



KOMMUNINVEST
LOCAL GOVERNMENT
BORROWING

2014

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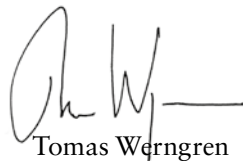
Foreword

The economic development of a country's local government sector depends to a great extent on developments in the country as a whole. The income of the central and local governments derive from the tax base, and considerable transfers are often being made from the central government to municipalities and regions. The development of local government tax income and the size of transfers are thus related to the level of economic growth and the strength of central government finances.

With regard to its central government finances, Sweden overcame both the global financial crisis of 2008/09 and the European debt crisis of 2011 relatively well. This has contributed to Swedish municipalities and county councils enjoying a more favourable trend over the past five years than many corresponding authorities in other countries, which have experienced both reduced income, as a consequence of lower tax revenues and central government allocations, and expenditure cuts. In general, development in the Swedish local government sector has been more favourable and expansive, with surpluses and scope for increased investment.

Although the starting position is good, the local government sector does not lack economic and financial challenges. Needs in terms of new building – new business premises, housing and roads – are substantial. Throughout the country, existing infrastructure is also in considerable need of renovation. This has been manifested in increasing investment volumes, which have helped increase borrowing, albeit from a low level. With economic forecasts for the next few years suggesting that both the central government and the local government sector face budgetary challenges, it is essential that municipal and county politicians in Sweden consider what is a sustainable level of debt in the long term, based on the unique circumstances of each municipality and county council. The welfare of both today and tomorrow is built on well-managed and sustainable local government finances.

Örebro, November 2014



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Increased interest in regional and municipal debt

In the wake of chronic budget deficits and increased debt at the central government level in several countries, the issue of debt levels among regional and local government actors has attracted increased attention in recent years. Since the 2007/08 financial crisis, certain analysts have considered the sharp increase in debt at the regional level in China to pose a potential threat to the financial stability of the country. Between 2010 and mid-year 2013, debt rose by 67 percent to a total of CNY 18,000 billion, equivalent to SEK 21,000 billion, which has led the Chinese government to regulate the manner in which regions and municipalities should be permitted to borrow capital in the future. In recent years, several high-profile municipal bankruptcies in the US have directed the spotlight to the issue of debt and whether certain states and local government authorities will be able to honour the relatively generous health-care benefits and pension commitments pledged to former and current employees. In March 2014, the City of Chicago was downgraded three notches by credit rating agency Moody's to a Baa1 rating, just three notches above junk status – the lowest credit rating of all major US cities, with the exception of Detroit. What concerns the rating agency and investors is Chicago's high level of debt – USD 14 billion in bonds and a further USD 20 billion in unfunded pension commitments.

The OECD study *Passing the Buck? Central and Sub-National Governments in Times of Fiscal Stress*, the authors address the issue of the relationship between debt at the national, regional and municipal levels. The authors make a point of not discussing debt solely in relation to GDP, or its regional equivalents, without also considering the ratio of debt to revenue. The higher the revenue of a region or municipality, the greater the debt it can bear.

The report shows there are considerable differences in leverage, both within countries and between them. Debt at the state and municipal levels is low in countries such as Denmark, Finland, Poland, Sweden and the UK, while, in US states, Canadian provinces, German states and the Norwegian local government sector, total liabilities exceed 100 percent of annual revenues.

Additionally, the study shows that high levels of debt at the regional and municipal levels tend to increase if:

- municipal and regional decision makers have considerable influence over their own revenues and expenditures
- there is an expectation that the nation state will bail out municipalities and regions with excessive levels of debt
- municipal/regional decision makers and national decision makers are of the same political orientation.

Source: OECD, Bloomberg

Introduction

This report, *Local Government Borrowing – 2014*, examines the development of local government borrowing in 2013, and trends since 2007. All comparisons in this report are based on a group perspective, meaning that municipal operations conducted under corporate formats are also included, both in time series and analyses.

For several reasons, the group perspective is important in obtaining an accurate overall picture of a local government authority's economic and financial position. Firstly, a growing proportion of the local government authorities' operations are being conducted under corporate formats. For example, an increasing number of local government authorities are transferring service and operational premises to their own subsidiaries. Secondly, local government sector companies account for most of the sector's external borrowing, *see Fact box 1*. Thirdly, capital-intensive companies within municipal groups often operate in competitive markets, meaning that the municipalities' business risks are associated more with their companies than with their own core operations.

The supporting data in this report are based on details gathered directly from the municipalities' and county councils' own annual reports. This offers two advantages. Firstly, it provides access to the most relevant supporting data. Borrowing is separated from other types of debt that are not of a financial nature, and details of the group's investment volume can be prepared at the municipal and county council level. Secondly, details of investments, for example, may be published faster than is feasible using data from Statistics Sweden.

New to this year's report is that all time series are presented at current prices. This change has been implemented to facilitate comparisons between Kommuninvest's reports and reports produced by other organisations and authorities.

The report comprises four principal sections:

1. Local government sector's investments and level of self-financing
2. Borrowing trend for the sector as a whole but also at the local government corporation and municipal levels.
3. Sources of funding and future funding requirements.
4. Forecast borrowing trend, 2014–2017.

Fact box 1

Lending via internal banks

Swedish municipalities and county councils generally have low borrowing levels. Historically, the level of self-financing for investments in core operations has been high. The borrowings that nonetheless do exist on local government authorities' balance sheets mainly involve onward lending to municipal companies. Data on the municipalities' and county councils' assets and liabilities show that, of a total of about SEK 185 billion in long-term borrowing,¹ SEK 160 billion involves receivables from the local government authorities' own municipal companies. Of Sweden's 290 municipalities, nearly 40 have set up internal banks that are responsible both for securing borrowed funds on behalf of the municipal corporations and for lending within the municipal groups. Combined, these municipalities account for about 35 percent of the sector's total borrowing. The main purpose of an internal bank is

- to concentrate the group's financial competence within an individual unit in the group
- to achieve increased group control and coordination on financial matters

Since the limitation of interest deductions took effect on 1 January 2013, lending of the local government authorities' surplus liquidity to their own municipal companies has decreased to be replaced by external borrowing. The regulatory change has caused at least two municipalities to completely phase out their internal banks.

