



Financial support to municipalities for increased housing construction

Background and rationale for the audit

The Riksdag decided on several new housing policy support measures when dealing with the central government budget in 2016, including support to municipalities to stimulate increased housing construction. Part of the support was intended specifically to increase housing construction in municipalities that receive newly arrived immigrants.

The support included about SEK 1.4–1.8 billion per year, equivalent to about 20–25 per cent of central government spending on community planning, housing provision and construction. The support was discontinued as of 2019, a decision made by the Riksdag in parallel with the completion of this audit.

In several reports on the budget the Riksdag Committee on Civil Affairs has presumed that in future budget bills the Government will report back to the Riksdag with a clear account of how the new housing policy support measures have been used and the outcomes achieved. However, the Swedish National Audit Office has seen indications that the conditions for monitoring the outcome of the financial support to municipalities are uncertain, since the Government has neither set any conditions for how the support should be used nor set any reporting requirements.

Various forms of state support, such as interest subsidies and investment support, have been used in housing policy with varying results over the years. A recurring problem that previous evaluations have pointed out is the difficulty of assessing the effects of such support measures.

Considering this, the Swedish NAO audited whether the support to municipalities has been appropriately designed to effectively achieve increased housing construction.

Purpose and audit questions

The purpose of the audit has been to assess whether the support to municipalities has been appropriately designed to effectively stimulate increased housing construction. The audit is based on the following audit questions:

1. Has the support effectively stimulated increased housing construction?
2. Has the Government ensured appropriate planning of the introduction and design of the support?
3. Has the Government ensured appropriate follow-up and reporting of the use and outcomes of the support?

The Government and the Swedish National Board of Housing, Building and Planning were included in the audit.

Audit findings

The Swedish NAO's overall conclusion is that the support has not effectively stimulated increased housing construction, neither generally nor in municipalities that receive newly arrived immigrants. The Government has not designed the support so that it clearly steers towards its objectives. Nor has the design given municipalities good conditions for planning and using the support effectively in their housing construction activities. In addition, there is no framework for following up the use and outcomes of the support.

The support has not been adapted to the municipalities' planning conditions

The Swedish NAO notes that the Government's design of the support has not given municipalities adequate opportunities to plan and use the support pro-actively in their activities. An important reason is that it has been difficult for an individual municipality to predict the amounts it would be granted.

It was possible to apply for the support at annual application rounds, in which the entire annual appropriation was allocated between all municipalities that had applied and met the

criteria. The amount of support for a municipality was thus dependent on how many other municipalities had applied as well as the volume of housing construction and reception of new arrived immigrants in those municipalities. This contributed to unpredictability and made it difficult for the municipalities to plan for the support. In addition, the time when support was granted fell late in the year, which also made planning more difficult.

The support has not been clearly steered towards the objective of stimulating housing construction in the municipalities

The purpose of the support was to stimulate increased housing construction in municipalities. However, the Government has not regulated what the support disbursed is to be used for. Nor has the support provided sufficient incentive to municipalities to take further measures to assist increased housing construction. The Swedish NAO's assessment is therefore that the Government has not steered the support clearly towards its objective, which has reduced the potential for the support to have an impact on housing construction. There is therefore reason for the Government to clarify the aim of the support towards increased housing construction, in order to increase the effectiveness of any future support.

The audit shows that the support, through the basic conditions set, to some extent may have contributed to the fact that several municipalities have updated their guidelines for housing provision. Such a specific outcome could, however, have been achieved more effectively, from a public finance perspective, since these guidelines should already exist by law.

The municipalities use the support in different ways

Applicants for the support were to a greater extent high-growth municipalities, with larger populations, higher housing construction levels and lower levels of reception of new arrivals, compared with municipalities that did not share in the support.

The audit gives examples of the support being dealt with in different ways in the municipalities, for example depending on whether a municipality, despite the uncertainties, had budgeted for the support or not. In several of the municipalities studied in the audit, the support constituted additional resources that were not taken into account in economic planning during the year. In other municipalities, where the support was taken into account in economic planning, it was able to indirectly fund measures for housing construction and thus also assist the work for housing provision for newly arrived immigrants. However, in such cases it is not possible to determine the degree to which the measures would have been taken even without support.

The Swedish NAO audit shows that the weak governance of the support, the uncertainty as to the amount of support a municipality will receive, and the late date for the decision to grant

support or not, in combination have meant that the support has mainly been regarded as an additional resource for the municipality as a whole, with weak steering towards further measures for housing construction.

The municipalities appreciated the simplicity of the support

At the same time, the general understanding among municipalities interviewed is that the support, apart from its unpredictability, was administratively simple to manage, compared with other targeted government grants. The more general focus of the support was also regarded as providing better conditions for municipalities to plan on the basis of local needs.

It is unclear which problems the support was able to remedy and what the expected outcome is

The Government presented limited background data before introducing the support. The rationale behind the support has only been described at an overall level: that municipalities are able to accelerate housing construction and that housing shortages in many municipalities also make it difficult for them to house newly arrived immigrants. However, there was no analysis of how the support could improve the situation or the problems it was intended to solve. Nor was there any analysis of expected outcomes or consequences for the municipalities' housing construction activities.

The Swedish NAO therefore considers that the Government's planning of the support was insufficient, and that this also reduced the scope for monitoring and reporting the use and outcome of the support to achieve subsequent improvements.

Several other factors affect municipalities' capacity to increase housing construction

There are several factors that affect municipalities' ability to plan housing construction. Consequently, financial support can only to some extent improve municipalities' capacity to increase housing construction. To the extent a support measure makes a difference, the impact on the municipality's housing construction activities can only be expected in the long term. Even then, the outcome may be difficult to link with the support.

There are no conditions for monitoring and reporting to the Riksdag on the use and outcome of the support

Neither the Government nor the National Board of Housing, Building and Planning has planned any follow up of the outcome of the support. Nor has the Government ensured that the support can be subsequently followed up. Since the Government neither laid down conditions for the use of the aid, nor imposed requirements for reporting back, there is no meaningful way to

follow-up how the support has been used or its outcome. Consequently, it is not possible either to present and report the use and outcome to the Riksdag in accordance with the wishes of the Committee on Civil Affairs.

Recommendations

If, in the future, the Government is considering new support to municipalities in order to stimulate more housing construction in general or in municipalities receiving newly arrived immigrants, the Swedish National Audit Office makes the following recommendations to the Government:

- Design the support on the basis of an analysis of the need for financial support and the specific problems that a support to municipalities is intended to address in order to increase housing construction in general and in municipalities receiving new arrivals.
- Adapt the design of the support with regard to the planning and budgetary processes of the municipalities, so that the municipalities have the opportunity to plan for it. The amount of support should be predictable and simple to estimate in advance, or alternatively a decision to grant the support should be taken before the municipalities have set the budget for the year or at least as early as possible in the year, so that the municipalities have time to use the money before the next financial year begins. One way to increase predictability is to allow the support to be paid as a flat rate per dwelling in the municipality. The level of the flat rate can be determined on the basis of an analysis of the need for the support and the consequences for public finances of the variation of housing construction from year to year.
- Consider an overall condition of use of the support, for example that the support is to be used in the way the municipality considers the most appropriate to increase housing construction. This can increase the possibilities of the money being used in activities which contribute to achieving the objectives of the support.
- Ensure that the municipalities' use of the support can subsequently be followed up, for example by including a reporting requirement for the beneficiaries and by early announcement of a follow-up plan. This is important in order to ensure that the outcome is monitored and reported to the Riksdag and to enable subsequent improvements.