

SWEDEN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: SWEDISH KRONA (SEK)

POPULATION AND GEOGRAPHY

Area: 447 420 km²**Population:** 10.058 million inhabitants (2017), an increase of 0.8% per year (2010-2015)**Density:** 22 inhabitants / km²**Urban population:** 87.1% of national population**Urban population growth:** 1.8% (2017)**Capital city:** Stockholm (15.7% of national population)

ECONOMIC DATA

GDP: 505.5 billion (current PPP international dollars), i.e. 50 208 dollars per inhabitant (2017)**Real GDP growth:** 2.3% (2017 vs 2016)**Unemployment rate:** 6.7% (2017)**Foreign direct investment, net inflows (FDI):** 31 531 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 24.9% of GDP (2017)**HDI:** 0.933 (very high), rank 7 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

As a constitutional monarchy with a parliamentary democracy, Sweden has a unicameral Parliament (*Riksdag*), the members of which are elected for a four-year term. The Government is led by a Prime Minister and the Head of State is the Monarch. According to the legal framework, it is a unitary and decentralised State and the Constitution recognises local self-government and guarantees SNG autonomy, stipulating that subnational authorities manage their own affairs.

The foundation for the current subnational government in Sweden was laid out in 1862 through a set of local government ordinances on municipalities and counties. In 1960s and 1970s the municipalities and counties were assigned important tasks and they were granted strong financial autonomy. This has continued in recent decades. As a result, Sweden is now among the most decentralised countries in the world. In the 1950s and 1970s, some radical merger reforms were carried out, which reduced the number of municipalities to the current level.

The legal framework revolves around the Local and Regional Authorities Act (LRA) which was then modified by the Local Government Act in 1991. The Local Government Act defines the framework for running the municipalities and it also sets rules for inter-municipal cooperation. Municipalities are led by municipal councils, which are elected every four years (last in September 2018) in general elections held at the same time as Parliament elections. The municipal council can decide the size of the council within the guidelines set in the Local Government Act. Municipal councils elect members of the executive committee and other committees. The executive committee directs and coordinates the municipal administration and finances and supervises the work of the other committees. Until the regional reform, effective since 2019, Sweden's regional governance structure had been asymmetric.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	290 municipalities (<i>Kommuner</i>)		21 counties (<i>Landsting</i>)	
	Average municipal size: 34 217 inhabitants			
	290		21	311

OVERALL DESCRIPTION. Sweden has a two-tier system of subnational government, composed of 21 counties and 290 municipalities. The Swedish multi-level governance system has been described as an "hourglass", meaning that the middle tier of government, i.e. the regional/county level, is less influential and of less importance compared to the highest tier (the central government) and the lowest tier (the municipalities). However, this situation is currently evolving, as the result of a trend to rebalance the system and reinforce the role of regions in recent decades. This has been achieved, notably, by transferring more decision-making power to regions from the central government, especially in regional development issues.

COUNTIES. There has been a gradual and experimental regionalisation process in Sweden since 1996, when two counties (Skåne and Västra-Götaland) were allowed to take more tasks from central government, especially concerning regional development. Since 2011 and until 2018 this arrangement has been extended to 11 more counties. In the rest of the country, the responsibility for regional development has been organised by six indirectly-elected County Cooperation Bodies, one municipality (Gotland Island) and one County Administrative Board. Sweden has thus an asymmetric regional governance structure. In 2017, a government inquiry on Sweden's regional structure led to a new proposal to extend the responsibility of regional development to counties in all parts of the country. The bill was accepted in 2018 and the reform took effect at the beginning of 2019. In 2017, there was a failed attempt to reduce the number of counties from 21 to six, which ultimately failed. In fact, counties differ a great deal in their characteristics: land area varies from 2 947 km² to 98 249 km², and population from 57 391 to 2.2 million inhabitants.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipal mergers started on a voluntary basis but was made compulsory in order to accelerate the process. In 1974, the number was cut from 464 to 278. This number nudged higher to its current 290 when several municipalities broke off to form separate entities. Today, the municipal average size is around 34 000 inhabitants (to be compared to 9 700 inhabitants in the OECD on average) and the median size, 15 500 inhabitants. 53% of municipalities had between 5 000 to 20 000 inhabitants in 2016 and 42% more than 20 000 inhabitants. However, Swedish municipalities vary significantly in land area and population size as well as tax base and age structure. For example, in terms of land area, the smallest municipality is only 9 km², whereas the largest municipality has an area of 19 155 km². Municipal populations vary between 2 450 inhabitants and 923 520 inhabitants.