Source: Statistics Sweden and Kommuninvest

1) The accounting item non-current liabilities in the municipalities' balance sheets consists almost exclusively of borrowing in the form of liabilities to credit market companies and/or outstanding notes and bonds to investors. Some municipalities report future years' repayments or the portion of borrowing maturing within the next 12 month period under the item current liabilities. Borrowings under current liabilities represent approximately 10 percent of the total borrowing volume.

Additionally, the report includes a focus section on the municipalities that amortised on their borrowings in 2013.

Kommuninvest's analysis shows that during 2013, local government sector investment increased by 4.4 percent compared with the preceding year. Total investments in 2013 amounted to SEK 115.4 (110.5) billion¹. The level of self-financing, i.e. the capacity to finance investments with internally generated funds, amounted to 71 percent, a decrease of 15 percentage points.

The local government sector's borrowing increased by 6.3 percent to SEK 468.5 (440.9) billion. Borrowing corresponded to 12.9 percent of GDP, compared with 12.5 percent in 2012. Most of the borrowing lies with operational, capital-intensive municipal companies involved in municipal housing and other property activities, and energy supply.

The analysis also shows that:

- The municipal categories Metropolitan municipalities and Major cities accounted for two-thirds of the net increase in borrowing.
- Smaller municipalities in areas outside the densely populated regions were over-represented among the municipalities that made repayments on their borrowings.

1) The investment volume is probably somewhat underestimated because certain municipal and county council groups report their investments net rather than gross.

Section 1

Local government sector investments

Total investments rose to SEK 115.4 billion in 2013

The local government sector is Sweden's largest funder and producer of welfare services. To be able to perform both their statutory duties, as well as voluntary undertakings, Sweden's municipalities and county councils invest in, for example, pre-schools, schools, hospitals, IT, homes for the elderly, libraries, housing, emergency services, public transport, water and sewage, and district heating. A growing and ageing population, increasing urbanisation and older homes and business properties needing renovation and improvement contribute to a high level of investment pressure in the sector.

In 2013, the local government sector's investment volume rose by SEK 4.9 billion² to SEK 115.4 billion, corresponding to a growth rate of 4.4 percent, the second-highest increase since 2008, *see Figure 5*. In relation to GDP, investments amounted to 3.2 percent.

Of the sector's total investments, municipal groups accounted for SEK 92.4 billion and county council groups for SEK 22.9 billion. In turn, SEK 43.3 billion of the investments by the municipal groups were made by the municipalities, and investments of SEK 49.1 billion were made by municipal companies. The corresponding figures for the county council groups were SEK 17.8 billion under the auspices of the county councils and SEK 5.1 billion through companies owned by the county councils.

Investments in the municipalities' and county councils' core businesses are largely funded with internally generated funds. The municipal companies, whose operations are often capital-intensive, have a greater need of borrowing to fund their investments. To understand the scope of the investments financed with internally generated funds, it can be useful to study the level of self-financing.³ In 2013, the level of self-financing fell from 86 percent to 71 percent. The decline can partly be explained by the reduction of the discount rate for the sector's pension liability (known as the "RIPS" rate) burdening the sector's earnings in the amount of SEK 10 billion.⁴

Steadily increasing investment volumes between 2007 and 2013

The local government sector's combined investment volume has been growing for a long time. Between 2007 and 2013, the sector's annual

Figure 1
Distribution of local government sector investments in 2013

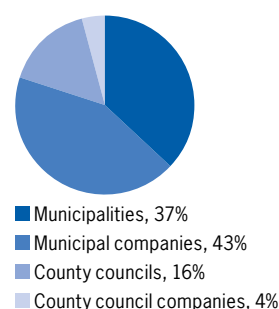
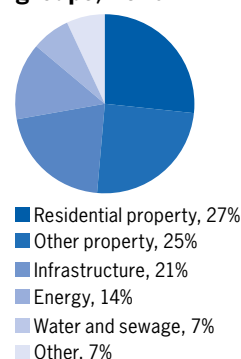


Figure 2
Investment account, municipal groups, 2013



Half of the local government sector's investments in 2013 related to housing and properties. Housing investments include both renovation of existing portfolios and new production, while investment in the area of properties consist primarily of service and operational properties, such as homes for the elderly, pre-schools and schools, but also commercial properties, and sports facilities and swimming pools. Combined infrastructure investments in streets, roads, parks, sewage treatment plants and water and sewage mains accounted for a quarter of the total investment, while investments in municipally owned energy companies amounted to a sixth of the total investment volume. Hidden under the item "Others" are, among other things, equipment and investments in municipal vehicle fleets.

2) The investment volume is underestimated, since a minority of the country's municipalities report net investments in their consolidated cash flow statements rather than reporting gross investments.

3) Level of self-financing = (earnings + amortisation)/(investments in tangible non-current assets - sales of non-current assets).

4) By lowering the discount rate for the calculation of the present value of future decades' pension payments, the present value of the pension liabilities increased, which affected the municipalities' and county councils' earnings, although it had no effect on liquidity in the sector.

gross investments in tangible fixed assets increased by 32 percent, from SEK 87.1 billion to SEK 115.4 billion in current prices, *see Figure 4*.

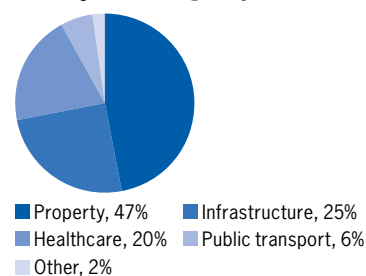
The municipal groups' combined investments grew by 27 percent. It is worth noting that the distribution between investments in the local government authorities' operations and the companies owned by the local government authorities has remained relatively constant at an aggregate level. This is despite the fact that some local government authorities have established companies to conduct operations previously conducted under the auspices of the municipality – for example, the operation of homes for the elderly and operational properties. In terms of population, larger municipalities have a greater proportion of company investments than small and medium-sized municipalities.

