increasingly be aimed at the service industries hit hardest by the restrictions. Over time, this leads to an ever stronger recovery of the number of hours worked in Sweden. However, the prospects of an early and rapid rise in the number employed will be limited by a rise in average working hours as more and more employees increase their working hours. This year average working hours will be driven up both by lower use of the system of short-time working, and by a fall in sickness absence. It will take several years for the labour market to recover after the pandemic. In addition to »more work per person employed« this year and next year, the crisis is assumed to drive structural change. It will be a major challenge to improve matching in the labour market, through training and retraining, so as to break the unemployment trend for vulnerable groups in particular. Some of the jobs lost will probably never come back. Despite a fairly rapid economic upturn in Sweden, our scenario estimates that, for several years, the share unemployed will exceed the level that applied before the pandemic. In our medium-term projection the recession only ebbs out in 2024.

Despite the sharp recession and very extensive fiscal policy action, public finances in Sweden are strong. The major deficits in general government net lending in 2020 and 2021 do not change this. As a proportion of GDP, general government gross debt in 2019 was much lower in Sweden than in many other countries. And developments during the pandemic have resulted in a greater rise in debt internationally than in Sweden.

The tax base will increase relatively slowly in the coming years. However, the most important measure of tax base growth, its real growth rate in 2018–2024, is estimated to be in line with the historical trend in this century. But this requires a cyclical recovery and that price and pay increases on the sector’s costs remain moderate all the way to 2024.

Record net income for municipalities and regions - an effect of the pandemic crisis

In 2020 the surplus in the local government sector was almost SEK 55 billion, despite extreme pressure on some services. In other services, however, the pressure has been much lower than normal, for example in some health care, especially during the first wave of the pandemic. The same applies to day ac-

tivities, preschool, culture and recreation services and care of older people in some municipalities. The overall effect has been that costs have increased more slowly than normal. In municipalities net costs were actually lower in constant prices in 2020 than in 2019. The decrease in services in the area of culture and recreation, and in dental care usage, have also resulted in major revenue losses. Public transport, which has been forced to maintain service frequency, despite much lower ridership so as to reduce the risk of infection, has also lost revenue amounting to many billion kronor in 2020.

Sickness absence has been much higher than normal among municipal and regional employees. As central government had funded sick pay costs for municipalities and regions – fully in the period April to July and in part for the rest of the year – this compensation has been about SEK 2 billion higher than the cost of substitute staff. The additional costs for COVID-19 have been covered by government grants and the general government grant has increased significantly more than the decrease in tax revenue incurred by municipalities and regions on account of the pandemic.

Table 1 • Items that explain the large surplus in 2020

SEK billion

Budgeted surplus	13	
General government grants higher than tax reduction	18	
Lower costs for services and other items	13	
Lower pension costs		
Better net financial income		
Surplus, compensation for sick pay		2
Net income	55	

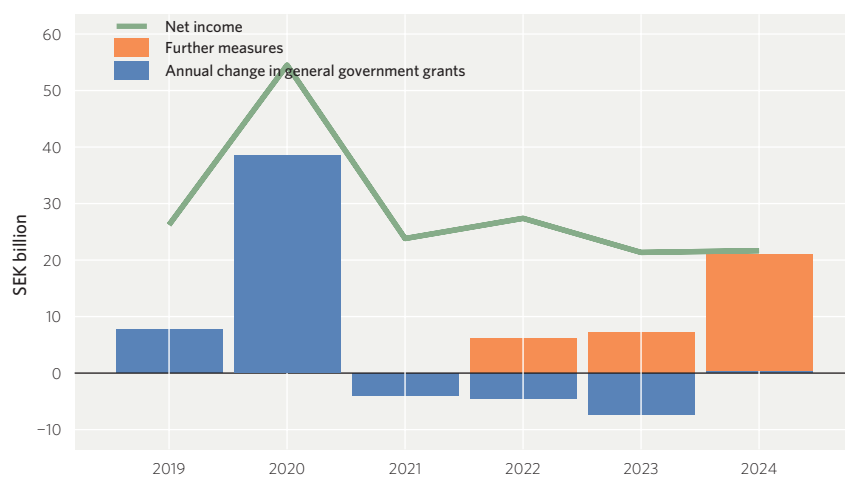
Source: Swedish Association of Local Authorities and Regions.

The table shows the various items that have built up the large surplus in municipalities and regions in 2020. Both municipalities and regions budgeted for aggregate surpluses, of SEK 10 billion and SEK 3 billion respectively. Pension costs were lower than budgeted for, especially in the regions. The general government grant increased by SEK 18 billion more than tax revenue decreased, compared with what municipalities and regions had budgeted for, and net costs were lower than budgeted for, especially in the municipalities.

In 2021 net income in municipalities and regions is also expected to be relatively strong; in the report we expect net income of SEK 24 billion due to the recovery of the economy and because general government grants will also remain at a relatively high level in 2021. There is, however, great uncertainty in this assessment, which depends on what happens regarding the development both of the corona infection and of vaccines.

Figure 1 • Development of government grants and net income in the local government sector

SEK billion



Source: Swedish Association of Local Authorities and Regions.

Both net income and the increase in government grants are exceptional in 2020. The increase in the general government grants includes not only the grants related to the pandemic that the sector has received but also grants announced in the Budget Bill ahead of 2020 and grants received before the pandemic. In the coming years the level of government grants decreases, and net income therefore falls. In 2024 additional funding or further measures worth just over SEK 20 billion will be required to achieve net income corresponding to 2 per cent of taxes and government grants, provided that costs only rise in line with population change.

