

Steering of Local Government Finances in Finland

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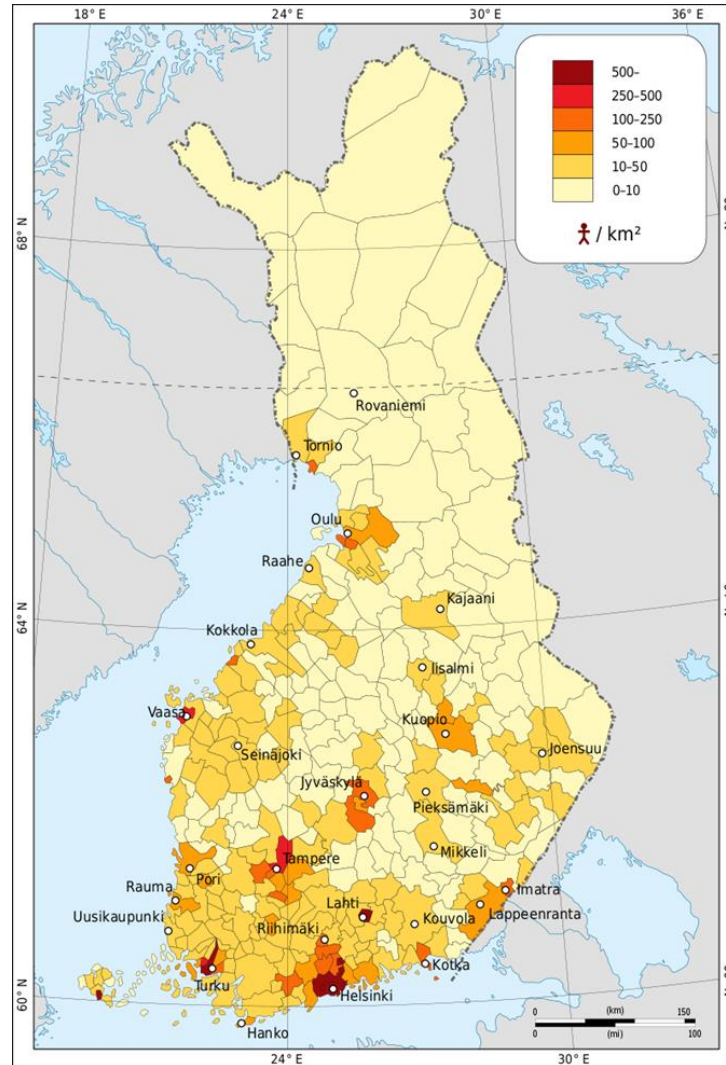
- Local Government in Finland
- Coordination mechanisms for local government finances in Finland
- Audit findings and conclusions



