

Stockholm Sweden

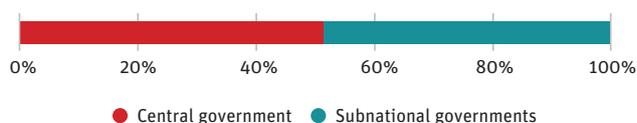
CITY:
0.9 mil. inhabitants

METROPOLITAN AREA
2.2 mil.
(+7.9% pop. change/5 years)

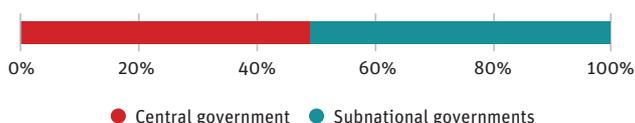
GDP: 177% of the average EU28 GDP
(+1.6% average annual change in GDP/5 years)

How local public finance systems work in Sweden

PUBLIC REVENUE



CAPITAL EXPENDITURE



Sweden has a **two-tier system of subnational governments** (SNG), consisting of 21 counties and 290 municipalities. The Swedish system of SNG is nicknamed the “hourglass” because the middle level, i.e. the regional level, is less influential and less important compared to the higher level (central government) and lower lower (municipalities). This situation, however, is evolving as there has been a trend in recent decades to balance the system and increase the role of regions.

The Swedish method is based on the **“financing principle”**: **if the central government decides to delegate a new task to SNG, it must also allocate the funds necessary to carry it out or offer funds from another source to finance the new competence.** On the other hand, if a certain competence of SNG is centralized or stopped, grants may be reduced. Even though this principle is not legally binding, it is endorsed by all political parties and regularly used by the government. **Grants represent roughly one-third of SNG revenue.**

The volume of public investment in Sweden is high. Roughly 4.2% of the GDP (2016) goes to public investment and the volume of public investment from 2000 to 2016 was consistently above the OECD average. A large part of this growth was caused by expanded activities of local governments. Even despite this, the 50% share of SNGs in investment is lower than the OECD average (57% in 2016). The share of investment in total expenditures is 8.5% (OECD 11%). As a share of GDP, however, SNG investment was 2.1% (OECD 1.7%).

Municipalities (and companies owned by them) account for roughly 80% of total SNG investment. The level of this investment is expected to rise due to demographic pressure. In addition to this, public investment should increase thanks to the new the new Public Procurement Strategy; proposed Infrastructure Bill for 2018–2019 plans to increase infrastructure investment by 20%.

Swedish SNG has one of the highest shares of public revenue throughout the OECD countries, corresponding to 25% of the GDP and 48% of all public revenue. (Only Denmark has a higher share of revenue on the SNG level). **Own-source revenues includes taxes, fees and property income, which account for 67% of SNG revenue. More than half of SNG revenue comes from taxes (OECD 45%). Grants make up one-third of the revenue.** Local taxes represent 13.5% of the GDP and 33% of the public revenue. Municipalities and counties have a very similar revenue structure.

SNG tax revenue consists almost completely of local income tax. Income tax is collected on salaries, wages, retirement, health insurance payments and unemployment benefits, and makes up 97% of SNG tax revenue, 54% of revenue and 13% of the GDP (2016). Municipalities and regions can freely set income tax rates, but the central government controls the tax base.

Fees for real estate (it is not called a property tax, but a “real estate fee”) is a central government tax, because the central government determines the fee and defines the base. SNGs thus obtain a share of the fee revenue which amounts to 2.7% of the SNG tax revenue, 1.5% of total SNG

revenue and 0.4% of the GDP (2016). **This ranks Sweden among the countries with the lowest share of property tax for SNGs in the OECD countries, where the average property tax is 1.1% of the GDP.**

The general grant system for municipalities and counties in Sweden consists of three main parts: income equalisation grants (85%), cost equalisation grants (9%) and structural grants (3%). There are also grants to balance the difference between estimated municipal and regional costs and the grants they receive. The fiscal equalisation system, horizontal and vertical, takes into account the differences between the tax base and costs of services.

Compared internationally, Swedish SNGs are relatively self-sufficient (as we mentioned above, own revenues form almostnearly 70% of revenues). This relatively low share of revenue from transfers and grants in the total revenue indicates that vertical fiscal imbalance (i.e. asymmetry between subnational revenues and spending responsibilities) is low in Sweden. Also, the horizontal fiscal gap in the Swedish case appears to be relatively slight: in 2015 only three municipalities received grants accounting for more than 30% of their revenue.