Municipal mergers have not been on Sweden's policy agenda since the major boundary reforms of the 1960s and 1970s; instead, inter-municipal cooperation has always been important in Sweden. Voluntary inter-municipal cooperation provides an alternative with which to organise public services, in particular for the smallest and poorest municipalities. Municipalities can, for example, cooperate through contracts, they can establish a "common committee" to run joint services in health care or education, or establish a "municipal federation" (*kommunalförbund*), which is the most common form of cooperation. In fact, there are around 90 entities active in rescue services, schools, water supply and sewage. These inter-municipal cooperative organisations are legal entities, whose tasks and obligations are formally agreed upon by their members. The cooperative organisations are usually run by boards, whose members are nominated by the member municipalities. Over the years, inter-municipal collaboration among Swedish municipalities has increased steadily.

STATE TERRITORIAL ADMINISTRATION. The central government has its own administration at the county level, the County Administrative Boards (CABs), which are led by County Governors appointed by the central government. The CABs are responsible for coordinating central government activities in the counties, including the 240 central government agencies that operate more or less independently (within the limits of their mandate). In addition to a coordinating function, the CABs have service responsibilities, which include tasks such as managing EU funding and the monitoring (e.g. compliance with laws and regulations in specific sectors) of county councils and municipalities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The responsibilities of subnational governments are laid down in the 1991 Local Government Act, which was amended in 2004.

Subnational government tasks can be divided into compulsory services that they must provide by law, and voluntary services that they themselves decide to provide. The provision of compulsory services is often quite tightly regulated by law, whereas SNGs are relatively free to decide upon the voluntary services provided. In most cases, SNGs are also free to decide how services are provided – either through own production or by outsourcing (inter-municipal cooperation or purchasing the service from a private company).

Municipalities are responsible for social protection, education and vocational training, planning and building issues, health care (prevention), environmental protection, utilities (waste, water and sewerage), local roads and public transport, leisure and culture, housing, rescue services, etc. County councils' responsibilities include health care (primary care, hospitals, ambulatory care, dental care, medical services) and regional public transport. As mentioned previously, since 2019 county councils are responsible for regional development.

Swedish local governments are also part or majority owners of about 1 800 limited companies. These local public enterprises are usually established in order to provide housing services, transport, property management, energy, and communication services. From a legal standpoint, these companies are treated as any other private company, with the difference being that the shares are owned by local governments.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	General administration	General administration
2. Public order and safety		Emergency and rescue services
3. Economic affairs /transports	Public transport (via a regional public transport authority) Regional development; Tourism (optional)	Public transport (shared with regional public transport authority); Economic development. Road maintenance. Employment (optional); Industrial and commercial services (optional)
4. Environmental protection		Environmental protection; Refuse and waste management; Sewerage
5. Housing and community amenities		Planning and building issues; Housing (optional); Energy (optional); Water supply
6. Health	Healthcare and medical services; Primary care; Hospitals; Ambulatory care; Dental care	Preventive health care
7. Recreation, culture & religion	Cultural institutions	Leisure; Culture (optional)
8. Education		Pre-school; Primary and secondary education; Vocational training
9. Social protection		Care for the family; Child; Elderly; Disabled

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, municipal associations, county councils, and local government owned and controlled market corporations.