Investments by the county council groups grew by 54 percent. The trend among the county councils is largely explained by Stockholm County Council (SCC) having more than doubled its annual investments, such that in 2013 SCC accounted for almost half of the county councils' total investment volume.

As shown in *Figure 5*, annual investment growth between 2008 and 2013 ranged from a low of 2.4 percent in 2010 to a high of 8.9 percent in 2011.

The level of self-financing in the local government sector has been declining slightly over an extended period of time, indicating an increasing need to externally finance the investments that have been made. This trend is partly explained by the two cuts in the "RIPS" rate (in 2011 and 2013), which had a direct impact on the earnings of the local government authorities. Another reason is the decrease in the volume of tangible assets sold between the periods 2007–2010 and 2011–2013. The City of Stockholm's conversion of rented accommodation into tenant-owned apartments during the period 2007 to 2010 was of such a scale that it affected the level of self-financing of the entire sector. Finally, the trend in the sector's combined earnings has been weaker than investments during the period concerned.

Figure 3
Investment accounting,
county council groups, 2013



The county councils find themselves in a period in which many of today's existing hospitals are either being renovated or are about to be replaced by completely new units. Property investments also constituted nearly half of the county councils' investments. Infrastructure investments accounted for a quarter of the combined investments, and can largely be attributed to Stockholm County Council's investments in public transport. Investments in healthcare equipment accounted for a fifth of the investments. The remaining investments consisted primarily of new trains, buses and IT systems.

Figure 4
Distribution of local government sector investments at current prices, SEK billion

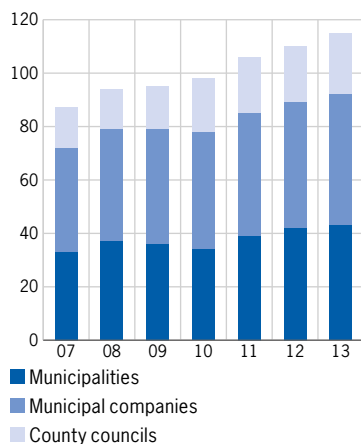


Figure 5
Annual change in investment volumes at current prices, %

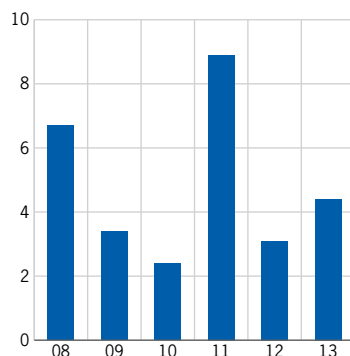
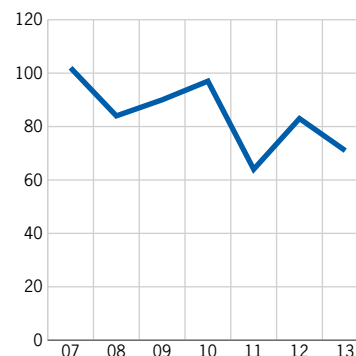


Figure 6
Level of self-financing in the local government sector, %



Section 2

Local government sector borrowing

Total borrowing rose by 6.3 percent to SEK 468.5 billion in 2013

Under the “balanced budget requirement”,⁵ Swedish municipalities and county councils are prevented from borrowing funds to finance their ongoing operations. Consequently, the accumulated borrowing of the local government sector is primarily an effect of investments having been partially financed by external borrowing, mainly in capital-intensive municipal companies.

At the end of 2013, the sector’s total borrowing amounted to SEK 468.5 billion, an increase of SEK 27.9 billion or 6.3 percent compared to the end of 2012. The sector’s borrowing is primarily driven by the need to finance investments in companies by means of external funds. However, parts of the increase in borrowing in 2013 can be explained by the changed interest deduction regulations that came into effect at the start of the year. Based on the new legislation, some municipal companies have found themselves forced to replace borrowing from their own municipalities with external borrowing. Consequently, the municipal groups’ external borrowing has increased, while the municipalities have found themselves having to manage considerable excess liquidity.

The scope of borrowing in relation to GDP rose to 12.9 percent compared with 12.5 percent in the preceding year, while average borrowing per capita rose from SEK 46,400 to SEK 48,600. The vast majority of the sector’s total borrowing, 94 percent, related to the municipalities’ combined balance sheet.

Change in borrowing at municipal group level, 2013

Kommuninvest uses the division into municipal categories developed by the Swedish Association of Local Authorities and Regions (SALAR). The classification is based primarily on geographic and demographic characteristics. Because each local government authority has its own unique set of political and economic conditions, it is difficult to draw overly far-reaching and general conclusions about trends among individual local government authorities based on the trend at the level of the municipal category. The differing characteristics between municipalities within the same municipal category is often greater than between municipal categories.

Of the total increase in borrowing of SEK 27.9 billion in 2013, municipalities accounted for SEK 26.3 billion and county councils for SEK 1.7 billion. When the increase in borrowing is broken down on the municipal category level, the analysis shows that municipal categories that are generally characterised by high population growth and favourable financial performance increase their borrowing faster than other municipal groups.

5) The balance requirement means that individual municipalities and county councils may not approve budgets where expenditure exceeds revenue. If the result is nonetheless negative, this must be offset by a surplus within three years.