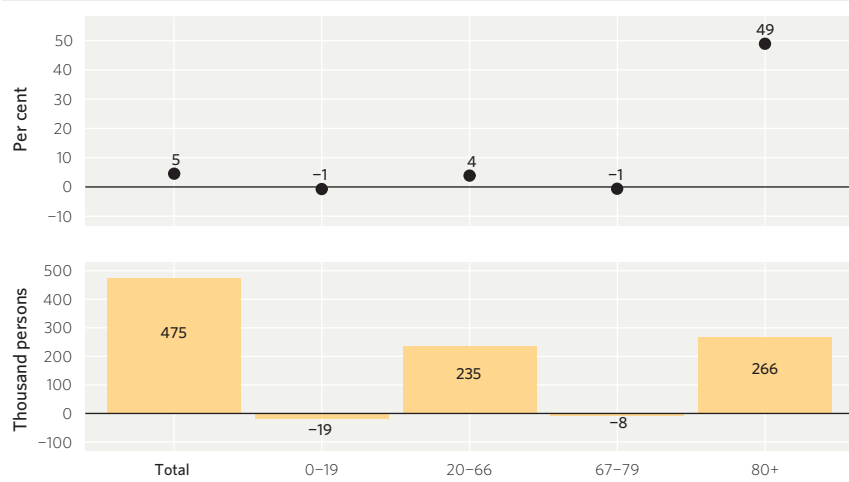
Many challenges await municipalities and regions when the pandemic subsides. They involve health care that could not be performed, social care interventions that were cancelled and school services for children, young people and adults that have faced very major challenges.

In the long term the level of government grants falls, and the economic challenge that has been noted for many years becomes clearer and clearer the longer the calculations of the sector's economy extend into the future. The present strength of the finances of municipalities and regions is a result of the major additional funding provided and the unique situation. So there is no scope for municipalities and regions to lock into a cost level that is too high when government grants decrease. Rather, this is now an opportunity to take measures and initiatives that make services more effective and restrain cost increases in the longer term.

One way to facilitate planning in both central government and the local government sector would be to have longer-term decisions about the development of central government grants. Moreover, one method in the event of crises and special events that have a negative impact on tax revenue could be for central government to guarantee a certain level of tax revenue and adjust government grants taking account of this so that municipalities and regions are neither over- nor under-compensated and can plan their services in the long term. The present situation of unforeseen and short-term grants is not good for either party. Large surpluses tend to drive up expectations of services in welfare provision to a level that is not sustainable in the long term.

Figure 2 • Population growth, 2020-2030

Per cent and thousand persons



More than half of the total population increase in the coming ten years is estimated to come in the 80 or older age group.

Source: Statistics Sweden.

At the end of April, Statistics Sweden presented the three-year update of its population forecast. The new forecast shows major changes compared with the previous one. The main difference concerns the groups children and young people, which are now estimated to decrease, compared with an increase of 5 per cent in the previous forecast. The working-age population also increases more slowly than in the previous forecast. As much as 56 per cent of the total population increase in the coming 10 years is estimated to come in the 80 or older age group¹.

1. The development of demographic needs in the report is based on Statistics Sweden's population forecast in April 2020. It has not been possible to take account of the new forecast published on 28 April 2021. In general the increase in demographic needs is lower in the new forecast, but the new population forecast will probably also result in a downward adjustment of tax revenue in the space of a few years.

Municipal finances

2020 was a bewildering year, which ended in a record level of net income for the municipalities of just over SEK 35 billion. The surplus corresponds to 5.7 per cent of taxes and general government grants.

The macroeconomic conditions looked weak before the year began. When the pandemic struck, it had a sweeping effect on many services and it was virtually impossible to guess what the overall financial impact this would have. One of the effects was that many services had to close, such as day services, open preschools and cultural events. In other services, such as preschools and care of older people, demand decreased. In care of older people the number of new users was much lower than usual, and the usage of preschool and school-age educare services decreased because of high sickness absence among children combined with home working by many parents. The lower level of services is one of several explanations of the high net income. Municipal social care services were hit at the same time by major additional costs to deal with the pandemic, but these costs were covered to a great extent by government grants. The municipalities received further compensation between April and July when government grants covered not only the additional costs for sick pay but also the whole sick pay cost.

Only 16 municipalities reported negative net income for 2020 according to the preliminary annual accounts. 244 municipalities had net income in excess of 2 per cent of taxes and general government grants and in 107 municipalities net income exceeded 5 per cent.

Municipalities' costs increased by 1.8 per cent in current prices in 2020. In constant prices, their costs decreased by 0.4 per cent. However, the figures for 2020 are greatly inflated by additional costs linked to the pandemic and higher sick pay costs, and municipalities have received government grants to compensate for a great part of both these costs. If these additional costs are removed, cost growth in constant prices turns out to be minus 2.3 per cent in 2020. There has been no corresponding decrease in this century.

The increase in demographic needs in 2020 corresponded to a volume increase of 0.7 per cent, which is the lowest increase since 2013, and significantly lower than budgeted. This weak growth was both a direct consequence of the pandemic, with higher mortality among older people, and an indirect consequence through lower immigration.

The corona pandemic has made 2020 a very special year for care of older people. The trend has long been for the number of people in care homes for older people to decrease, and this trend was further reinforced in 2020. Home care services have had the opposite trend, but there, too, the number of users decreased in 2020.