SNA 2008

Availability of fiscal data:
High

Quality/reliability of fiscal data :
High

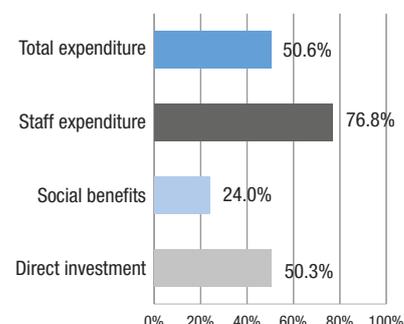
GENERAL INTRODUCTION. In Sweden, as in most other countries, the central government has the ultimate responsibility for ensuring that municipalities and counties have adequate resources for local service provision. Sweden's method to accomplish this is the "financing principle": if the central government decides to delegate a new task to subnational government, the central government must increase grants or provide other revenues to the subnational governments in question in order to finance the new service. If, however, an existing subnational task is centralised or abandoned, the subnational grants may be reduced. The financing principle is applied only to those central government decisions that affect subnational service costs directly. Indirect effects, such as an increase in input prices (e.g. wages, rents), that may be decided or affected by the central government, are not automatically compensated. The financing principle is an important factor for the functioning of Swedish subnational government, and has been in use since 1993. While the principle is not legally binding, it is agreed upon by all political parties and routinely used by the government. The principle is applied only to new tasks, since grants only currently account for about 30% of subnational revenues.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	12 238	25.0%	100%	
Incl. current expenditure	11 091	22.7%	90.6%	
Staff expenditure	4 703	9.6%	38.4%	
Intermediate consumption	2 729	5.6%	22.3%	
Social expenditure	1 996	4.1%	16.3%	
Subsidies and current transfers	538	1.1%	4.4%	
Financial charges	53	0.1%	0.4%	
Others	1 072	2.2%	8.8%	
Incl. capital expenditure	1 147	2.3%	9.4%	
Capital transfers	104	0.2%	0.8%	
Direct investment (or GFCF)	1 044	2.1%	8.5%	

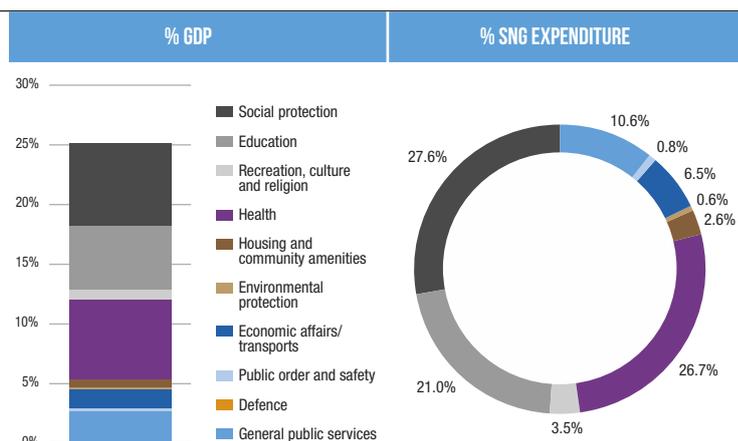


EXPENDITURE. Subnational governments are responsible for a large range of public services and benefits in key areas, making Sweden one of the most decentralised unitary countries in the OECD. In Sweden, SNGs account for about 50% of the general government expenditure and 25% of GDP (the OECD averages are 40.4% of public expenditure and 16.2% of GDP), which demonstrates their fiscal importance. SNGs employ more than three-quarters of public staff, since they are responsible for wages of teachers, social and health employees (versus the OECD average: 62.9% of public expenditure and 36% of subnational expenditure). Following the Nordic tradition of a strong welfare system, the social expenditure is also greater than the OECD unitary countries' average. Since the municipalities are responsible for a wider selection of tasks, they manage roughly twice the budget of counties.