Table 1
Local government sector borrowing

	2013	2012
Borrowing in SEK billion	468.5	440.9
Borrowing per inhabitant	48,600	46,400
Borrowing in proportion to GDP	12.9	12.5

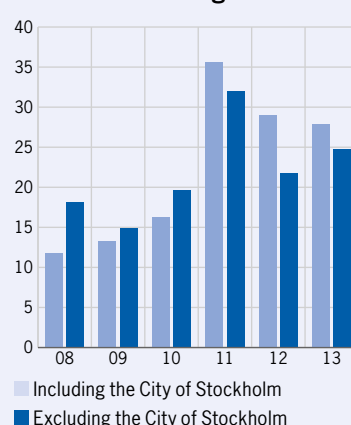
Fact box 2

The importance of Stockholm

In relation to the size of its population, the City of Stockholm has one of the lowest levels of external borrowing in the country. However, the changes in borrowing volume over time are substantial enough for the trend in the City of Stockholm to affect the outcome for the entire local government sector. Figure 7 shows the effect that a change in the City of Stockholm’s borrowing has had on the change in the entire local government sector’s borrowing during the period 2008 to 2013.

Figure 7

Change in local government sector’s borrowing in SEK billion



In absolute terms, it is mainly the municipal groups Large cities and Metropolitan municipalities that are increasing their borrowing most, by SEK 12.0 billion and SEK 5.7 billion respectively in 2013. Overall, this corresponded to 63 percent of total borrowing in the sector (see Figure 8). Other municipal groups make only a minor impression on the increase in borrowing. The largest relative increase in borrowing was in the category Suburban municipalities to large cities with an increase of 8 percent, followed by the categories Metropolitan municipalities and Large cities at 7 percent each.

When borrowing is broken down per inhabitant, Figure 9 shows that borrowing rose among all municipal categories in 2013.

As in the preceding year, borrowing per inhabitant in 2013 was greatest among the municipal category Large cities. Here, borrowing rose by SEK 3,600 per inhabitant in 2013, from SEK 55,000 to SEK 58,600. Borrowing was lowest in the category Sparsely populated municipalities, with an increase in borrowing of SEK 400, from SEK 34,900 to SEK 35,300. Other municipal categories ranged from SEK 37,000 to SEK 47,000 per inhabitant.

The county councils' total borrowing increased from SEK 2,700 to SEK 2,900 per inhabitant between 2012 and 2013.

Change in borrowing at the municipal and county council levels, 2013

Of Sweden's 290 municipalities, 168 increased their borrowing between 2012 and 2013, nine had unchanged borrowing, while 113 decreased their borrowing. For a more detailed review of the municipalities that amortised on their borrowings in 2013, see *In focus: Amortisations*, on page 13.

In 2013, the county councils' combined borrowing amounted to SEK 27.7 billion,⁶ an increase of SEK 1.7 billion compared with 2012. Stockholm County Council accounts for 81 percent of the county councils' total debt, while nine counties/regions have no borrowings at all. In 2013, two county councils reduced their borrowing by a total of SEK 77 million, while seven county councils increased their total borrowing by nearly SEK 1.8 billion.

The trends that can be discerned at the level of the municipal categories also penetrate through to the municipal level. As can be seen in Table 2, it is primarily municipalities classified as Metropolitan municipalities and Large cities that are driving the increase in borrowing in the sector.

Table 2
Distribution of increase in borrowing

	Proportion of total increase in borrowing	Type of local government authority (Number)
The ten municipalities/county councils that increased their debt most in 2013	53 percent	Metropolitan municipalities (3), Large cities (6), County councils (1)
The 20 municipalities/county councils that increased their debt most in 2013	67 percent	Metropolitan municipalities (3), Large cities (15), County councils (2)

Figure 8
Municipal categories' contributions to the local government sector's increase in borrowing in 2013, %

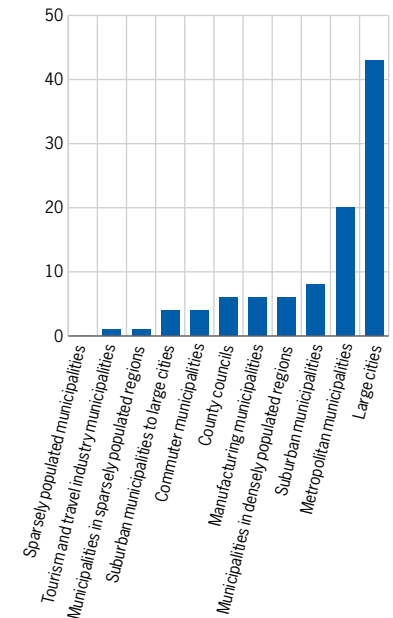
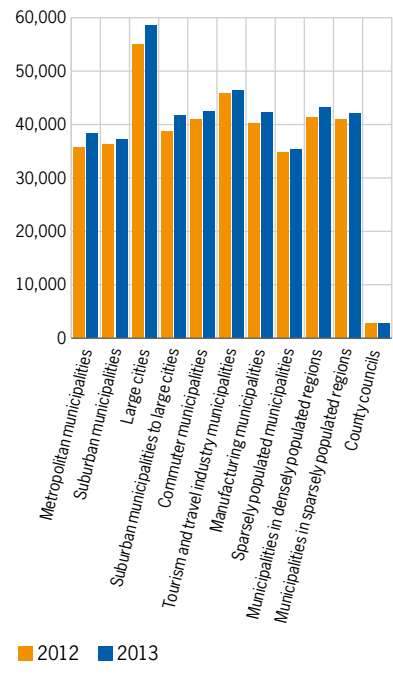


Figure 9
Borrowing per inhabitant and municipal category in 2012 and 2013



6) This amount does not include lease liabilities or loans from individual municipalities or Landstingens Ömsesidiga Försäkringsbolag (LÖF – the county councils' mutual insurance society).

Table 3
Municipalities with the highest borrowing in 2013, SEK bn
Figures for 2012 in brackets.

Ranking	Municipality/ county council	Borrowing in SEK billion
1 (1)	Gothenburg	39.3 (37.5)
2 (2)	Stockholm	18.5 (15.4)
3 (3)	Linköping	15.2 (15.2)
4 (4)	Södertälje	11.0 (11.7)
5 (5)	Umeå	9.4 (9.3)
6 (9)	Uppsala	9.2 (6.8)
7 (6)	Malmö	9.1 (8.3)
8 (8)	Örebro	7.8 (6.8)
9 (12)	Lund	7.6 (6.4)
10 (7)	Huddinge	7.5 (7.6)

Table 4
Municipalities with highest borrowing per inhabitant
Figures for 2012 in brackets.

