

# Municipal Finance in Sweden

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For most Swedish citizens, their closest engagement with the government happens through the municipalities they live in. In Sweden, there are 290 municipalities that are responsible for providing its inhabitants with numerous services, including education and childcare, non-medical health care, social care, waste and water treatment, and environmental management.

This factsheet offers some introductory insights into how municipal governments are financed and what their budgets entail. It draws upon research carried out by the Viable Cities' Finance project. This project assesses how cities can fund their investments in sustainability. We provide examples of nine Swedish municipalities: Gothenburg, Linköping, Lund, Malmö, Nacka, Örebro, Östersund, Västerås and Vellinge. These cities were selected as they have issued a green bond, a labelled bond where the proceeds are designated for green investments, and our research project partly focuses on the role of external financing in achieving Agenda 2030. Together, these municipalities represent 17% of the Swedish population (see Table 3 for the population per city).

The analysis covers the financial situation of the cities' expenditure and the expenditure of the cities' companies. For example, schools and housing associations, set up as separate legal entities.

## Funding of Swedish municipalities

In Sweden, a municipality's revenue mostly comes from taxes, fees for certain services and government grants. Municipal tax is the main source of revenue. For all residents in Sweden to have access to equal services, regardless of where they live, there is a tax equalization system, in which differences in tax revenues and expenditure needs are balanced so that all municipalities have approximately the same tax base, i.e., revenue per inhabitant. It works in two ways: 1) on the revenue side, it evens out the differences in tax base per capita and 2) on the expenditures side, it distributes funds and grants to local governments with adverse cost structures and unfavourable demographic compositions. Other income sources include financial results such as interest rates on funds in the bank and on loans.

For the nine selected municipalities (Table 1), Gothenburg is budgeted to have the largest revenue in 2019, with 45 billion SEK, followed by Malmö with 29 billion SEK. All other cities are predicted to generate less than 15 billion SEK. On average, 50% of revenue is generated through taxes. Each municipal government can set its tax rates and the national government cannot restrict these rates. Fees amount to, on average, 40% and grants and the system of equalization for 10%.

Table 1. Overview of revenue (2019), in M SEK

Municipality	Total revenue	Of which: taxes	Of which: grants and equalization	Of which: fees	Of which: other income
Gothenburg	58,479	28,833 (49%)	3,634 (6%)	26,720 (46%)	- 708 (-1%)
Linköping	16,645	7,340 (44%)	1,228 (7%)	8,187 (49%)	- 110 (-1%)
Lund	12,144	5,917 (49%)	654 (5%)	5 661 (47%)	88 (1%)
Malmö	29,070	14 006 (48%)	5 921 (20%)	9 293 (32%)	- 150 (-1%)
Nacka	7,268	5,599 (77%)	- 27 (0%)	1,693 (23%)	3 (0%)
Örebro	13,949	6,935 (50%)	1,940 (14%)	4,358 (31%)	716 (5%)
Östersund	5,122	2,994 (58%)	1,033 (20%)	972 (19%)	123 (2%)
Västerås	14,912	7,087 (48%)	1,374 (9%)	6,357 (43%)	94 (1%)
Vellinge	2,463	1,818 (74%)	6 (0%)	587 (24%)	51 (2%)

## Expenditure of Swedish municipalities

Swedish municipalities also develop budgets which reflect the roles and responsibilities allocated to them in the Swedish Local Government Act. If the Swedish central government add on responsibilities to the municipal governments, central government must provide funding.

There are 3 expenditure types:

- **Operational expenditure** (referred to as Opex). These expenditures are costs related to projects and programmes the municipality implements. For example, salaries for teachers, social workers, school meals, maintenance costs, electricity, water and gas. Operational expenditure cannot be paid for with debt.
- **Investments** (also referred to as Capital Expenditure or Capex). This type of expense is linked to an asset, such as buildings (housing and government offices), machinery and equipment (e.g., cars and office equipment). This expenditure is paid for by debt such as long-term and short-term loans or bonds.
- **Other expenditure** such as financial expenditure (interest rates). This category of expenditure is generally quite small.

For the nine municipalities (Table 2), over 60% of the operational expenditure goes on education and childcare (38%) and elderly care and social care (23%). The operational expenditure of Gothenburg is the largest at around 52 billion SEK, and in Vellinge it is the lowest (3 billion SEK).

In terms of investments, these nine municipalities are expected to invest a total of 18 billion SEK in 2021, with Gothenburg investing 40% of that amount, mostly in transportation (2 billion SEK), local buildings (2 billion SEK), and waste and water facilities (almost 1 billion SEK). Örebro will invest 70% of its investment budget in its housing associations. From 2021 to 2023, the total budget will be close to 59 billion SEK (with Gothenburg responsible for 25 billion SEK). Per citizen, the average investment for 2021 ranges from

4,560 SEK per citizen in Nacka to 22,477 SEK per citizen in Örebro. The average investment across these nine cities is 10,546 SEK per citizen for 2021.