Forecast for the municipalities

The next few years look relatively bright in the municipalities. Good real tax base growth offsets the fact that general government grants are decreasing. However, one big question mark is whether a »services debt« corresponding to the debt in health care has been built up, and what importance it may have for future needs. The transition to home tuition in upper secondary school was implemented quickly, and apparently, without any major impact on overall costs. The question is what impact it has had on study outcomes. Major, temporary government grants to care of older people stipulate a rapid adaptation and more, and better, trained staff, at the same time as the number of people in care homes has decreased. With reservations for the development

of the pandemic and its long-term impact on needs and for the requirements linked to the new government grants for care of older people, the growth of revenue appears to match costs in the next few years. Net income weakens gradually, but is above 2 per cent of taxes and general government grants in 2021–2023. In 2024, however, municipalities are judged to need either to receive additional funding of, or to take cost-saving measures for, SEK 8 billion to attain net income of 2 per cent.

Transition to Local Health Care

In recent decades health care in Sweden has made major progress. Today the population is living longer and is in better health, and several previously fatal diseases have become chronic conditions. This results in a gap between resources, both money and personnel, and needs in the population. A move in the direction of Local Health Care is one of the solutions for dealing with this gap, often along with digitalisation. When Local Health Care is in place, all of the system's resources, in both municipalities and regions, are used in a more effective way at the same time as health care quality and patient satisfaction increase. Local Health Care is based on a person-centred approach and is also about working more with health promotion and with prevention.

Around Sweden the transition is under way to Local Health Care. New ways of working and services are being developed so as to offer health care when and where it is needed. Examples include mobile teams of health care personnel coming home to patients or various digital aids to enable people to deal with some of their own care. Improving health in the population is ever more essential so as to cope with demographic challenges, with more people needing welfare services at the same time as the working-age population is not increasing sufficiently.

Västra Götaland has introduced mobile local health care in the region. The number of days of in-patient care and the number of emergency visits have been substantially reduced for the patients who have been the target group of the local health care team when six months before entering the service are compared with six months after entry. From the patient's perspective, this has meant that they have no longer needed to go to hospital and are able to feel secure in being looked after at home. Satisfaction has also increased among patients and close relatives.

As in all development work, there are challenges that must also be addressed. The following is needed:

- Develop and anchor the vision in the whole of the organisation and between municipalities and their region.
- A holistic approach – make decisions moving in the same direction at all levels in the whole of the health care system.
- The governance, management and budget process at all levels must be coherent; the transition is not a primary care project.
- Coordinate investments with the »expansion« of Local Health Care.
- Develop new metrics and indicators so as to be able to plan, measure and evaluate.
- Review the system of payments so that it supports this development.

Regional finances

In 2020 the regions had their best ever levels of net income, in the midst of a raging pandemic. This is a paradoxical fact, but there are explanations. The

regions budgeted for modest aggregate net income of SEK 2.7 billion in 2020. Net income for the year finally came in at SEK 19 billion. The main reasons for the surplus were lower pension costs, increases in government grants larger than decreases in tax revenue, government compensation for sick pay costs and better net financial income.

The third wave is still under way. The transmission of infection is still widespread, and it is accompanied by a continuation of high pressure and great impacts on health care. Of the normal number of around 550 ICU beds, some 350–400 are usually occupied. This is as many places as were occupied by COVID-19 patients at the end of April and beginning of May.

Many measures have been taken to cope with staffing in health care within the framework of collective agreements. Requests have been made to activate the crisis situation agreement signed, and at present it is activated in seven regions, a sign of how serious the situation is.

Public transport has been and is running with normal services, which means that costs have stayed at roughly the same level as in 2019. Since about half of these costs are financed by ticket revenue, the decrease in travel by public transport means a dramatic revenue shortfall. Last year ticket revenue was SEK 7.3 billion lower than in 2019, which means a reduction of 37 per cent. In the initial months of this year ticket revenue has been half as big as in the corresponding months of 2019, which means a shortfall of around SEK 2.5 billion in the first quarter.

Forecast for the regions

This year costs for pensions increase by SEK 9.2 billion on account of a new life expectation undertaking recognised as an expense in 2021. The regions' net income therefore falls sharply this year. Moreover, tax revenue and general government grants increase by only 3.5 per cent, which is considerably slower than costs. We assess that net income this year can turn out to be around SEK 2 billion. In the succeeding years additional government funding or cost-saving measures, amounting to SEK 6.2 billion for 2022, SEK 7.2 billion for 2024 and SEK 12.5 billion for 2024, are required to deliver net income of 2 per cent as a share of taxes and general government grants.

Centralisation tendencies

In public debate there are many advocates, in the wake of the pandemic, of more central governance or a takeover by central government of municipal and regional services. However, it is not clear quite how advocates of nationalisation or of more central governance see the change taking place and how it would lead to improvements. In services themselves most things would probably function in much the same way, irrespective of whether they are organised by central government or the local government sector. However, closeness to the top decision-makers would be lost with central government as their organiser.

There are several reasons for having multi-level governance in Sweden. Strong local and regional self-government increases the possibilities of local and regional transparency for citizens and gives them greater possibilities of participating in and taking responsibility for their local and regional communities. It also acts as a barrier to a concentration of power at central level. The division of power helps to enable individual municipalities and regions to address challenges, test ideas and develop solutions that do not follow a template designed at national level. The whole point of organising services at

local and regional level is that priorities can then be set in the light of local and regional conditions, needs, challenges and wishes. This then provides a possibility for other municipalities and regions to learn from or be warned by the experience of their peers.

In Sweden there is now a government-appointed inquiry looking into nationalisation of schools, and voices are also to be heard advocating nationalisation of health care. At the same time, opinion polls and international studies show that people are satisfied with health care and that it is also of high quality. So how nationalisation would improve health care is a bit unclear.