Ranking	Municipality/ county council	Borrowing in SEK thousands
1 (1)	Södertälje	121.0 (130.8)
2 (2)	Linköping	101.5 (102.6)
3 (3)	Skellefteå	98.9 (81.1)
4 (4)	Lessebo	97.7 (103.1)
5 (5)	Östersund	93.0 (92.2)
6 (9)	Berg	83.8 (80.8)
7 (6)	Borlänge	82.3 (82.3)
8 (9)	Kumla	82.3 (79.0)
9 (8)	Strömstad	81.2 (80.0)
10 (16)	Växjö	80.1 (72.4)

Municipal groups with relatively large borrowings often have significant asset values.

Borrowing trend, 2007–2013, entire local government sector

The increase in municipal borrowing in 2013 is part of a longer-term trend. As the level of self-financing has fallen in the local government sector, *see Figure 6*, the local government sector’s need to finance investments with external funds has increased. Since 2007, debt has increased by SEK 152.9 billion in nominal terms, representing an increase of 48 percent. As a proportion of GDP, debt has grown from 10.6 percent to 12.9 percent.

Borrowing trend, 2007–2013, by municipal category

In absolute terms, the increase in borrowing has been driven by the municipal categories Large cities, Suburban municipalities, Metropolitan municipalities and the county councils, *see Figure 13*. The municipal category Large cities stands out in particular with an increase in absolute figures of SEK 50.3 billion, equivalent to 38 percent of the entire sector’s increase during the period concerned. The increase in borrowing within the category Metropolitan municipalities is affected by the fact that the City of Stockholm made major repayments early in the measurement period.

The category of Large cities also stands out when borrowing is broken down per inhabitant. The rate of increase of 42 percent between 2007 and 2013 is the second-highest of all municipal categories. Only Suburban municipalities to large cities had a greater increase at 53 percent. The county councils’ borrowing rose from SEK 900 to SEK 2,900 per inhabitant, an increase of 236 percent.

Figure 12
Change in borrowing between 2007 and 2013, %

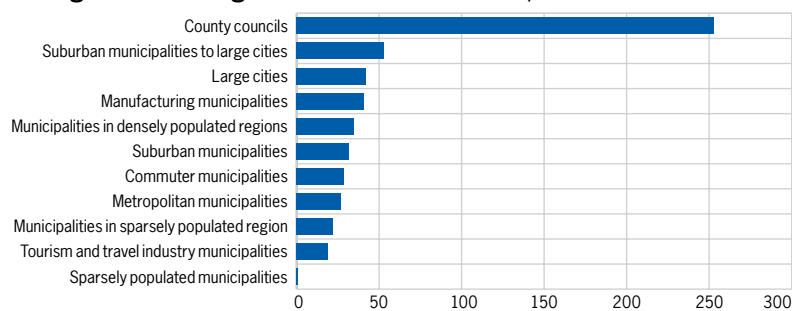
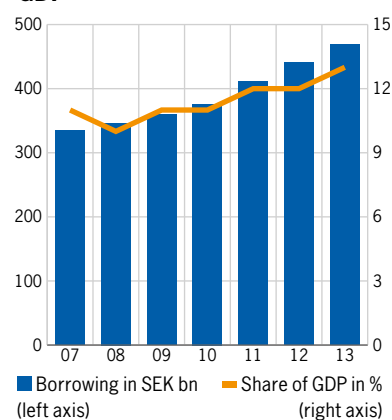


Figure 10
Borrowing trend in current prices and as a proportion of GDP



Fact box 3
Leverage in different sectors of society

Financial leverage has developed in completely opposite direction in various sectors of society. Leverage has increased among households and in the corporate sector while it has decreased in the public sector.

Figure 11
Debt as a proportion of GDP in different sectors, %

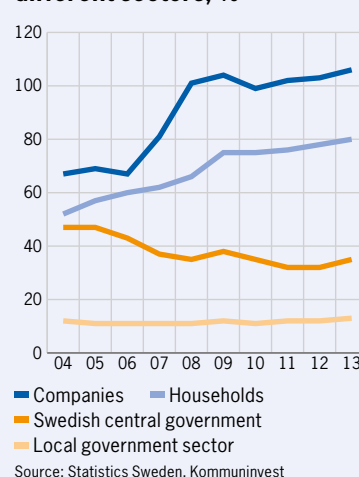


Figure 13
Contributions by municipal categories to increase in borrowing in the local government sector, 2007–2013, %

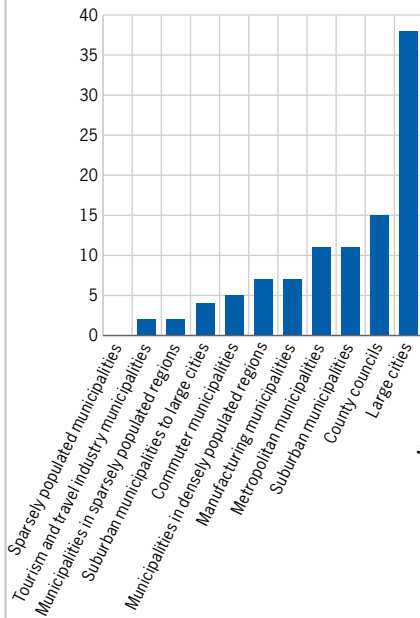
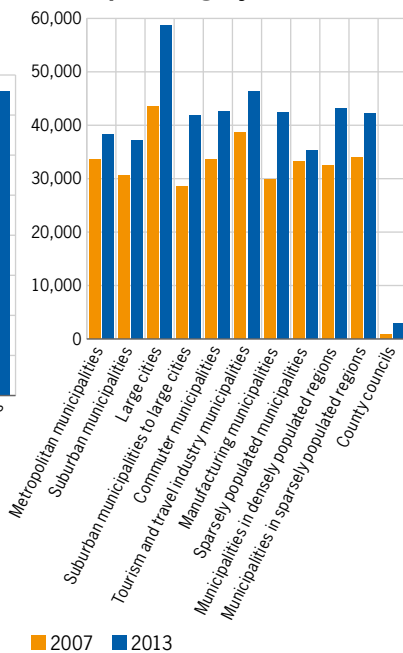


