

FINLAND

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 338 150 km²**Population:** 5.508 million inhabitants (2017), an increase of 0.4% per year (2010-2015)**Density:** 16 inhabitants / km²**Urban population:** 84.4% of national population**Urban population growth:** 0.3% (2017 vs 2016)**Capital city:** Helsinki (23.2% of national population)

ECONOMIC DATA

GDP: 247.3 billion (current PPP international dollars), i.e. 44 891 dollars per inhabitant (2017)**Real GDP growth:** 2.6% (2017 vs 2016)**Unemployment rate:** 8.6% (2017)**Foreign direct investment, net inflows (FDI):** 14 198 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 23% of GDP (2017)**HDI:** 0.920 (very high), rank 15 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Finland is a parliamentary Republic under the 1999 Constitution and the 2012 constitutional amendments. It is led by the President of the Republic as the Head of State and by a Prime Minister as Head of the Government. It has a unicameral Parliament (*Eduskunta*), which is formed by 200 representatives, who are elected for a four-year term.

Finland is a unitary state organised on a decentralised basis. Local democracy has been developing since 1917 through regulatory advances and the introduction of universal direct suffrage at the municipal level.

The Finnish Constitution safeguards the municipal self-government and its autonomy. An important legal basis for municipalities is also the Local Government Act, which sets the rules by which municipalities must operate and organise their administration. The 1995 Local Government Act was revised in 2015.

The local residents elect every four years the municipal council, which is the key decision-making unit in municipalities. Besides the local council, there is a municipal board, which is an executive body whose members are elected by the local council. The composition of the municipal board is based on the political makeup of the council: the parties represented in the council get seats on the municipal board according to their share of council seats. The municipal board is responsible for municipal administration and financial management. It prepares matters to be decided by the council, executes the decisions and ensures their legality. Municipal boards hold a powerful administrative position, because the most important matters prepared for the council are politically agreed in advance by the board. The municipal manager is a civil servant who works under the municipal board as the head of municipal administration, financial management and other functions. Municipality managers hold their position either for a fixed term or the positions are permanent. The choices of city managers do not necessarily take place close to local elections. The situation is, however, slightly different for the biggest cities. City managers (called mayors and deputy mayors) in the biggest cities are often de facto politicians who have risen the ranks from city councils or national politics to this position elected by local councils.

Other important laws regarding subnational governance are the Division into Regions Act (1159/1997), the Law on regional development and the management of Structural Fund operations (7/2014) and the Act on Restructuring Local Governments and Services (Framework Act - 169/2007).

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	311 municipalities (<i>kuntaa</i>)		1 autonomous county of Åland	
	Average municipal size: 17 670 inhabitants			
	311		1	312

OVERALL DESCRIPTION. Finland has one subnational level composed of 311 municipalities in 2018. Finland has undergone several municipal reforms over the past years, in particular the PARAS reform in 2005-07 which promoted municipal mergers and inter-municipal cooperation. The number of municipalities has steadily decreased from 475 in 1976 to the current number. In 2018, the average municipal size is almost 18 000 inhabitants and the median size is around 6 000 inhabitants. About 43% of municipalities have however fewer than 5 000 inhabitants and 14% fewer than 2 000 inhabitants. There are nine cities exceeding 100 000 inhabitants, including Helsinki and Vantaa and Espoo, which are located in the Helsinki metropolitan area as well as Tampere, Turku and Oulu.

REGIONS gained importance during the last decade of the 20th century. They were created in the mid-1990s, primarily as a conduit for applications for European Structural Funds following Finland's accession to the EU. The Division into Regions Act, passed on 11 December 1997, entered into force on 1 March 1998. However, while there are 19 regions, only one has an autonomous administration: the island region of Åland. Åland Island has its own parliament and government and it is divided into 16 municipalities. The population of Åland Islands in 2017 was 29 489 inhabitants. The other 18 regions, called "regional councils" (*maakunnan liitto*) are led by statutory joint municipal boards. They are elected by the municipal authorities and they receive funding from their member municipalities as well as from funds for regional development from the Finnish government and the European Union.

