



Summary and recommendations

Every year, every Swedish municipality downloads a large Excel form from Statistics Sweden's (SCB) website. This data is called the *Annual Municipal Accounts* (RS) and constitutes the State's most important source of information about the financial situation and development of the municipalities.

The role of RS has gradually evolved from mainly forming a basis for the national accounts and related product, to also providing the financial components of key figures for municipal comparisons. If the data is to serve this purpose, the policies for reporting to RS must be fair even if the municipalities are differently organised. Accounting for common costs may constitute a considerable source of error when comparing municipalities.

Purpose of the audit

The purpose of the audit is to investigate whether central government has created the conditions for municipalities to account for overheads so that RS forms a reliable basis for comparison of municipalities.

The audit focuses on three areas:

1. Municipalities' general framework for allocating overheads,
2. Municipalities' framework for accounting for overheads for measures regulated by the Act concerning Support and Service for Persons with Certain Functional Impairments (1993:387), referred to below as LSS, and
3. Municipalities' framework for allocating overheads so that comparisons between municipalities are reliable, regardless of how the activities are allocated between public and private providers.

Audit findings

The municipalities' general framework for allocating overheads

Overheads at central municipal level have increased faster than other municipal costs. Overheads also arise in municipal specialist administrations but are not visible in RS and their size is therefore unknown. Regardless of whether overheads arise at central or specialist administration level, they must be allocated to the activities. This can be done either with the allocation key offered by SCB (the SCB-key) or with allocation keys designed by the municipalities themselves.

When SCB offered municipalities the use of the SCB-key at central level, most municipalities opted out of the possibility of more local allocation policies. Despite the fact that the municipalities are of different sizes and differently organised, they all decided that the SCB-key meets reasonable accuracy requirements. The fact that about fifty municipalities decided to continue allocation of costs using their own keys, has not had any significant impact on the cost outcome in the accounts. This may, however, have affected confidence and credibility in the comparability of data from RS. Reports from international experts, interviews with representatives of the municipalities and responses to the Swedish NAO's survey indicates that this is the case. Much suggests that the reallocations made using the municipality's own allocation keys are not clearly justified. The Swedish NAO therefore takes the view that SCB should work to encourage all municipalities to use the SCB-key.

SCB does not offer any allocation key to allocate overheads at specialist administration level, which means that the municipalities must design their own allocation policy at this level. The Swedish NAO considers that this creates a risk of unwarranted differences in the accounts. It also means that the municipalities have an unnecessarily heavy

accounting burden. The Swedish NAO considers that overheads at specialist administration level should be separately disclosed and allocated using a national allocation key that reflects the design of the SCB-key.

Framework for reporting overheads relating to LSS

Central government has created an equalisation system for municipal costs associated with LSS. The equalisation system means that municipalities with lower costs associated with the Act partly compensate municipalities with higher costs. A municipality may, intentionally or unintentionally, influence its outcomes in this equalisation through allocation of overheads in the RS.

There is a risk that municipalities will report unreasonably high overheads for their obligations under the Act LSS with a view to achieving a better outcome in the equalisation. As long as municipalities can opt out of the SCB-key, the Swedish NAO considers that SCB can take certain measures to reduce this risk. However, if all municipalities use the SCB-key the need for such measures will decrease.

Since overheads at specialist administration levels are not visible in the RS it is difficult for SCB to follow up how they are allocated. If the overheads at administration level are made visible and allocated using a national SCB-key, the possibility of intentional or unintentional incorrect reporting of these overheads will be eliminated. If this does not happen, the Swedish NAO emphasise that more targeted control of overheads at administration level must be considered. In that case, the Government should work to ensure that the municipalities' auditors are given a more active role in reviewing the submission of data to the RS.

Framework for allocating overheads on the basis of corporate form

By means of legislation, central government has introduced an education market and the opportunity for municipalities to establish markets within the healthcare and social care sector. This has contributed to municipalities buying an increasing proportion of services from other municipalities and private companies. From the perspective of comparison, it is important for municipalities to report their overheads consistently, regardless of how the activities are allocated between own operations and operations carried out by other providers.

The overall accounting policy for RS is that costs and revenues should be allocated to the activities that give rise to them. To be able to follow this policy at central municipal level, municipalities need to actively opt out of the key offered by SCB. At specialist administration level, there is no SCB-key available, which means that municipalities either opt for a policy that corresponds to the allocation policy of the SCB-key or follow the overall accounting policy. In combination, this may create both systematic errors and non-systematic errors that make reliable comparisons of municipalities more difficult.

In 2016, the municipalities purchased services for almost SEK 130 billion. It is not reasonable that overheads for these purchases are borne by municipally run operations. The current accounting policy may adversely affect the possibility of making comparisons at national level concerning cost efficiency of various corporate forms. The Swedish NAO considers that the SCB-key needs to be developed so that services purchased from other providers can bear their own overheads.

It is in the interest of both central and local government to be able to compare cost efficiency between services performed by the municipality itself and other providers. However, municipalities cannot report overheads so that it is clear what type of provider has given rise to them without going against some part of SCB's norm. SCB should consider a change in the forms that enables such disclosure.

Recommendations

The Swedish NAO's overall assessment is that SCB needs to review its support to municipalities concerning allocation of overheads. The starting point of this review should be that the municipalities should follow a clear and transparent allocation policy, regardless of the organisational level at which the overheads arise and regardless of the corporate form in which the service is provided.

On the basis of its audit, the Swedish NAO makes the following recommendations to the Government and SCB:

- The Government should instruct SCB to develop the RS so that overheads at specialist administration level in a first step can be separately disclosed and in a second step can be allocated using a national allocation key.
- The Government should instruct SCB to review the policies for reporting overheads for purchases of services, so that the agency's norms follow the overall accounting policy for the RS.
- SCB should work to ensure that all municipalities use the SCB-key.
- SCB should, as long as the SCB-key is optional, make special follow ups of how overheads at central municipal level are allocated for services according to LSS.