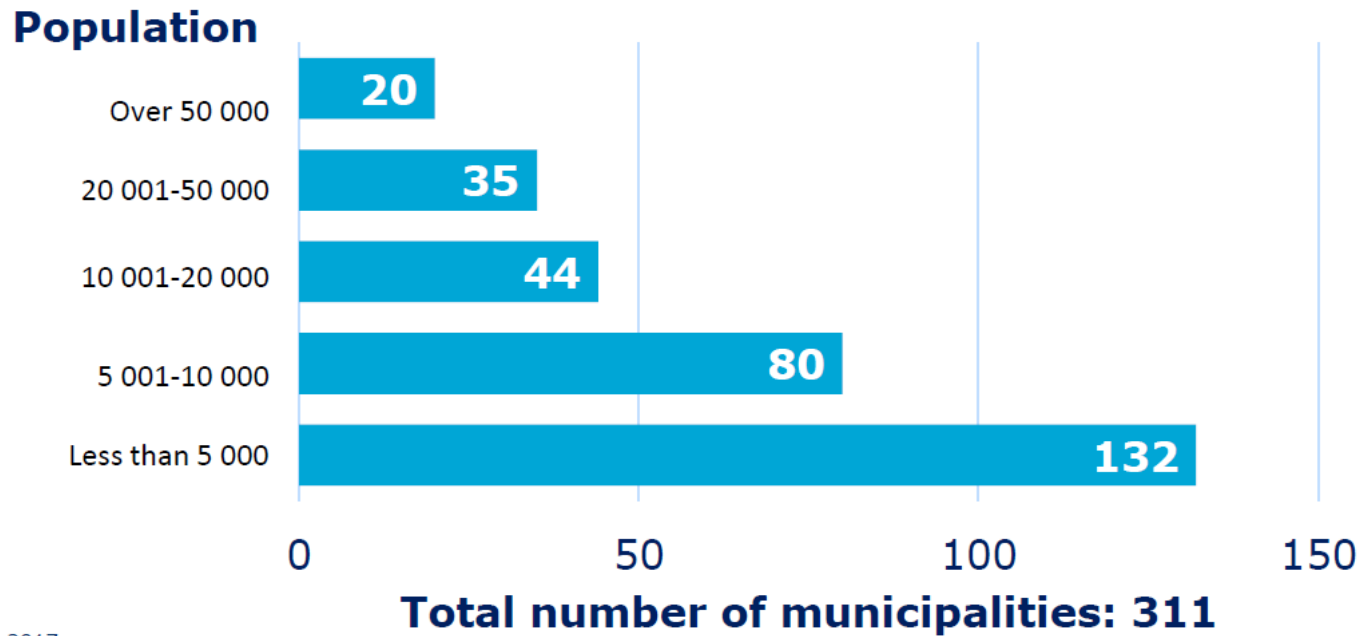
Local Government in Finland



Municipalities in Finland (population densities, inhabitants per square kilometer)



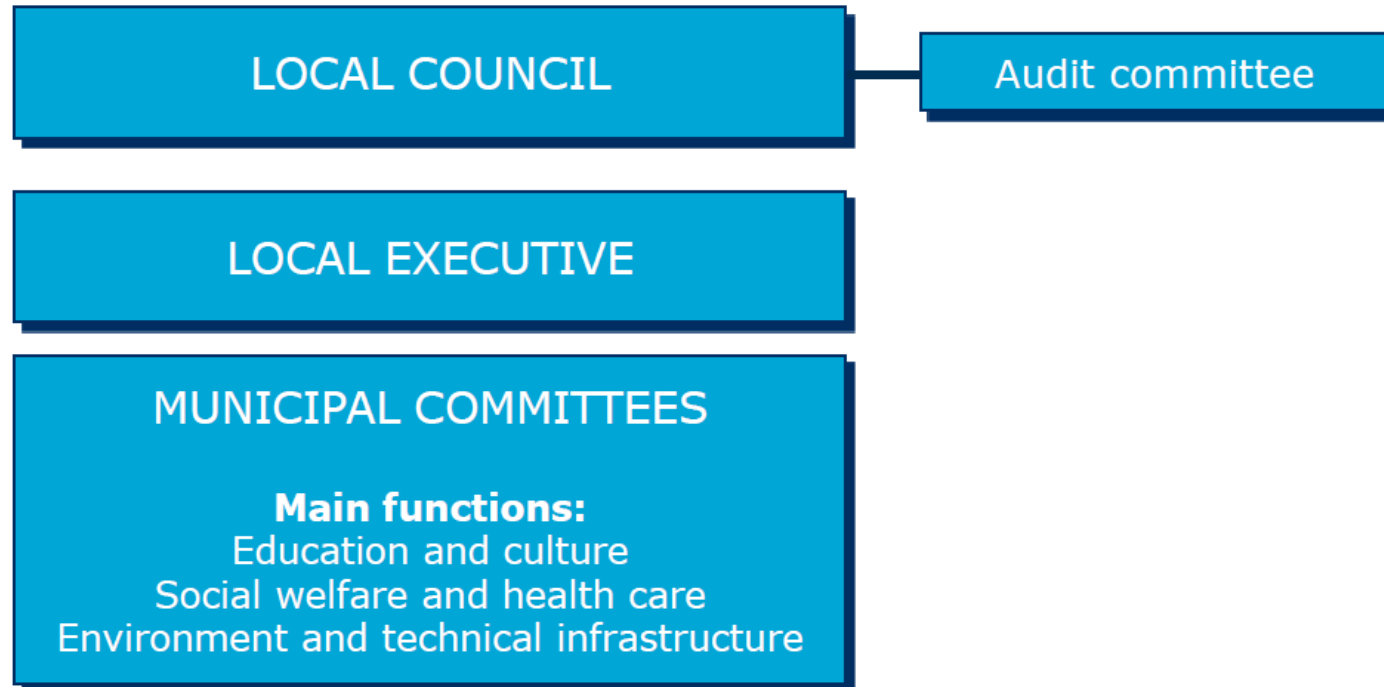
Number of municipalities by population size