The claim made is that a change of governance would lead to better services of higher quality and to greater equity, while solving digitalisation problems. This would thus suggest that central government has well-developed digital systems. However, in Sweden there is no national public e-identification system and no system for secure digital communication between government agencies, municipalities, regions and external organisers, which means that patient data cannot be shared securely. Swedish authorities have different digital solutions even though central government could have regulated this. If health care is divided up into a national and a regional part, there is a risk of even greater challenges in, for instance, sharing patient data before the digital infrastructure issues are solved.

A gigantic organisational change needs to be made in order to nationalise these services. The number of central government employees would need to more than double. All the different agreements with staff, IT systems and digital solutions, external providers of health care and schooling, materials, services and so on would need to be synchronised and renegotiated. All properties and property matters would need to be moved, and the tax system would need to be changed. The list of all the regulations that would need to be implemented is enormous.

To consider investing so much resources in one of the largest reorganisations of Sweden's public administration in the modern age, you must be very convinced that the change would lead to slower cost growth, greater equity and higher quality.

Greater collaboration between central government, local government and business would probably be a better way of solving many of the challenges that arise on account of a more difficult demographic situation, where the possibility of using new technology and digital tools can be part of the solution.

The report's chapter on centralisation contains proposals for changes that central government could implement to make it easier for municipalities and regions to provide welfare services effectively.

Centralisation tendencies and central governance

The pandemic has led to a debate about administrative policy issues and how public services should be governed and organised. Some voices in the debate advocate greater central government involvement at the expense of the local and regional level. This chapter analyses what nationalisation of certain services would mean in practice and how central governance could be better – so as to increase cost-effectiveness and service quality.

Responsibility for organising services

The responsibility of the local government sector and of central government for organising services is the key consideration in the organisation of the public sector. Moves of services between different levels have not been a common occurrence, and are large and complicated reforms. Several major reforms were actually implemented in the 1990s; they included moving responsibility for care homes for older people and support and services for people with certain disabilities from the county councils to the municipalities. However, there have not been any major changes in responsibility for services between central government and the local government sector in this century. It is only the supervision of animal welfare and responsibility for the introduction of new arrivals that have been transferred from the municipalities to central government. Nor was the municipalisation of school education in the early 1990s a complete change of responsibility for the service, since the municipalities already had responsibility for considerable parts of

school education; central government was really only responsible for the conditions of employment and financing of teachers and school leaders. All other staff and all properties, material, etc., were the responsibility of the municipalities even before municipalisation.

The question of responsibility for schools has been debated for a long time, and in December 2020 the government appointed an inquiry on nationalising schools. It is a delicate task the inquiry has been given to look at. The only major service that has been nationalised is policing the 1960s. That said, the inquiry will hopefully contribute to a more nuanced and informed discussion. For instance, one important and complex question is how to deal with the ownership of school properties on a nationalisation of school education.

Sweden's administrative model and division of responsibilities

It is therefore reasonable to ask the question »Why do we have a local responsibility for services and why does central government not handle all tasks by itself?«.

One reason is the historical choices made when welfare services were expanded. Central government chose to give municipalities and county councils responsibility for health care, school education and social care. This means that a quarter of all employed persons in Sweden work in services funded by municipalities and regions. The local government sector gives employment to around 1,300,000 people – just over one million of them are municipal or regional employees and just over 300,000 are employees of private organisers running schools, care homes for older people, health centres, etc. on behalf of municipalities or regions. This can be compared with central government, which has a relatively small number of staff. In all, government agencies have around 270,000 employees. The Swedish Police Authority is the largest government agency with just over 30 000 employees, which is comparable to the number of employees in the City of Malmö. This can also be related to the around 290,000 employees in health care, when those working for external organisers are also included.

There are several reasons for the Swedish model of multilevel governance. Strong local and regional self-government increases the possibilities of local and regional transparency for citizens and gives them greater possibilities of participating in and taking responsibility for their local and regional communities. It also acts as a barrier to a concentration of power at central level. In Sweden's municipalities and regions there are 310 popularly elected councils with around 40,000 elected members. This contributes to a sound division of power and an adaptation to local circumstances, while creating conditions for greater diversity. If political decisions were only made by the Government and the Riksdag, this would, in practice, mean considerable bureaucratisation, with government officials as decision-makers. The whole idea of organising services at local and regional level is that priorities can then be set in the light of local and regional conditions, needs, challenges and wishes. This then provides a possibility for other municipalities and regions to learn from or be warned by the experience of their peers.² During the major refugee reception and the pandemic, for example, municipalities and regions have also displayed a flexibility and transitioning capacity that have not always been matched by their central government equivalents.

Nationalisation of health care

There is also increasing debate about the nationalisation of Swedish health care. One central question in all organisational change is what problems are

2. *Självstyrelsens potential* [The potential of self-government], SALAR 2020.

to be solved and how the organisational change contributes to solving these particular problems. How would nationalisation of all or parts of health care actually work?

In this context it is important to note that Swedish health care stands up very well in international comparisons. A report from 2018³ shows that Swedish health care performs excellently in comparison with other similar countries. Sweden is in the top group for medical outcomes and efficacy, tops the quality index and takes joint second place in the index for efficiency. The report also presents studies done by other organisations; Sweden also performs in the international top class in them, especially regarding various measures of medical quality.