## Balancing the accounts

Like companies, Swedish municipalities prepare annual accounts, consisting of:

- A profit and loss account, detailing their income and expenditure (as shown in Table 1 and Table 2).
- A balance sheet, showing the value of the assets they hold. The investments, shown in Table 3, have an impact on the assets the municipalities hold in several ways. For example, they can lead to an increase in the fixed or current assets of a municipality and will impact the capital position of the municipality (either impacting its own capital or foreign capital [debt]).

Local Authorities cannot go bankrupt. They submit on an annual basis their three-year budgets, and if their expenditure exceeds their revenue, they have three years to balance their budgets (Swedish Municipal Act).

These accounts, as with companies, are audited annually. But, unlike private companies, Swedish municipalities cannot be declared bankrupt or cease to exist. They must maintain sound financial budgets. But, according to the Swedish Local Government Act, the national government will support them when there are shocks and crises or when their companies (such as schools and wastewater companies) experience difficulties.

Financial statements are usually assessed through ratio analysis:

- **Liquidity ratios** measure the ability of an organisation to pay back short-term loans.

Table 2. Overview of operating expenses<sup>1</sup> (2019), in M SEK

Municipality	Operational expenditure	Education and childcare	Social care and elderly care	Housing and infrastructure	Culture, parks and recreation
Gothenburg <sup>2</sup>	51,587	16,340 (32%)	2,247 (4%)	5,643 (11%)	2,079 (4%)
Linköping	17,297	8,724 (50%)	4,153 (24%)	879 (5%)	667 (4%)
Lund	6,750	2,673 (40%)	2,588 (38%)	274 (4%)	365 (5%)
Malmö	37,838	16,944 (45%)	11,204 (30%)	1,823 (5%)	1,520 (4%)
Nacka	5,533	2,841 (51%)	1,038 (19%)	808 (15%)	617 (11%)
Örebro	13,960	4,646 (33%)	5,994 (43%)	2,563 (18%)	484 (3%)
Östersund	6,706	1,440 (21%)	2,292 (34%)	1,171 (17%)	316 (5%)
Västerås	16,984	5,937 (35%)	6,680 (39%)	2,185 (13%)	602 (4%)
Vellinge	3,066	1,654 (54%)	651 (21%)	173 (6%)	156 (5%)

<sup>1</sup> Operating expenses are for the municipality only, not for the companies owned by the municipal governments.

<sup>2</sup> Gothenburg has allocated about half of this budget to its different areas and not divided into the different budget categories; and has also allocated over 3 billion SEK to transportation expenditure.

Table 3. Overview of investments (2021 to 2023)

Municipality	2021 budget (M SEK)	2021-2023 budget (M SEK)	No. of citizens (2021)	Investment budget per citizen (SEK, 2021)
Gothenburg	7,410	24,954	593,636	12,482
Linköping	843	2,289	164,891	5,112
Lund	1,018	2,941	136,016*	7,484
Malmö	2,814	9,086	350,126	8,037
Nacka	491	1,889	107,667	4,560
Örebro	3,540	9,306	157,496*	22,477
Östersund	657	1,491**	65,065	10,098
Västerås	1,576	6,017	158,074	9,970
Vellinge	321	1,016	37,363	8,591
<b>Total</b>	<b>18,670</b>	<b>58,989</b>	<b>1,770,334</b>	<b>10,546</b>

\* Estimate based on 2019 citizen data; \*\* Only 2021 and 2022 data available.

- **Solvency ratios** describe an organisations' longer-term debt situation and its ability to pay back long-term loans.
- **Profitability ratios** describe how able an organisation is to generate profit, and what return investors could expect given their investment in an organisation.

For municipal governments, profitability ratios are not particularly relevant as they usually break-even and therefore do not generate profit. Of greater importance is their solvency ratio (where a healthy position is to have about one third of assets in their own capital) and liquidity ratios, showing whether current assets (such as cash) can cover short-term debts.

Looking at the asset structure of the nine cities (Table 4), 87% of the assets are fixed. Fixed assets include patents (the immaterial assets), buildings, machinery (the material assets) and long-term cash deposits (the financial assets). Current assets (13% on average) are cash, accounts receivable and inventory – assets that can be moved in the short term. Gothenburg has the largest asset base (106 billion SEK), followed by Malmö (49 billion SEK) and Linköping (41 billion SEK). Vellinge, Östersund and Nacka have the smallest assets, with close to 5 billion SEK for Vellinge, and around

10 billion SEK for Östersund and Nacka. The municipalities have good liquidity positions: the current assets across these municipalities amounts to 68%, meaning they will be able to repay short-term debts without having to sell off a lot of fixed assets. The ratio ranges widely, from Gothenburg having the lowest liquidity (37%) to Örebro with the highest (235%).