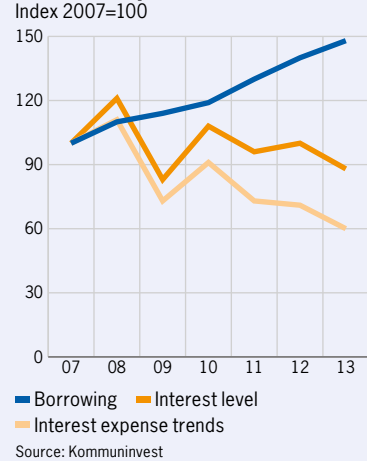
Figure 14
Borrowing per inhabitant and municipal category



Fact box 5
Borrowing, interest level and interest expenses

During 2007–2013, borrowing in the local government sector rose by 48 percent. Over the same period, the average interest level in the local government sector is estimated to have decreased by 40 percent. As a result, Kommuninvest estimates that total interest expenses were 12 percent lower in 2013 than in 2007. If interest rates had been as high in 2013 as they were in 2007, local government sector interest expense would increase by SEK 6–7 billion.

Figure 16
Borrowing, interest level and interest expense trends



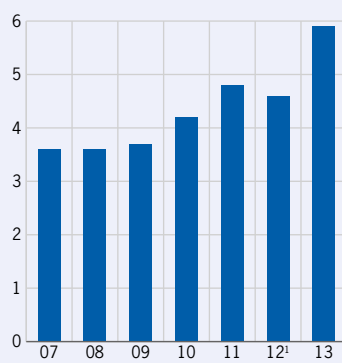
Fact box 4
Pension liabilities

According to insurance company Skandia, the municipalities' total pension liability was slightly more than SEK 250 billion in 2013. The lowering of the "RIPS" rate in 2013 contributed to an increase in the pension liability by SEK 16 billion in 2013.

There are two significant differences between the municipalities' borrowing and their pension liabilities. Firstly, the pension liability per inhabitant tends to be higher than borrowing per inhabitant in municipalities with weak or negative population growth, while the opposite applies in municipalities with a positive population trend. Secondly, the pension liability will decline over the next few decades by means of the pension payments made each year, while borrowing is expected to continue rising.

In recent years, municipalities' expenditures have increased sharply for retirement benefits earned by former and current employees earned up until 1998, see Figure 15. The size of these payments is expected to peak during the current term of office, and to then abate.

Figure 15
Pension payments on pension earned before 1998, SEK billion



1) The decline in 2012 is probably due to incorrectly reported data
Source: Skandia, Statistics Sweden

Two out of five municipalities amortise on their borrowing

During 2013, 113 municipal groups decreased their external borrowing. The average repayment corresponded to 4 percent of the loan stock at the end of 2012 with the median being 3 percent. This can be compared with the average percentage increase among the 168 municipal groups that increased their borrowing, which was 12 percent, while the median was 7 percent.

Table 5 shows the extent of amortisations, based on the amounts repaid. Most municipalities that are making repayments are repaying relatively small amounts. Forty percent of municipalities repaid less than SEK 10 million, and nearly 90 percent less than SEK 50 million. Ten municipalities repaid SEK 100 million or more and two municipalities repaid more than SEK 500 million. In total, the municipalities made repayments of SEK 4.4 billion.

Major repayments are often made possible by extraordinary revenues, as a consequence of, for example, sales of tangible non-current assets such as residential units and other property. A review of the ten municipalities that repaid most in 2013 shows that their housing companies sold or reorganised a total of 3,000 flats (corresponding to 30 percent of the total number of flats sold by public housing during the year) and sold nine homes for the elderly, see Fact box 6. Other municipalities heeded SALAR's advice to use the AFA funds to repay debt to thereby reduce their future interest expenses.

The municipal category Sparsely populated municipalities had the highest proportion of municipalities amortising on their borrowings, 65 percent, followed by the category Tourism and travel industry municipalities, 48 percent, and Municipalities in densely populated regions, 46 percent. The categories Metropolitan municipalities, Large cities, Suburban municipalities and Suburban municipalities to large cities are characterised by a low proportion of municipalities making repayments.

Table 7
Proportion of municipalities per municipal category that made repayments on their borrowings in 2013

Municipal category	Number of municipalities	Proportion of municipalities that made repayments	Volume in SEK million
Sparsely populated municipalities	20	65	122
Tourism and travel industry municipalities	54	48	354
Municipalities in densely populated regions	35	46	239
Municipalities in sparsely populated regions	16	44	115
Commuter municipalities	51	39	457
Manufacturing municipalities	20	35	576
Suburban municipalities	38	34	618
Suburban municipalities to large cities	22	22	215
Large cities	31	19	1,667
Metropolitan municipalities	3	0	0

Table 5
Distribution of municipalities' amortisations

Amortisation	Number of municipalities
< SEK 10 million	45
SEK 10–50 million	57
SEK 50–100 million	3
> SEK 100 million	10

Table 6
Municipalities amortising the most in 2013

Municipality	Repayment in SEK million
Södertälje	686
Helsingborg	676
Gotland	446
Örnsköldsvik	148
Upplands Väsby	138
Trelleborg	137
Kävlinge	129
Huddinge	116
Järfälla	114
Norrköping	107

Fact box 6

Sales of tangible non-current assets

Södertälje – 334 flats and 5 homes for the elderly to Rikshem, sales consideration slightly more than SEK 700 million.

Helsingborg – 865 flats to Rikshem, sales consideration slightly more than SEK 700 million.

Järfälla – 610 flats, sales consideration slightly more than SEK 600 million.