A regional self-government experiment was carried out in the region of Kainuu between 2005 and 2012. The Regional Council was granted powers that had traditionally been under the domain of the Central Government and health care and most of the social and educational services were transferred from the municipalities to the region. The experiment ended on 31 December 2012 after talks broke down indefinitely.

A new regional reform was launched in 2015 aiming to create a new autonomous elected regional level. If the reform proposal is accepted in the Parliament during the spring 2019, it will take effect at the start of 2021.

Voluntary inter-municipal cooperation is a common way to arrange services in conjunction with other municipalities, in particular in case of the smallest municipalities. Hospitals and regional councils are managed by compulsory inter-municipal clusters.

Until January 2010, Finland had six state provincial administration provinces, led by a governor appointed by the President of the Republic upon the recommendation of the Council of Ministers. Provinces were abolished under the local government reforms and their responsibilities were transferred to the regional councils or the municipalities. However, there is now a regional level of deconcentrated state administration, which is composed of six Regional State Administrative Agencies (AVI) and 15 Centers for Economic Development, Transport and the Environment (ELY).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Finland's municipalities have general jurisdiction, which means that they have a wide range of responsibilities that have been extended over the years. They are in charge of delivering a wide range of public services, in education, social services, health and infrastructure maintenance. The provision of local services can be entrusted to inter-municipal cooperation structures as well as to municipally owned companies. Functions arranged in cooperation with other municipalities (statutory joint responsibilities) are specified by law.

The Regions, in the framework of the recent reform, would be in charge of the organisation of primary and specialised healthcare and social services (transferred from the responsibility of municipalities). In addition, future autonomous regions could be assigned other functions (not yet defined) presently under the responsibility of current regional councils, Centers for Economic Development, Transport and the Environment (mostly active in regional development, rescue services, etc.).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	ÅLAND ISLANDS	MUNICIPAL LEVEL
1. General public services	Åland civil service; Taxation; Statistics; Internal administration	General municipal administration; Public buildings and facilities
2. Public order and safety	Public order and security; Civil protection; Some aspects of criminal law	Fire and rescue services
3. Economic affairs /transports	Agriculture; Fisheries; Communications (postal services, broadcast); Transport networks; Trade; Promotion of employment	Public transportation; Economic development and employment
4. Environmental protection	Environment; Prevention of cruelty to animals and veterinary care	Environmental protection; Waste management; Sewerage
5. Housing and community amenities	Land use planning	Land use planning; Local infrastructure including streets; Energy; Water management; Harbours
6. Health	Public health	Primary and specialised healthcare; Dental services
7. Recreation, culture & religion	Culture; Sports	Culture; Sports; Library services
8. Education	Education; Apprenticeships	Pre-school; primary and secondary education; vocational training; Adult education
9. Social protection	Social welfare; Youth work	Social welfare; Child day care; Services for the elderly; Services for disabled

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, joint municipal authorities and quasi-corporations which are legally part of the municipality under which they are operating. In addition, it comprises the Åland Government and its Pension fund, the Association of Finnish Local and Regional Authorities (<i>Kuntaliitto</i>), the KT Local Government Employers and the Municipal Guarantee Board).	SNA 2008	Availability of fiscal data: High	Quality/reliability of fiscal data : High
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GENERAL INTRODUCTION. The Constitution secures the municipalities' right to make financial decisions, for example the right to levy taxes. The Local Government Act sets the rules for the administration and finances of municipalities, inter-municipal bodies and municipal companies (Chapter 13 on "local government finances").