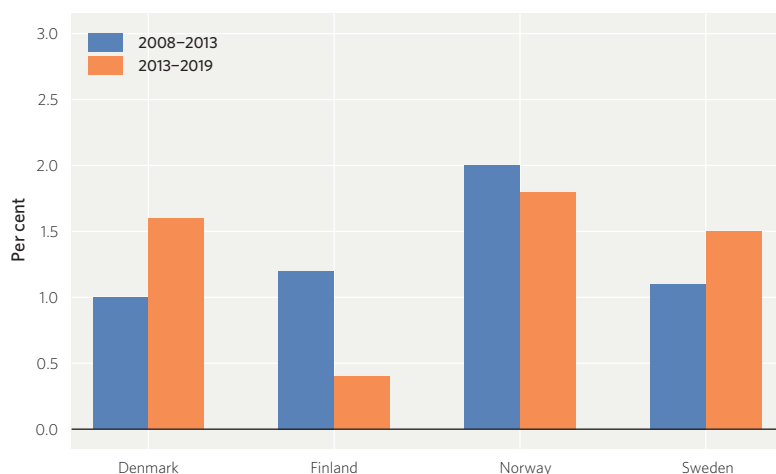
Moreover, the annual Confidence Barometer shows that public confidence in health care has increased by 19 percentage points to 81 per cent since the last measurement. This is the biggest increase and the highest confidence score in the history of the Confidence Barometer. The corresponding figures are, for example, 14 per cent for Arbetsförmedlingen [Swedish Public Employment Service] and 38 per cent for the National Board of Health and Welfare.

Norway's nationalisation of health care is often cited as a successful reform, which is said to have resulted in better cost control, greater equity and shorter waiting times for patients.

This nationalisation took place in 2002 by setting up five state health care companies with a regional responsibility for health care.⁴ One main aim was to achieve equity, level out differences in resource use and get away from unclear responsibilities.⁵

However, publications in Norwegian Government Official Reports (NOU) and the OECD's international comparisons (see next paragraph) contradict the view that the reform has achieved its aim. The first 5–6 years were characterised by relatively high cost growth and large deficits (NOU 2016:25, page 86). Later evaluations of the reform say that »There has been a gradual improvement in quality in many of the areas in which measurement systems have been established. However, this is no basis for concluding that we have realised more equitable provision« (ibid).

Figure 19 • Annual average growth rate (constant prices) in per capita health spending
Per cent



Source: OECD, *Health at a glance 2020*.

Health care costs have increased at a faster pace in Norway than in the other Nordic countries (excluding Iceland).

3. *Svensk sjukvård i internationell jämförelse 2018* [Swedish health care in an international comparison], SALAR 2018.

4. The number has since decreased to four.

5. NOU 2016:25, *Organisering og styring av spesialisthelsetjenesten* [Organisation and governance of special health services], page 33.

The OECD has compared cost growth in various countries in health care since 2008. In this period Norway's health care costs have increased much more than costs in the other Scandinavian countries and Finland.⁶ Health expenditure per capita is also higher in Norway (EUR 4,505) than in Sweden (EUR 3,919), Denmark (EUR 3,774) and Finland (EUR 3,103).

It should also be pointed out that the Norwegian counties (corresponding to Swedish regions) did not have their own taxation right before the reform. Nationalisation of health care in Sweden would therefore be an even more extensive reform than in Norway.

Considering that nationalisation in Norway appears not to have led to either increased equity or higher cost efficiency, it can be questioned whether the cost of a reorganisation is proportionate to the benefit of a business transfer for several hundred thousand employees, a bureaucratisation of decision-making and a change in financing.

The OECD report *Health at a glance 2020* also compares waiting times for cataract surgery, hip replacement and knee replacement in eleven countries. The report presents both the waiting time before patients receive a medical assessment by a specialist and the waiting time for operation after the medical assessment. According to the report, the waiting time for a medical assessment in Sweden in 2019 was the fourth or fifth shortest of the countries compared in all three specialities. As regards the time from when a medical assessment is made to an operation, OECD's measurement reports that Sweden had the shortest waiting time for knee and hip replacements and the second shortest waiting time for cataract surgery. However, there seem to be great differences when waiting times are compared and examined using various register data and when people are asked about their own waiting times in health care. In the International Health Policy Survey (IHP), which is conducted each year, Sweden gets a poorer ranking.

Nationalisation of hospitals

Nationalisation of hospital-linked health care is now being discussed; the claim being made here is that Swedish health care would perform better, waiting times would be shorter and digitalisation would be accelerated if nationalisation was implemented.

The OECD's survey from 2018 shows that Swedes have unusually high confidence in the care provided at hospitals; here confidence was 78 per cent, which was the second-highest score among EU countries, where the average was 69 per cent. However, confidence in primary care in Sweden was much lower, 69 per cent, compared with the EU average of 73 per cent. The latest International Health Policy Survey (IHP) also shows that accessibility in primary care has shortcomings.

The movement under way in Sweden is largely about care increasingly being provided in Local Health Care, with primary care as its starting point. A nationalisation of hospitals creates a gap between the care provided at hospitals and in primary care, with dual organisers, when the need is rather for greater collaboration between health care actors.

Respondents to a poll from the International Health Policy Survey (IHP) in 2020 state that Swedish health care displays a high degree of digitalisation. However, our view is that digitalisation needs to be accelerated. While no nationalisation is needed for this to happen, collaboration between the regions and central government must increase. At present there is no national public e-identification system and no secure digital communication between go-

6. OECD *Health at a glance 2020*, page 159.

vernment agencies, municipalities, regions and external organisers, which means that patient data cannot be shared securely. Swedish authorities have different digital solutions even though central government could have regulated this. If health care is divided up into a national and a regional part, there is a risk of even greater problems in, for instance, sharing patient data before the digital infrastructure issues are solved.