INVESTMENT. Public investment levels are high in Sweden. It spent roughly 4.2% of GDP on public investment projects in 2016, and investment levels between 2000 and 2016 were consistently above the OECD average. Much of this growth has been generated by an expansion of SNG activity. And yet, the share of Swedish subnational investment in public investment is lower than OECD average – 50% compared to 57% in the OECD in 2016 – due in part to the fact that, traditionally, most of the investment is carried out by the central level, and SNG investment occurs in a few large cities and counties. As a share of total expenditure, investment accounted for 8.5% while the OECD average was 10.7%. As a share of GDP, SNG investment amounted however to 2.1%, which is higher than in the OECD on average (1.7%). Municipalities (and municipal owned companies) represent around 80% of total SNG investment. SNG investment levels are expected to grow due to the pressures arising from an increasing demand for welfare or social services generated by population growth, demographic ageing, migration and the need to renovate and/or replace aged residential and public properties that were mostly built 40-50 years ago. In addition, with the new Public Procurement Strategy, public investment might get a boost. Additionally, the Infrastructure Bill for 2018-2029 plans to increase infrastructure investment by 20%.

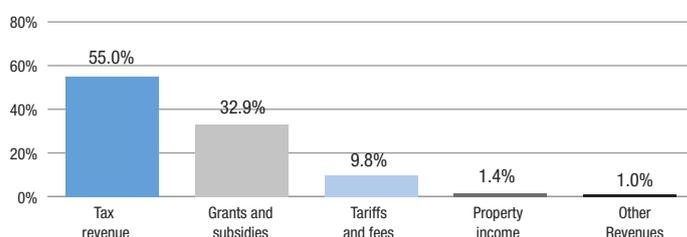
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Social protection and health care form the largest subnational government spending categories. Together these accounted for almost 55% of subnational expenditure, followed by education and general public services. For the county councils, the main category of spending is health care (around 90%). For the municipalities, social protection and education are the main services. Compared with counties, municipalities are responsible for much wider range of services and municipalities handle a budget of about twice the budget of counties. Municipalities are for example responsible for housing and community amenities and recreation and culture as well as economic affairs and transports (jointly with the transport companies organised by counties).



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	11 988	24.5%	48.4%	
Tax revenue	6 588	13.5%	32.7%	
Grants and subsidies	3 938	8.1%		
Tariffs and fees	1 171	2.4%		
Property income	165	0.3%		
Other revenues	125	0.3%		



OVERALL DESCRIPTION. Sweden's SNGs have among the largest shares of public revenue across the OECD countries, measured both as share of GDP and as percentage of public revenue (24.5% and 48.4%). Only Denmark has higher subnational government revenue shares (35.2% of GDP and 66.1% of public revenue). Own source revenues such as taxes, tariffs and fees and property income account for 67% of the Swedish subnational government revenue. More than half of SNG revenues come from tax revenues, compared with the OECD average of 44.6% in 2016. Grants and subsidies account for one-third of SNG revenue. Local taxes represent 13.5% of the GDP and 32.7% of general government revenues. Municipalities and counties have very similar revenue structure.

TAX REVENUE. In Sweden, subnational government tax revenue is almost entirely formed by the local income tax (PIT). Income tax is levied on salaries, wages, pensions, and payments from health insurance and unemployment benefits, and it represented 97.3% of SNG tax revenue in 2016, 53.5% of SNG revenue and 13.1% of GDP. Municipalities and counties are free to set the income tax rates but central government controls the tax base.

The real estate fee (it is not called a property tax but a real estate fee) is a central government tax as the central government sets the fee and defines the base. Subnational governments get a share of the real estate fee revenue, these revenues represented 2.7% of SNG tax revenue, 1.5% of SNG revenue and 0.4% of GDP in 2016, among the lowest in the OECD where recurrent taxes on property amounted to 1.1% of GDP in 2016.

GRANTS AND SUBSIDIES. The Swedish welfare state is built on the promise that citizens have equal access to public services regardless of their place of residence. This is a considerable challenge for the SNGs because the conditions for service provision and the revenue bases vary considerably between municipalities and between counties. In order to ensure reasonable service levels in all parts of the country, a strong fiscal equalisation system has been implemented. An important grant reform was implemented in the early 1990s, which replaced the matching grant system with general grants. In addition to the general grant system, the central government also uses earmarked grants for specific purposes. Another reform took place in 2014.