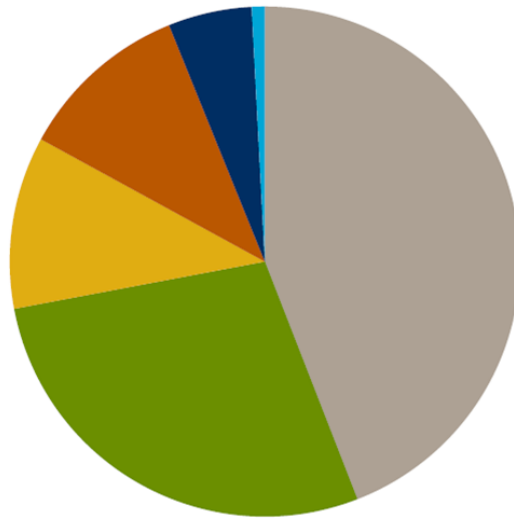
* Population on 31 Dec 2017
Source: Statistics Finland



Organisation and tasks of municipalities



Local and joint municipal authorities — expenditure

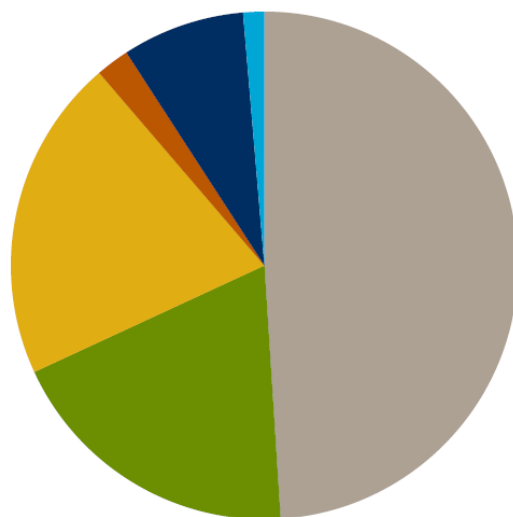


Estimate 2017 (external expenditure)

- Social welfare and health care 44%, €19.8 billion
- Education and cultural services 28%, €12.6 billion
- Other functions 11%, €4.9 billion
- Investment expenditure 11%, €4.9 billion
- Debt service 5%, €2.4 billion
- Other expenditure 1%, €0.4 billion