Nationalisation of hospital-linked health care would be the greatest reorganisation ever in Swedish public administration, and the number of employees in central government agencies would be doubled. A tax reform would be required to implement this. All the different agreements with staff, IT systems and digital solutions, external providers of health care, materials and services would need to be synchronised and renegotiated, as would all the properties and property issues, etc. The »to do-list« of all the regulations that would need to be implemented is enormous.

To be prepared to invest so much resources in one of the largest reorganisations of Sweden's public administration in the modern age, you must be very convinced that it really would lead to slower cost growth, greater equity and better quality.

Increased central governance concerning financing

In addition to the debate about responsibility for organising services, there is also a discussion about whether central government should exercise more control over the services and financial conditions of the local government sector. In this section we take up two examples – a uniform local government tax and the equity grant in school education.

Uniform local government tax

Tax differences are a much-debated subject. In the Economy Report presented in October 2020 we showed that revenue differences for land development, infrastructure and commercial activities account, along with different political priorities, for a large part of the difference in tax rates between high-tax and low-tax municipalities. This is an area that requires more analysis.

Some commentators take the difference in tax rates as evidence to argue for a uniform local government tax, but without specifying how to bring this about.

The introduction of a uniform tax makes decisions necessary on a number of questions. What tax rate should be used, should municipalities and regions that receive lower revenue be compensated and how should differences in responsibilities for services be handled? Differences in the organisation of public transport and home health care make comparability between municipalities and between regions fairly complicated.

Irrespective of the answers to these questions, a uniform tax would have major redistributive effects. Is it reasonable to reduce the revenue of those authorities that have chosen a higher tax rate and therefore more resources for services (and vice versa)? The equalisation system is intended to provide equitable financial conditions, and other tax differences should mainly depend on political priorities, levels of ambition and efficiency. Introducing a uniform tax would make the equalisation system even more important and result in a far greater risk of bailout problems, i.e. individual municipalities and regions turning to central government when they have difficulty balancing their finances. Historically, municipalities that have expected government support have had poorer financial management. Before the reform of

the equalisation system in 1993, municipalities were able to apply for government grants to cover budget deficits that had arisen. The municipalities that expected to be able to have their budget deficits covered by central government increased their borrowing more than other municipalities.⁷

The government-appointed Municipalities Inquiry (SOU 2020:8) presented a proposal that touches on this question. The Inquiry took the view that the Government should consider a targeted government grant to enable high-tax municipalities to reduce their tax rates. If all municipalities with a tax rate above the median were given such a grant, it would cost SEK 6 billion per year, a sum that would also increase in pace with the development of their tax capacity. If the lowest tax rate was used instead, this would result, overall, in SEK 87 billion less tax revenue for the municipalities, which is almost as much as their general government grant.

How does increased financial control by central government work in practice – the example of the equity grant for schools

One concrete example of increased financial control by central government is the government grant for reinforced equity and knowledge development in compulsory school, preschool class and school-age educare (the equity grant) that has been available since 2018. Through this grant the Government distributes SEK 6 billion to school organisers on the basis of pupils' different backgrounds.

It should be pointed out that SALAR agrees that socioeconomic aspects impact on needs in schools and has therefore also long argued for the need for a socioeconomic factor in the school models used in the cost equalisation system. It was only in 2018 that central government introduced a redistribution based on socioeconomic aspects, although not as a variable, but as a targeted government grant.

The design of the equity grant makes it hard to understand. It is based on eight variables including the parents' educational background and the pupil's sex. If the number of possible alternatives is calculated, pupils are placed in 17,000 different groups with different values based on their probability of achieving eligibility for upper secondary school. The higher the probability of being ineligible, the greater the equity grant that the pupil generates for their school organiser.

Table 19 • Compensation for some typical examples of pupils
Per cent and SEK

	Probability of not reaching goal	Grant/pupil	Grant as share of average cost
Min.	1.7 %	601	1 %
Average	13.9 %	5,034	5 %
Max.	97.7 %	35,385	34 %
Boy	36.0 %	13,031	13 %
Girl	30.9 %	11,202	11 %

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

The table shows: 1. the compensation for a boy or a girl who immigrated between four and six years ago, who has two siblings and whose parents' income is below the median even though they have upper secondary education, and 2. that whose parents do not receive municipal income support.

We have calculated some typical pupils and how much equity grant they receive (table 19).

The equity grant per pupil thus varies between SEK 600 and 35,000, with an average of SEK 5,000. Accuracy has not been analysed; it is, for example, surprising that sex is given such a strong weighting.

7. Dietrichson and Ellegård 2013.

The equity grant shows how complicated central control can be. The fact that the grant is designed as a targeted government grant and is not included in cost equalisation is not just a technicality. First, municipalities need to apply for the grant and report how it is used. Second, one condition for the grant is that it goes to uses not already financed by the municipality. This means that municipalities with an unfavourable socioeconomic situation in schools must add the grant on top of current measures, while an unfavourable socioeconomic situation in other areas of services is included in cost equalisation and can be used for existing services. This condition also increases the risk that the extra measures will be temporary and project-driven. Rightly, targeted grants are not seen as being as permanent as general government grants either, since they are easier to withdraw.