The Local Government Act also states that the Ministry of Finance is responsible for monitoring the activities and finances of municipalities and for ensuring that municipal self-governing status is taken into account whenever legislation concerning local government is drafted. The law also provides for a "negotiation process" between the central and local governments, the latter being represented by the Association of Finnish Local and Regional Authorities. As part of this negotiation process, the law establishes the need to prepare each year a Programme for local government finances, which is part of the preparatory work for the General Government Fiscal Plan and the central government's budget proposal. This programme must include an assessment of whether municipalities have adequate funding with which to perform their duties (principle of adequate financial resources), an assessment of changes in the municipalities' operating environment and demand for services, and in the functions of local government, and shall provide an estimate of the trend in local government finances.

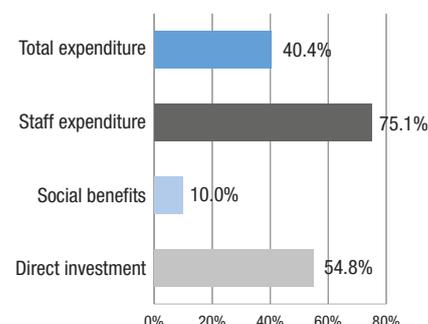
The Local Government Act also provides for the establishment of an "Advisory Committee on Local Government Finances and Administration", which operates in conjunction with the Ministry of Finance. Its tasks are to monitor and assess the trend in local government finances, and ensure that the programme for local government finances is taken into account in the drafting of legislation and decisions concerning local government.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	9 804	22.6%	100%	
Incl. current expenditure	8 888	20.5%	90.7%	
Staff expenditure	4 339	10.0%	44.3%	
Intermediate consumption	3 179	7.3%	32.4%	
Social expenditure	975	2.2%	9.9%	
Subsidies and current transfers	365	0.8%	3.7%	
Financial charges	28	0.1%	0.3%	
Others	2	0.0%	0.0%	
Incl. capital expenditure	916	2.1%	9.3%	
Capital transfers	2	0.0%	0.0%	
Direct investment (or GFCF)	914	2.1%	9.3%	

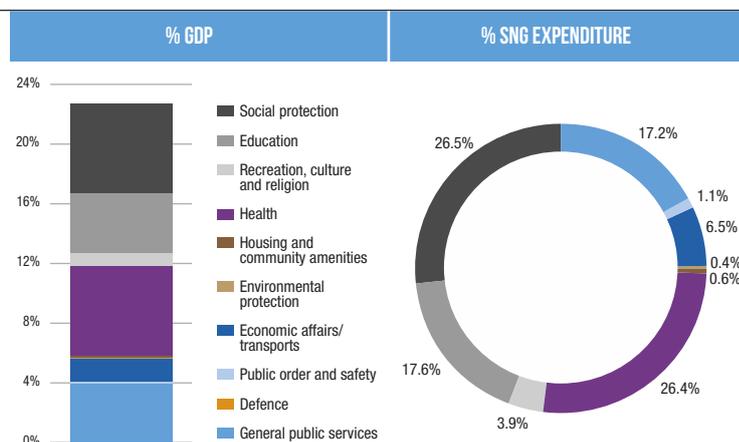


EXPENDITURE. In international comparison, Finland is considered one of the most decentralised countries in the world. As of today, all main social, healthcare and education services are performed by municipalities or by joint municipal authorities. Hence, the overall economic importance of the municipal sector is considerable. Municipality spending as a share of GDP and general government is among the highest in the OECD, well above the OECD average where subnational expenditure amounted to 16.2% of GDP and 40.4% of public spending in 2016. Finland is surpassed only by some federal countries (Canada and Belgium) and by two Nordic unitary countries (Denmark and Sweden). Municipalities employ roughly 20% of the total Finnish workforce. Overall, subnational staff expenditure amounted to 75% of public staff expenditure in 2016, which is also amongst the highest of the OECD members, along with Denmark, Sweden and Japan as with most federal countries. Staff expenditure represents almost half of SNG spending (versus 36% in the OECD).

DIRECT INVESTMENT. Even if municipalities have large responsibilities in the healthcare and social protection areas, their share in public investment is currently below the OECD average (56.9%). Municipalities are responsible for important investment projects related to education, hospitals, municipal infrastructure, roads and other transport networks.