Total €44.9 billion

Local and joint municipal authorities — revenue

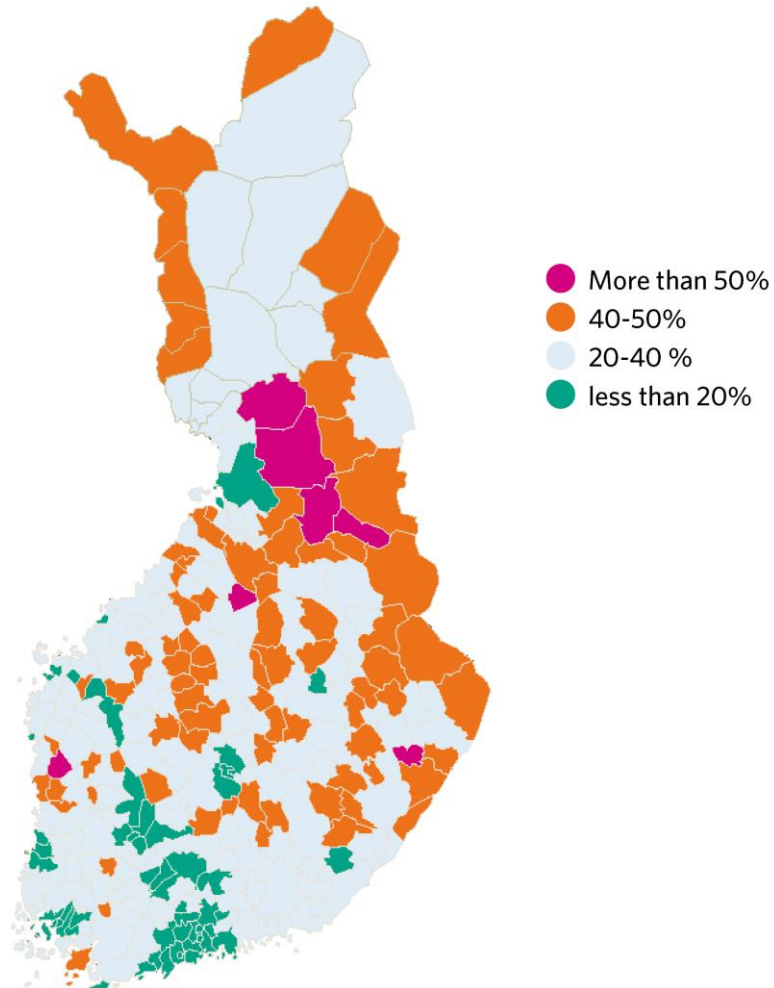


Estimate 2017 (external revenue)

- Tax revenue
49%, €21.9 billion
- Central govt transfers
19%, €8.5 billion
- Operating income
21%, €9.2 billion
- Investment income
2%, €1.0 billion
- Borrowing
8%, €3.5 billion
- Other income
1%, €0.6 billion