Central governance that impedes effective services

At the initiative of the government-appointed Welfare Commission, SALAR has tried to list what parts of governance by central government could be changed in order to create more efficient and better welfare services for their inhabitants. The reports and in-depth analysis of Statskontoret [Swedish Agency for Public Management] also show that central government control of the local government sector has increased and become more complex and detailed. This involves both mandatory policy instruments, such as laws and government ordinances, and more or less voluntary policy instruments, such as guidance and targeted grants. A large part of this control is channelled through government agencies. The survey conducted by SALAR shows that each year there have been around an additional 30–40 new or significantly amended laws and ordinances in which central government increases the requirements or obligations for the local government sector and that we judge have a significant impact on the sector's services and functioning. A description is given below of the control that has a negative impact on municipalities and regions and how a change could be made.

The number of targeted government grants must decrease

The number and size of targeted government grants has increased for a long time, even though the number has varied slightly in recent years. In total, there were 183 targeted government grants in 2020. This increases administration, makes effective resource utilisation more difficult and risks driving up costs to a level that municipalities and regions are unable to finance when the government grants end. Targeted grants given are often short term and do not correspond to the costs of the task concerned. Many a time, there seems to be more interest in a minister being able to say that they have given a grant than in the grant generating any result in services and providing support for municipalities. One example was when 192 municipalities were given SEK 77 million in 2019 set up “night-time” child care. For instance the Municipality of Orsa received less than SEK 10,000 and the Municipality of Upplands Väsby SEK 160,000 to open “night-time” child care. This creates expectations among municipal residents, but hardly suffices even for the working time it takes to apply for the grant.

Some of today's targeted grants can be incorporated in cost equalisation without any effect on redistribution.

Secrecy legislation must be more flexible

Secrecy creates a major problem both within municipalities and regions, whose activities are divided up, to a great extent, between different committees, and in collaboration between municipalities and regions or in relation to external organisers. There are great difficulties in collaborating around individuals since the various committees cannot use the same information. There need to be possibilities of keeping integrated records, i.e. the right to create systems for an integrated personal file per individual. Secrecy legislation also makes it difficult for municipalities to follow up quality in services contracted out to private organisers.

Digitalisation and related legislation must be accelerated

Central government must take a broader approach and an overall responsibility for digitalisation with more central government resources so that the work can be accelerated. Broadband expansion is needed throughout the country, along with an infrastructure and a public e-identification that enable municipalities, regions, external organisers and central government to communicate securely. Central government must also be responsible for there being digital standards. One of the most important issues is that it must be easier to share data in school education, health care and social care. There is no integrated national solution for address registers for organisations and contact details of individuals, which means that all public actors have to build up their own registers. Central government must take a broader approach to the coordination of digitalisation. For this to work, it must not be possible for each agency to choose its own solutions and standards for e-services and communication. For the municipalities to be able to reap the benefits of digitalisation, there must be reusable and scalable solutions.

Legislation must also be adapted to a digital way of working and new technical solutions:

- Schools must be given greater possibilities of remote tuition in the lower school years.
- Municipalities must be given the possibility of building broadband on equal terms since they are not currently able to connect buildings outside their boundaries.
- The legislation for digital night-time supervision using cameras needs to be clarified.
- Elected representatives must be able to hold digital meetings.
- It must be possible to make automated decisions, but not in municipal administration.

Collaboration and cooperation must improve

The development of new and more effective ways of solving the tasks of welfare services requires good collaboration between many actors. Current legislation has far too much of an organisational focus and leads to important information about patients and users being locked in different organisations and to the boundaries that so many are striving to pull down being maintained.

The possibility to collaborate in simple ways is also a must for provider services and services subject to competition, and has to be expanded in order to make such cooperation possible between municipalities and regions. For instance, it should be easier for municipalities or regions to buy services from each other.

The Government often gives similar commissions to several agencies, and communicating with all of them takes time from municipal and regional services. When a commission is being given to one agency, an analysis should always be made of whether another agency has been given the same or a closely related commission.

Another major challenge for municipalities and regions is that government agencies often adopt conflicting regulations; this has become particularly clear in conjunction with the pandemic, where the Public Health Agency of Sweden and the Swedish Work Environment Authority have produced conflicting regulations on several occasions.

Exercise of public authority must support welfare services

Sectoral agencies must get better at providing guidance and service to municipalities and regions so as to make the exercise of public authority in the country more uniform. Supervision is often conducted in a way that creates uncertainty and insecurity among staff and necessitates excessive documentation. With a different approach from supervisory authorities, the outcome would probably be better for all parties.

Agencies must take account of what is feasible in practice at local and regional level and be more flexible and supportive in their way of working. Many a time, a site visit with advice and support – instead of just collecting documents – would result in much better supervision highly likely to lead to better regulatory compliance and more effective services. Agencies must also work for digital solutions regarding permits, supervision and control. They must also accept digital meetings.

There are also extremely long processing times in procurements under the Public Procurement Act and the Act on public procurement of water, energy, transport and postal services that mean that municipalities and regions risk not having suppliers under certain periods or may, alternatively, be forced to pay excessive sums since they end up in an extortion situation when they do not have a new procured supplier.

Nor do government agencies take any responsibility for conducting activities in all Sweden's municipalities; instead they often leave municipalities to their own devices in running services by themselves, when they must also be responsible for maintaining provision that is actually a central government responsibility.