The general grant system for municipalities and counties in Sweden consists of three main parts: income equalisation grants (85% of the general grant), cost equalisation grants (9%), and structural grants (3%). In addition, there is a "transition grant" to ensure that the impact of the 2014 grant reform takes effect only over several years. There is also a grant to even out the residual between estimated municipal and county costs and the general and specific grants they receive.

The fiscal equalisation system, both horizontal and vertical, takes both differences between tax bases and service costs into account. Transfers from the central government include compensation for mandatory tasks based on an ex-ante assessment, and allocated on a per capita basis as a lump sum through general or earmarked grants.

In international comparison, Sweden's subnational governments stand out as relatively self-reliant (as was mentioned above, own revenues form almost 70% of revenues). This relatively low share of grant revenue as part of total subnational revenue implies that the vertical fiscal imbalance (i.e. asymmetry between subnational revenues and spending responsibilities) in Sweden is low. Also, the horizontal fiscal gap in the Swedish case seems relatively modest: in 2015 only three municipalities had a general grant share that was larger than 30% of all municipal revenues. Nevertheless, the Swedish equalisation system certainly levels the playing field: after equalisation most differences in calculated service costs and tax bases are evened out.

OTHER REVENUES. Other Swedish subnational government revenues consist mainly of charges and fees (9.8% of SNG revenues, 6% of municipal revenues and 3% of counties' revenues) for local services provided such as child, elderly and health care. Municipalities and counties are allowed to set fees but ceilings on maximum charges have been introduced on some services. The role of user fees as subnational government revenues remains below the OECD average of 14.9%. Revenues from assets represented 1.4% of SNG revenues in 2016 (versus 2% OECD average). Since 2013, local governments are also able to build rainy day funds in order to reduce the cyclicity of their revenues.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	8 019	16.4%	27.3%	100%
Financial debt*	5 229	10.7%	23.6%	65%

* Currency and deposits, loans and bonds

FISCAL RULES. To strengthen the budget process at local level, a balanced budget requirement for the local government sector has been in place since 2000. This requirement means that every municipality and county council must plan their budget to achieve balance. The balance requirement specifies the lowest acceptable level of net surplus or deficit. Since 1992, local governments have been required to exercise good financial management in their activities. They are to adopt guidelines for good financial management. This rule is part of a wider fiscal policy framework, which was reinforced in June 2016 following a cross-party agreement to ensure the long-term sustainability and transparency of fiscal policy.

DEBT. SNGs have the legal right to make autonomous decisions on their borrowing, without scrutiny or approval by the central government. Borrowing is nevertheless indirectly limited because all costs associated with the debt must be included in the balanced budget. There is no direct volume limit restricting SNG borrowing. In Sweden, SNG outstanding debt as a percentage of GDP is lower than the OECD average (16.4% vs 24.5%) but the share in total public debt is higher (27.3% vs 20.7%). It is made up of financial debt (65%), other accounts payable (20%) and insurance pensions. Financial debt comprises both loans (66% of outstanding financial debt) and bonds (34%).

Kommuninvest i Sverige AB, a not-for-profit credit association owned by county councils and municipalities, is the main lender (market share of about 50% in 2016). It was founded in 1992 because many municipalities had difficulty obtaining financing for their investments and had to pay high interest rates for their loans. Today, approximately 90% of Sweden's municipalities and County Councils/regions are members of Kommuninvest.



Lead responsible: OECD
Last update: 02/2019

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Statistics Sweden.

Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Statistics Sweden.

Other sources of information: SALAR (2018) Municipalities, county councils and regions // SALAR (2018) The Economy Report: On Swedish municipal and county council finances // European Commission (2018) Country Report Sweden 2018 // OECD (2017) OECD Territorial Reviews: Sweden 2017: Monitoring Progress in Multi-level Governance and Rural Policy // Regeringens skrivelse (2017) Government communication on the fiscal policy framework // European Committee of the Regions (2016) Division of Powers - Fiscal Powers // Council of Europe (2014) Local and regional democracy in Sweden.