Total €44.7 billion

Proportion of central government transfers in financing municipal services



Coordination of Local Government Finances

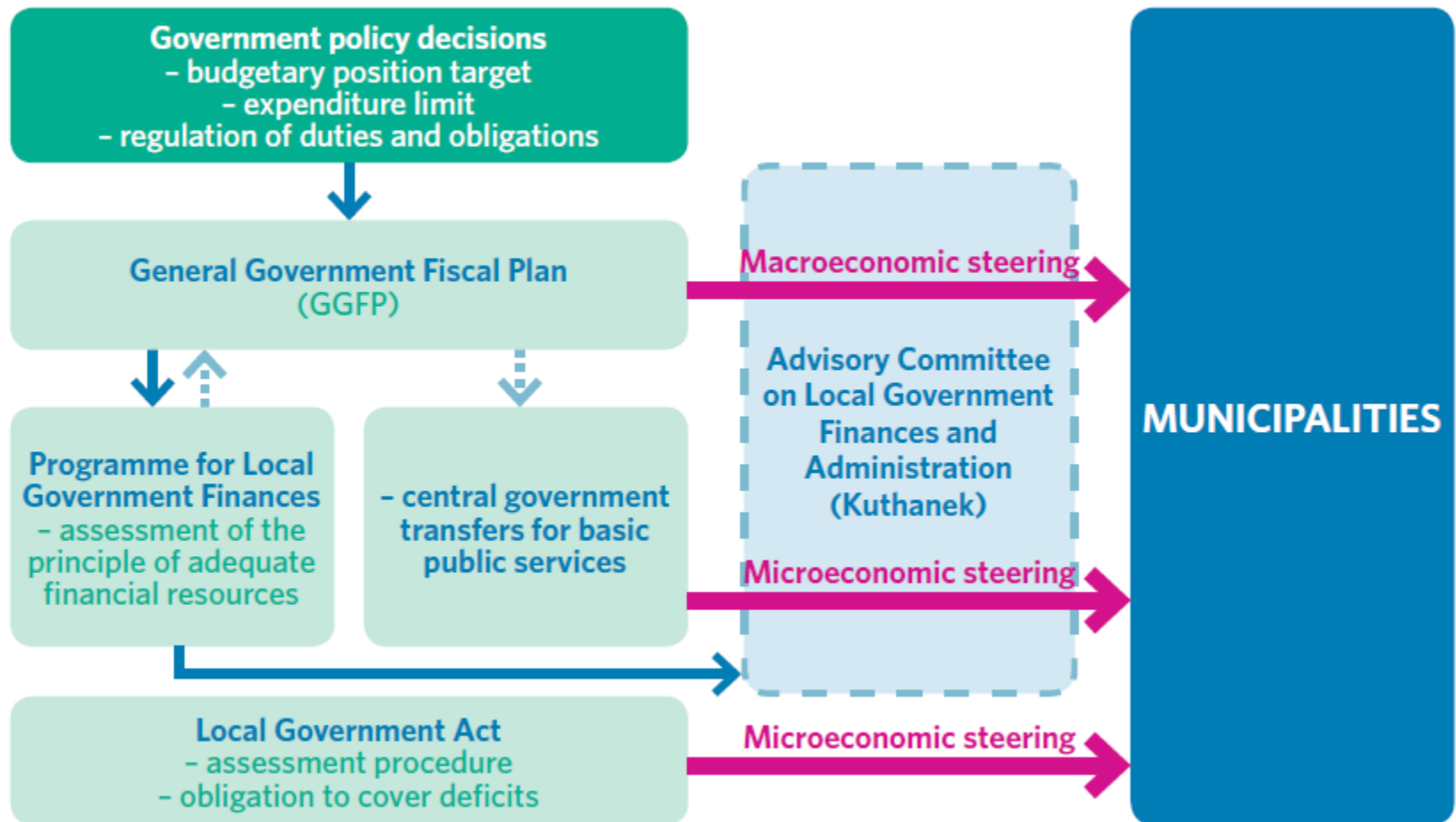


Background for auditing steering of municipal finances

- Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States
- Implementation of Fiscal Compact to national legislation in "Fiscal Policy Act" in 2012



Central elements of local government steering system



Audit questions

- Does the macroeconomic steering of local government finances support the achievement of the objectives set for the overall steering of general government finances?
- Does the microeconomic steering of municipalities improve the sustainability of local government finance and achievement of the macroeconomic targets?



Audit results



Overall, the measures taken to reform the steering of local government finances have been effective

- Overall coordination of general government finances has improved following the launch of general government fiscal plan in 2015, i.e. the renewal of the macroeconomic steering system
- Also changes made to the Municipal Act in 2015 to better control and steer the finances of single municipalities were successful
- Budget balance of local governments is heading to better direction, after a long lasting downward trend



Developing needs in the macroeconomic steering

- Expenditure limit is not working as it should
 - It is important addition to the range of tools facilitating the achievement of the local government budgetary position target, but it cannot alone guarantee that *all* central government measures targeted at the local government sector are in line with the objective of achieving the local government budgetary position target
 - The expenditure limit reflects rather the potential for savings in municipalities enabled by central government measures than actual reductions in the level of expenditure.
 - Monitoring of the implementation of the expenditure limit is not reported in a systematic and open manner