The long-term perspective must be in focus

Before the pandemic, the discussion about local government finances was mainly about the long-term challenges for the sector of demography and skills planning and provision. The demographic challenge is so huge that, probably, only the crisis of the 1990s can be compared with it. To a great extent, the crisis of the 1990s was solved by economies in municipalities and county councils. To give the local government sector the best possible conditions for increasing the effectiveness of, and changing, its services, a higher share of general government grants was introduced after the crisis of the 1990s, and targeted grants decreased sharply.⁸

Against this background, it is worrying that central government appears to be focusing increasingly on detailed governance and control of the local government sector, sets conditions for the resources it provides, creates administrative burdens and repayment requirements and discusses the question of nationalisation of services. In order for welfare services to develop in a po-

8. Local Government Finance Committee, SOU 1991:98.

sitive direction additional resources need to be provided so as to be able to, with the aid of new technology, collaboration between sectors, peace to be able to work and a long-term approach, develop and increase the effectiveness of welfare services in a positive direction. All new reforms, proposals for organisational change and new burdens risk hampering the effective development of welfare services.

ANNEX

This annex presents some key indicators and the overall income statements of municipalities and of regions, 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 regions separately, tables presenting overviews of central government grants and other data that we used to 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.skr.se, choose Ekonomi, juridik/Ekonomi/ Sektorn i siffror.

An aggregate picture of municipalities and regions

Table 20 • Key indicators for municipalities and regions

Per cent and thousands of people

	Outcome	Forecast		Estimate		
	2019	2020	2021	2022	2023	2024
Average tax rate, %	32.19	32.28	32.27	32.27	32.27	32.27
municipalities, incl. Gotland	20.70	20.72	20.71	20.71	20.71	20.71
regions*, excl. Gotland	11.55	11.62	11.62	11.62	11.62	11.62
	Outcome	Forecast		Estimate		
	2019	2020	2021	2022	2023	2024
No of employees**, thousands	1,197	1,189	1,193	1,202	1,214	1,225
Municipalities	893	882	883	894	906	914
Regions	305	307	310	308	308	310
Volume change, %	0.6	1.3	2.2	0.3	0.6	1.0
Municipalities	-0.2	-0.4	1.9	1.2	1.0	1.0
Regions	2.5	5.1	3.0	-1.8	-0.4	1.0

*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 21 • Aggregate income statement for the sector

SEK billion

	Outcome	Forecast		Estimate		
	2019	2020	2021	2022	2023	2024
Income of activities	228.5	251	252	241	242	251
Expenses of activities	-1,092.7	-1,121	-1,186	-1,198	-1,223	1,268
Depreciation/amortisation	-38.4	-41	-43	-46	-48	51
Net expenses of activities	-902.5	-912	-976	-1,003	-1,030	-1,068
Tax revenue	752.7	760	796	825	852	879
Gen. govt grants and equalisation	162.7	203	201	203	197	210
Net income of activities	12.9	52	21	25	19	20
Net financial income	13.5		3	3	2	2
Net income after financial items	26.3	55	24	27	21	22
Share of taxes and grants, %	2.9	5.7	2.4	2.7	2.0	2.0

1

Note: Purchases between municipalities and regions have been consolidated.

Table 22 • Income statement for the municipalities

SEK billion

	Outcome	Forecast		Estimate		
	2019	2020	2021	2022	2023	2024
Income of activities	160	165	162	166	170	175
Expenses of activities	-712	-722	-751	-771	-792	-821
Depreciation/amortisation	-26	-29	-30	-32	-34	-36
Net expenses of activities	-578	-585	-619	-637	-657	-682
Tax revenue	484	487	511	529	547	564
Gen. govt grants and equalisation	102	128	127	124	119	127
Net income of activities	30	18	16	8	8	10
Net financial income	10		5	4	4	5
Net income after financial items	17	35	22	20	14	14
Share of taxes and grants, %	3.0	5.7	3.5	3.0	2.1	2.0

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Table 23 • Income statement for the regions

SEK billion

	Outcome	Forecast		Estimate		
	2019	2020	2021	2022	2023	2024
Income of activities	70.9	89	93	78	75	78
Expenses of activities	-383.3	-403	-438	-430	-434	-450
Depreciation/amortisation	-12.2	-13	-13	-14	-14	-15
Net expenses of activities	-324.5	-326	-357	-365	-373	-387
Tax revenue	268.9	272	285	296	305	315
Gen. govt grants and equalisation	60.9	75	74	79	78	83
Net income of activities	5.2	21	2	10	10	11
Net financial income	3.6	-2	-1	-2	-2	-3
Net income after financial items	8.9	19	2	7	8	8
Share of taxes and grants, %	2.7	5.5	0.5	2.0	2.0	2.0

Source: The Swedish Association of Local Authorities and Regions.

The Economy Report, May 2021

On Swedish municipal and regional finances

Since taking off early in 2020, the pandemic has resulted not only in suffering but also in hard-pressed health care professionals, higher unemployment and a poorer financial situation for many. The local government sector has been in the midst of these developments and has had an important role in managing both the pandemic and its effects. Parts of welfare services have had to be postponed, which may mean that health care, schooling and social care needs have accumulated, and can be feared to have increased in certain respects.

The pandemic has also had unexpected effects. Government stimulatory measures in combination with the fact that some services could not be provided contributed to a record-strong level of net income in the local government sector in 2020. In the coming years we expect the level of net income to decrease since many services will have to catch up at the same time as the level of government grants decreases. However, both the economy and central government finances are expected to recover strongly, according to our scenario, even though there is great uncertainty here.

Before the pandemic struck, the economic and demographic conditions for the local government sector were bleak, and it is difficult to see that these conditions have improved, other than temporarily. However, there is a strong will for change through, for example, digitalisation and transitioning to Local Health Care. But for this to succeed, coordination and long-term thinking is required from all public actors. There is also a debate about centralisation and stronger central governance of local government services, which has an intensity that can be expected to rise as we approach the next election to the Riksdag, the Swedish Parliament.

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 regions. The calculations in this issue extend to 2024.

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