Gotland – four homes for the elderly to Hemsö, sales consideration slightly more than SEK 300 million.

Upplands Väsby – reorganisation of 214 flats, sales consideration slightly more than SEK 200 million.

Norrköping – approximately 800 flats to Rikshem, approximately 250 terraced houses to Vissland Fastigheter, sales consideration slightly less than SEK 700 million.

Huddinge – sales of flats and terraced houses, sales consideration approximately SEK 200 million.

Section 3

Financing

The Swedish local government sector's loan financing rests on three pillars, borrowing via Kommuninvest, the major Swedish banks or through proprietary market programmes.

During 2013, the municipal loan market was pervaded by Kommuninvest's increased price levels.⁷ This entailed a change in the circumstances of all market players. Despite the increase in its margin, Kommuninvest's lending rose, although the increase of 4 percent was the lowest in ten years. For the first time since the financial crisis of 2008/09 the banks' lending also increased. Volumes of outstanding notes and bonds through the municipalities' proprietary market programmes also continued to increase.

There were minor variations in funding sources for the local government sector. Kommuninvest's market share fell from 45 percent to 44 percent. The banks' market share was unchanged at 32 percent. Proprietary borrowing through capital market programmes increased its share from 23 percent to 24 percent.

From a retrospective survey of trends in the municipal loan market, three clear trends can be discerned:

1. For most Swedish municipalities, Kommuninvest has become the primary source of funding.
2. Swedish banks' market shares and lending volumes are decreasing.
3. Increasingly, municipalities are setting up their own commercial paper and bond programmes.

Figure 17
Market shares in the municipal loan market, 2013

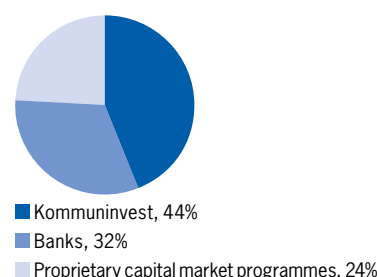
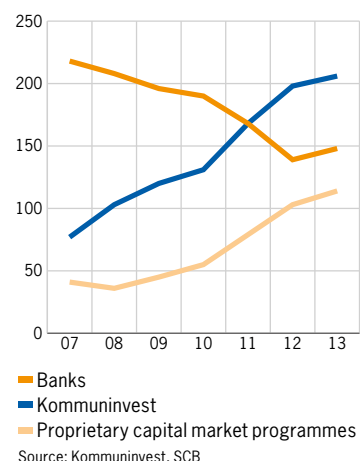


Figure 18
Local government sector funding sources, SEK billion



7) A process of building up capital is in progress within Kommuninvest to meet the new "leverage ratio" requirement expected to be introduced in the European Union from 2018. With raised lending margins, increased earnings can contribute to a build-up of capital.

Section 4

Forecast 2015

Local government borrowing has risen each year over the past nine years. During the period 2004-2006, the rate of increase averaged 1.3 percent per year, in 2007-2010 it rose to 4.0 percent and for 2011-2013 the rate of increase was 7.6 percent.

In Kommuninvest's assessment, increased investment volumes and lower earnings in municipalities' and county councils' core operations over the next few years will lead to a falling level of self-financing and increase the need for external financing.

SALAR's compilation of the municipalities' forecasts for the years 2014 to 2016⁸ shows a continued increase in municipal investments. While this forecast excludes investments in the municipal companies and county council groups, historical data suggest that the aggregate investments among these will develop at about the same rate as local government investments, *see Figure 4*.

While the sector's total investments increase, the cost of the municipalities' and county councils' core operations are expected to rise faster than revenues, affecting the sector's earnings negatively. In SALAR's assessment, the municipalities' and county councils' combined earnings, excluding companies, will fall from SEK 13.9 billion in 2013 to SEK 10.8 billion in 2014 and SEK 7.5 billion in 2015.

Consequently, Kommuninvest projects that the need for external financing will continue to be considerable. The forecast from last year's report of a nominal growth rate in borrowing of 6 percent per year is revised up to an annual growth rate of 7 percent. An annual growth rate of 7 percent entails borrowing increasing by SEK 150 billion between 2013 and 2017. Even an annual growth rate of 5 percent, that is, considerably lower than average growth in 2011-2013, would increase the borrowing need by SEK 100 billion by 2017.

Figure 19
Change in local government sector borrowing at current prices, %

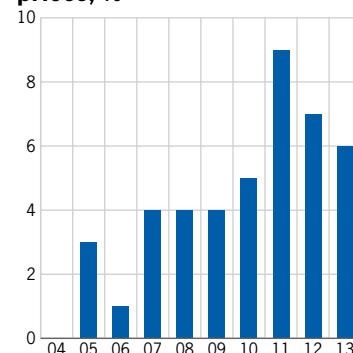
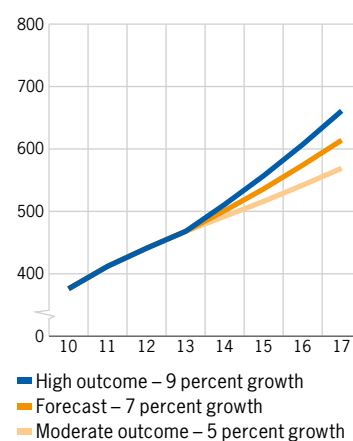


Figure 20
Forecast borrowing trend, SEK bn



8) SALAR financial report, April 2014

Appendix 1: Borrowing per capita and municipality

Borrowing per inhabitant 2013

< SEK 20,000

Danderyd	Göteborg	Markaryd	Strömsund	Valdemarsvik
Essunga	Haninge	Norberg	Säter	Vallentuna
Fagersta	Hjo	Robertsfors	Tibro	Vara
Gislaved	Höganäs	Salem	Täby	
Grästorp	Kävlinge	Skara	Töreboda	
Gullspång	Lidingö	Skinnskatteberg	Uppvidinge	