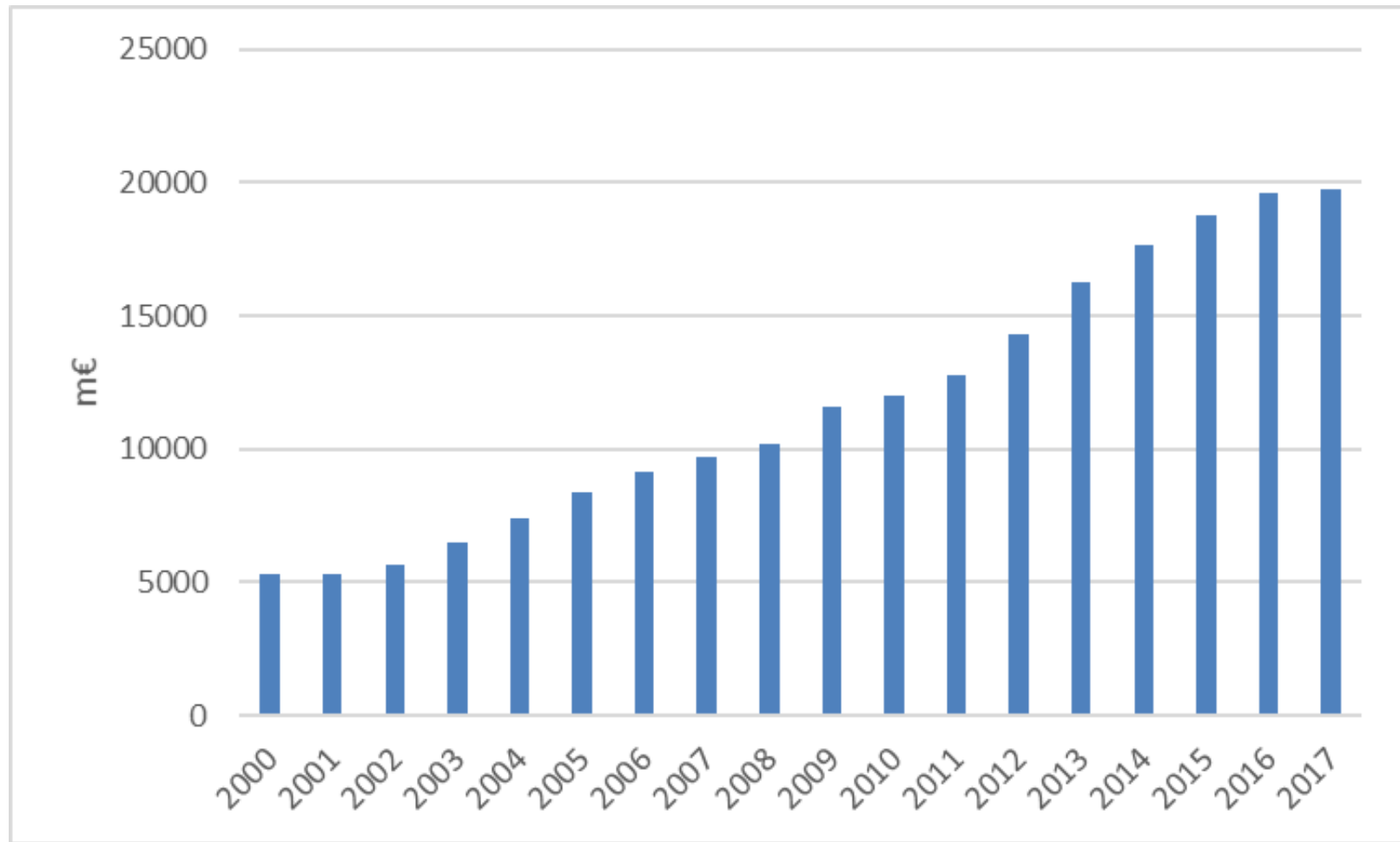


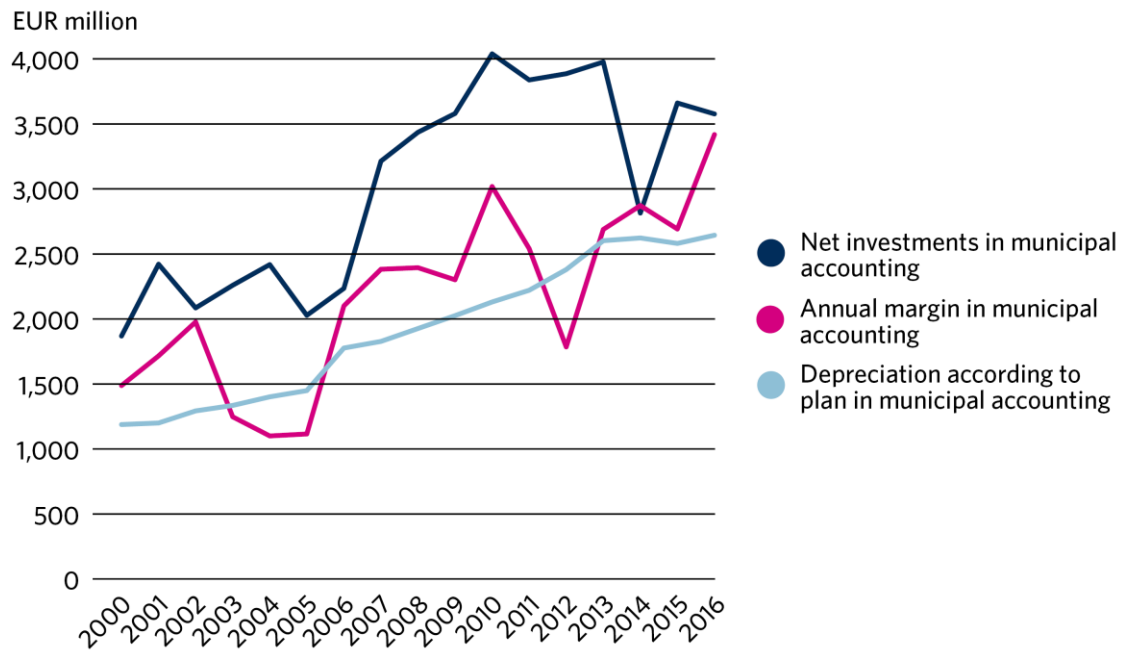
Developing needs in the microeconomic steering

