

# Central government funding of municipalities

## – distribution of the municipal property charge and targeted government grants

### Summary and recommendations

The municipal property charge and the many targeted government grants aim to strengthen local government activities and finances in different ways and function alongside the municipal economic equalisation system. The Swedish NAO has audited whether the distribution of revenue from the municipal property charge and targeted government grants between municipalities affects the possibility of the equalisation system to create equal economic conditions for municipalities.

The overall conclusion is that financial management through the property charge and targeted government grants to a great extent is in line with the objective of equal economic conditions for all municipalities. However, there are elements of the distribution, primarily the targeted government grants, that are not consistent with that objective. In addition, the purpose of the municipal property charge is unclear in its role as a municipal source of revenue.

### Audit findings

#### Major differences in municipalities' revenue from the property charge

Introduced in 2008, the municipal property charge applies to all those who own a residential property. Revenue is distributed among municipalities based on a standard amount and an adjustment based on the development of property charges in each municipality. There is a wide disparity in municipalities' property charge revenue, which is largely based on the number of single-family houses that existed in each municipality when the property charge was introduced. Changes in the tax assessment value and cap amount on the property charge also have an effect. Rural municipalities with tourism have some of the highest revenue from the property charge per inhabitant. Metropolitan municipalities are among those with the lowest revenue per inhabitant.

Distribution of funds from the property charge is consistent with the objective, but the role of the charge as a municipal source of revenue is unclear

Only a minor part of the differences in municipal property charge revenue is involved in the possibility of the equalisation system to create equal economic conditions for municipalities. On the whole, the structural circumstances for which the equalisation system aims to equalise do not affect fund distribution from the property charge in any decisive way. The distribution of funds is therefore largely consistent with the objective of equal economic conditions.

Even if the distribution of funds from the property charge is not problematic in this respect, there is reason to review the role that the charge should have as a municipal source of revenue. The view of the Riksdag and the Government on this was unclear when the municipal property charge was introduced. For example, the Government mentioned that it should provide municipalities with incentive to stimulate activities such as housing construction, which was later weakened by increased tax exemption for newly built housing.

### High level of utilisation of targeted government grants with municipality-specific grant frameworks

There are well above 100 targeted government grants to municipalities. Some of the grants are distributed using municipality-specific grant frameworks with an upper limit on the amount of grants a municipality can receive. Municipalities' utilisation of grant frameworks is generally high – over 90 per cent of the municipalities receive more than 90 per cent of the grants they can at most receive. The distribution of grants using such frameworks does not affect the possibility of the equalisation system to create equal economic conditions.

### Wide disparity in the utilisation of targeted government grants without municipality-specific grant frameworks

Part of the funds from targeted government grants are distributed without municipality-specific grant frameworks. There is a wide disparity in how many government grants of this type the municipalities receive, largely because municipalities with a smaller population receive fewer targeted government grants compared to municipalities with a larger population. Smaller municipalities must therefore refrain from developing certain activities or finance more of the development using their own funds. This is problematic in itself, but also makes it more difficult for the equalisation system to create equal economic conditions for the municipalities.

## Recommendations

The Swedish NAO makes the following recommendations to the Government:

- Investigate the municipal property charge as a municipal source of revenue. The objective should be clarified and the funds should be distributed in accordance with the objective.
- Continue efforts to make it easier for municipalities to receive targeted government grants, in particular grants distributed without municipality-specific grant frameworks.