SEK 20,000–29,999

Ale	Härryda	Lycksele	Norsjö	Vansbro
Bjurholm	Hässleholm	Malmö	Nyköping	Vindeln
Eda	Karlsborg	Mark	Stockholm	Värgårda
Filipstad	Kinda	Motala	Sunne	Åtvidaberg
Flen	Klippan	Mönsterås	Svenljunga	Älvkarleby
Gnosjö	Laholm	Nacka	Tomelilla	Örkelljunga
Halmstad	Lerum	Nordanstig	Vadstena	Östra Göinge
Hudiksvall	Lomma	Nordmaling	Vaggeryd	

SEK 30,000–39,999

Aneby	Färgelanda	Kungsör	Skövde	Upplands Väsby
Bengtstors	Gnesta	Kungälv	Sollefteå	Vaxholm
Bjuv	Gotland	Köping	Sollentuna	Vellinge
Boden	Habo	Lekeberg	Solna	Vilhelmina
Bollebygd	Helsingborg	Lidköping	Stenungsund	Vänersborg
Borås	Herrljunga	Mellerud	Storuman	Åsele
Botkyrka	Hultsfred	Mullsjö	Säffle	Åstorp
Bräcke	Hylte	Munkedal	Söderhamn	Älvsbyn
Burlöv	Härjedalen	Norrådal	Söderköping	Ängelholm
Ekerö	Jokkmokk	Nässjö	Tidaholm	Östhammar
Enköping	Järfälla	Osby	Timrå	Överkalix
Eslöv	Knivsta	Ovanåker	Torsås	Övertorneå
Falköping	Kristinehamn	Perstorp	Tranemo	
Forshaga	Krokom	Ragunda	Ulricehamn	

SEK 40,000–49,999

Arvidsjaur	Heby	Luleå	Skurup	Värnamo
Arvika	Hedemora	Malå	Storfors	Västerås
Askersund	Hofors	Mariestad	Svalöv	Ydre
Avesta	Hällefors	Mjölby	Svedala	Åmål
Bollnäs	Härnösand	Mora	Sävsjö	Åre
Boxholm	Högsby	Mölnådal	Sölvesborg	Årjäng
Dals-Ed	Hörby	Nora	Tanum	Älmhult
Falkenberg	Karlstad	Norrköping	Tierp	
Finspång	Katrineholm	Nykvarn	Torsby	
Gagnef	Kramfors	Orsa	Trelleborg	
Grums	Kungsbacka	Oxelösund	Tyresö	
Gällivare	Landskrona	Partille	Uddevalla	
Hagfors	Leksand	Sala	Uppsala	
Hallstahammar	Ljunby	Sigtuna	Varberg	
Hammarö	Ljusdal	Simrishamn	Vingåker	
Haparanda	Ludvika	Sjöbo	Vännäs	

SEK 50,000–59,999

Arjeplog	Jönköping	Nynäshamn	Tingsryd	Älvdalen
Bromölla	Karlshamn	Ockelbo	Tjörn	Ödeshög
Båstad	Kil	Oskarshamn	Tranås	Örebro
Degerfors	Kiruna	Pajala	Trollhättan	
Eksjö	Kristianstad	Piteå	Upplands-Bro	
Eskilstuna	Lindesberg	Sandviken	Vetlanda	
Hallsberg	Ljusnarsberg	Smedjebacken	Värmdö	
Höör	Munkfors	Sorsele	Västervik	

SEK 60,000–69,999

Alvesta	Håbo	Lilla Edet	Staffanstorps	Ystad
Arboga	Kalix	Lund	Sundbyberg	Ånge
Dorotea	Kalmar	Mörbylånga	Sundsvall	Öckerö
Emmaboda	Karlskrona	Nybro	Surahammar	Österåker
Falun	Laxå	Orust	Vimmerby	

SEK 70,000–79,999

Alingsås	Huddinge	Olofström	Strängnäs
Borgholm	Karlskoga	Ronneby	Trosa
Gävle	Lysekil	Rättvik	Umeå
Göteborg	Malung-Sälen	Sotenäs	Örnsköldsvik

> SEK 80,000

Berg	Kumla	Linköping	Strömstad	Växjö
Borlänge	Lessebo	Skellefteå	Södertälje	Östersund

Appendix 2:

SALAR's categorisation of local government authorities

	Number	Description
Metropolitan municipalities	3	Municipalities with populations of over 200,000.
Suburban municipalities	38	Municipalities where more than 50 per cent of the night population commutes to work in another municipality. The most common commuting destination must be one of the metropolitan municipalities.
Large cities	31	Municipalities with 50,000–200,000 inhabitants and more than 70 per cent of the population lives in urban areas.
Suburban municipalities to large cities	22	Municipalities in which more than 50 percent of the night-time population commutes to work in a large city.
Commuter municipalities	51	Municipalities in which more than 40 percent of the night-time population commutes to work in another municipality.
Tourism and travel industry municipalities	20	Municipalities where the number of guest nights in hotels, youth hostels and camping sites is higher than 21 nights per inhabitant and the number of holiday homes exceeds 0.20 per inhabitant.
Manufacturing municipalities	54	Municipalities where more than 34 percent of the night-time population aged 16 to 64 is employed in manufacturing, mining, energy, environmental and construction industries (SNI2007).
Sparsely populated municipalities	20	Municipalities where less than 70 percent of the population lives in urban areas and there are less than eight inhabitants per km ² .
Municipalities in densely populated regions	35	Municipalities with more than 300,000 inhabitants within a 112.5 km radius.
Municipalities in sparsely populated regions	16	Municipalities with less than 300,000 inhabitants within a 112.5 km radius.

Source: Swedish Association of Local Authorities and Regions (SALAR)

ABOUT KOMMUNINVEST Kommuninvest i Sverige AB is owned by Swedish municipalities and county councils with the purpose of supporting their financial operations through secure and cost-efficient financing, skills development and coordination. Kommuninvest's vision is to be the world's best organisation for local government financial administration.



KOMMUNINVEST

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