- System of central government transfers is not transparent, and it has evolved to include components that may violate achieving its original goals
- Municipal accounting data is not of uniform quality
- Municipal deficit is not fully reliable key ratio
- Microeconomic coordination could better support the achievement of the macroeconomic targets

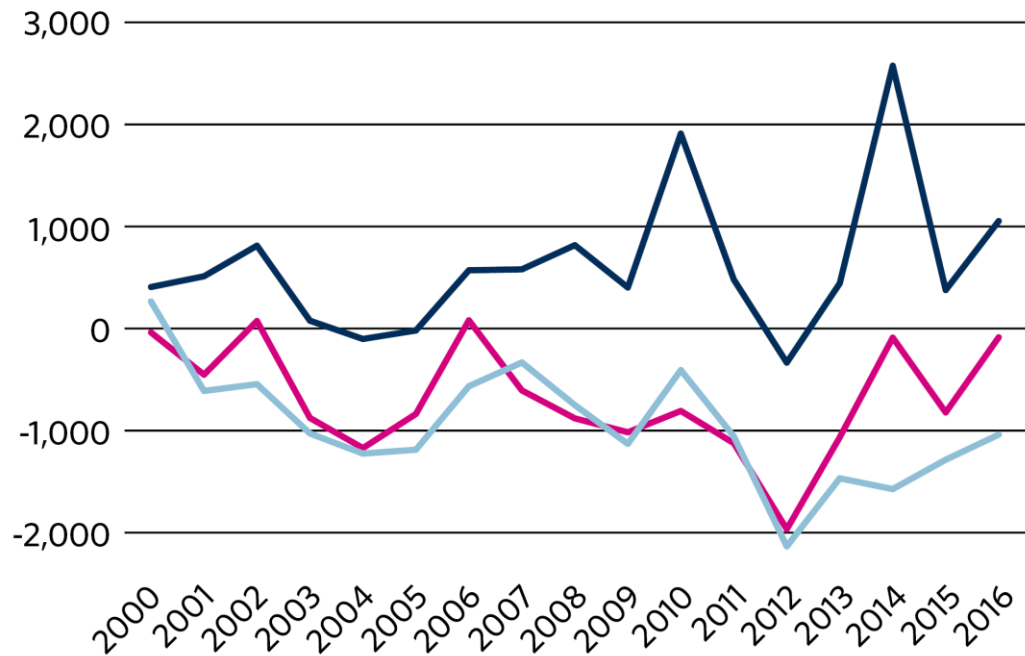


Local Government debt in Finland





EUR million



- Deficit/surplus in municipal accounting
- Cash flow from operations and investments in municipal accounting
- Net lending according to National Accounts

Recommendations to MoF

- enhance the transparency of the justifications for the expenditure limit set, as well as the monitoring of its implementation;
- further develop the comprehensiveness of the assessment of the implementation of the principle of adequate financial resources provided in the Local Government Finance Programme;
- enhance the coordination of the microeconomic and macroeconomic steering systems, improve the transparency concerning the differences between the systems, and further coordinate the rules steering general government finances. The budget balance requirement set for individual municipalities should be specified so that it can better steer the municipality towards the macroeconomic balance targets;
- further develop the contents of the information base according to the needs of the local government steering. The rules and guidelines governing the data contents should be made more binding.



Thank you!

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