Most municipalities demonstrate good solvency (Table 5), having on average 35% of their own capital and 8% provisions. All municipalities are also rated as at least 'good' on Standard and Poor's Credit Rating (long-term and short-term position). Foreign capital is used to fund 56% of assets on average. The city with the lowest debt percentage is Nacka (45%) and Lund has the highest (62%). Central government cannot cap debt levels and does not need to approve borrowing. Local authorities cannot borrow funds to speculate. The nine cities all issued a green bond. None of them issued a sustainable bond or a social bond.

## Conclusion

This factsheet has outlined the financial position of Swedish municipalities and the financial regulations they abide by. For the nine municipalities, it seems they are in solid financial positions: their expenditure matches their revenue, and their

Table 4. Overview of assets - balance sheet (2019), in M SEK

Municipality	Total Assets	Of which: fixed immaterial and material assets	Of which: fixed financial assets	Of which: current assets (+ contribution to infrastructure)
Gothenburg	105,859	93,385 (88%)	3,912 (4%)	8,562 (8%)
Linköping	40,998	28,751 (79%)	208 (1%)	12,039 (29%)
Lund	23,787	21,138 (89%)	407 (2%)	2,242 (9%)
Malmö	49,176	44,362 (90%)	1,214 (2%)	3,600 (7%)
Nacka	10,587	9,333 (88%)	370 (3%)	884 (8%)
Örebro	31,159	25,164 (81%)	328 (3%)	5,668 (8%)
Östersund	9,656	3,111 (32%)	6,002 (62%)	544 (6%)
Västerås	28,709	24,123 (84%)	206 (1%)	4,380 (15%)
Vellinge	4,689	3,527 (75%)	103 (2%)	1,060 (22%)

Table 5. Overview of capital, provisions and debt - balance sheet (2019), in M SEK

Municipality	Total Capital	Total provisions	Total debt – long term	Total debt – short term
Gothenburg	31,994 (30%)	10,030 (9%)	41,005 (39%)	22,830 (22%)
Linköping	13,105 (32%)	5,059 (12%)	12, 611 (31%)	10,223 (25%)
Lund	7,469 (31%)	1,562 (7%)	9,634 (41%)	5,122 (22%)
Malmö	22,256 (45%)	3,186 (6%)	17,334 (35%)	6,400 (13%)
Nacka	4,253 (40%)	1,592 (15%)	3,284 (31%)	1,458 (14%)
Örebro	11,100 (36%)	1,293 (4%)	16,358 (52%)	2,408 (8%)
Östersund	3,074 (32%)	734 (8%)	4,892 (51%)	956 (10%)
Västerås	12,793 (45%)	1,819 (6%)	7,360 (26%)	6,737 (23%)
Vellinge	1,279 (27%)	542 (12%)	2,315 (49%)	554 (12%)

ability to pay back short-term loans and debt positions are favourable. Further analysis can be done, though, by including multiple years, which would help to identify trends and long-term financial positions, and other financial ratios (to supplement the analysis); and by incorporating non-financial indicators to contextualise the analysis.

- Västerås: [Investment plan 2021-23, Annual report 2019, S&Ps credit rating](#)
- Vellinge: [Investment plan 2021-23, Annual report 2019, S&Ps credit rating \(in annual report 2019\)](#)

## Learn more

- About the [Swedish Local Government Act](#) that governs how municipal governments operate
- From [Kommuninvest](#), who provide financial services solely to municipalities; from [Kommunalekonomernas förening](#), an association that provides trainings to municipalities on financial management and from [Standard and Poor's](#) on credit rating
- About [sustainable finance](#) and the green, social and sustainable bonds from the International Capital Markets Association, or from our [review on sustainable bonds](#)
- About [public audit and financial analysis within the EU](#), from the European Court of Auditors

### Sources – city budgets and balance sheets

- Gothenburg: [Investment plan 2021-23, Annual report 2019, citizens 2019, S&Ps credit rating](#)
- Linköping: [Investment plan 2021-23, Annual report 2019, S&Ps credit rating](#)
- Lund: [Investment plan 2021-23, Annual report 2019, S&Ps credit rating](#)
- Malmö: [Investment plan 2021-23, Annual report 2019, S&Ps credit rating](#)
- Nacka: [Investment plan 2021-23, Annual report 2019, S&Ps credit rating](#)
- Örebro: [Investment plan 2021-23, Annual report 2019, S&Ps credit rating](#)
- Östersund: [Investment plan 2021-23, Annual report 2019, S&Ps credit rating](#)

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