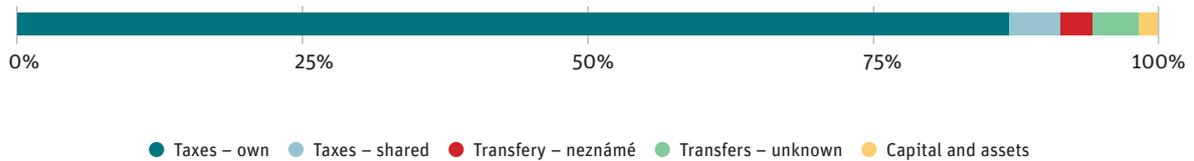
Other revenue includes **fees (10% of SNG revenue)** for providing local services. Municipalities and counties can set fees, but there are ceilings for certain services. The role of fees remains below the OECD average of 15%. Property income accounts for 1.4% of SNG revenue (OECD 2%).

Source: <http://www.oecd.org/cfe/regional-policy/Observatory-on-Subnational-Government-Finance-and-Investment.htm>

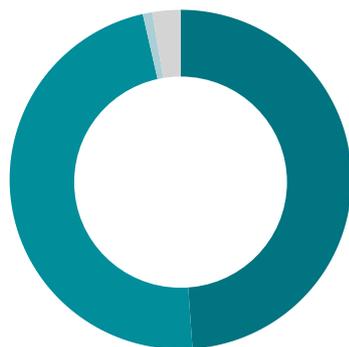
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REVENUE SOURCES

Economic classification of revenue

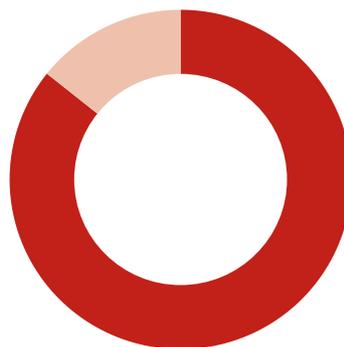


Tax base



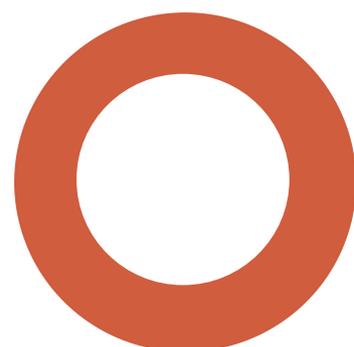
● Production ● Income and wealth
● Assets ● Other

Transfers conditionality



● Earmarked
● Non-earmarked

Transfers origin



● Central

Balance sheet and debtt

+5%

BUDGET BALANCE

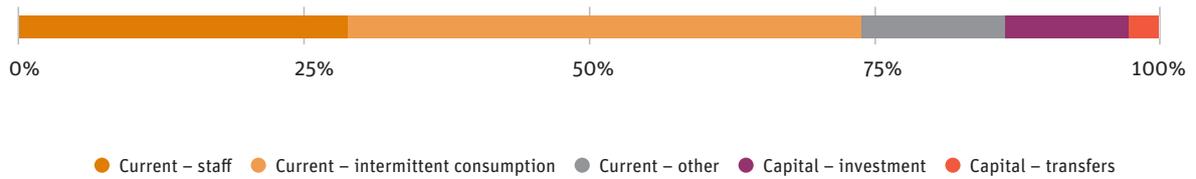
198%

DEBT AS A PERCENTAGE
OF ANNUAL REVENUE

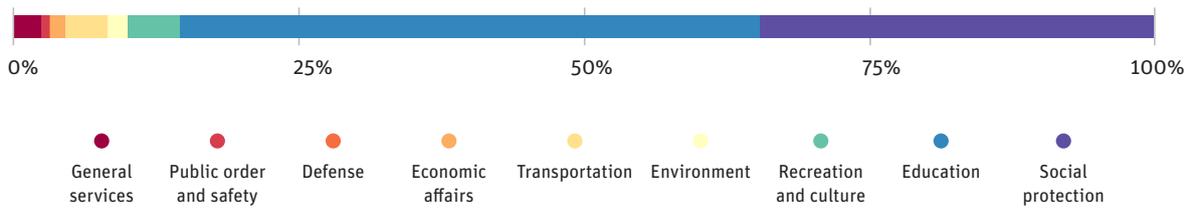
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EXPENDITURE COMPOSITION

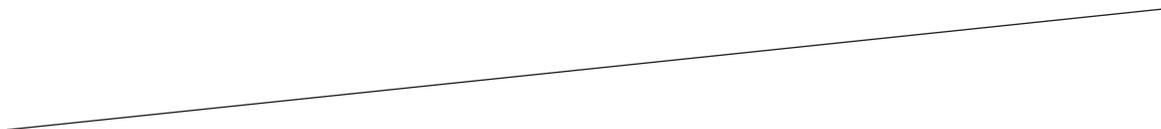
Economic classification of expenditure



Functional classification of expenditure



Functional classification of capital expenditures (data unavailable)



Source: Own questionnaire survey (2019)