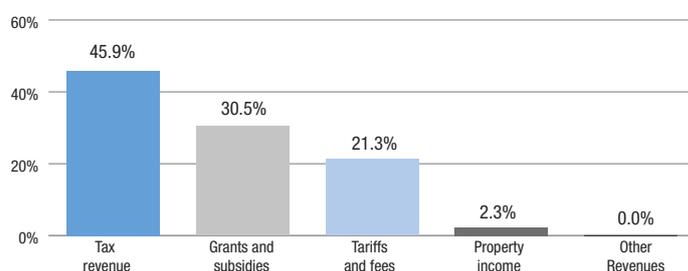
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Local governments in Finland carry out important public services. Compared with the rest of the OECD countries, Finland stands out with high spending shares in health, social services and education. For instance, in healthcare the municipalities and joint municipal authorities are in charge of primary and secondary healthcare and dental care. As for social services, the municipal sector is responsible for child day care, services for the aged and the disabled. In education, municipalities provide pre-school and primary education and secondary education. Since these service categories are labour intensive, municipal staff spending is high.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	9 613	22.2%	40.9%	
Tax revenue	4 411	10.2%	32.6%	
Grants and subsidies	2 932	6.8%		
Tariffs and fees	2 047	4.7%		
Property income	220	0.5%		
Other revenues	3.0	0.0%		



OVERALL DESCRIPTION. Own-source revenues (taxes, tariffs and fees, property income) account for nearly 70% of subnational revenue, and 15% of GDP, giving municipalities considerable autonomy over their revenue. The share of taxes in subnational revenues is at the same level of the OECD on average (45%). However, as a share of GDP, it is above the OECD average (7.1% in 2016). Tariffs and fees represent almost a fifth of subnational revenue, which is also above the OECD average (15% in 2016) while the share of grants and subsidies is below the OECD average (37%).

In the framework of the regional reform which is currently underway, a new Act on regional financing has been proposed. Closely linked to the reform of health and social protection financing, the initial aim is to give the central government primary responsibility for financing the regions.

TAX REVENUE. Most municipal taxes are own-sourced. Only one tax is shared with the central government: the corporate income tax, (7% of local government tax revenue in 2016 and around 3% of subnational revenue). The CIT share redistributed to municipalities is regularly readjusted to adapt to the municipal sector economy (e.g. from around 20% in 2003 to 32% in 2011 during the crisis and 31.4% in 2018). For a long time, authorities have discussed replacing corporate tax revenue with increased grants as a source of municipal revenue. Municipalities have strongly opposed such proposals however. Opposition is particularly fierce in areas such as Helsinki region where corporate income tax has been an important revenue source.

The main source of own tax revenue is municipal income tax (around 85% of subnational tax revenue and 39% of total subnational revenue). Subnational PIT receipts represent almost 70% of total PIT collected at national level. Its base is determined by the central government, but municipalities have full control over the rate. Municipal income tax is a flat rate tax, although central government policy for tax allowances for persons with low incomes has made the local tax more like a progressive tax. The revenue losses of these allowances are compensated to municipalities through the grant system however. In 2019, the municipal income tax rates vary between 22.5% and 16.5%, the average rate is 20.84%. Most income tax rates are close to this average.

Municipalities also levy property taxes (7.6% of local tax revenue and 3.5% of subnational revenue, i.e. 0.8% of GDP), which consist of five taxes: the general real estate tax, the tax for permanent residential buildings, the tax for other residential buildings, the tax for power stations and tax for nuclear power stations. In addition, municipalities can put a special tax on unbuilt land. This tax is voluntary except in the 14 municipalities of the Helsinki metropolitan region, where the municipalities are obliged to apply this tax. The most important property taxes are the general real estate tax and the tax for permanent residential buildings. Municipalities are the sole receivers of property tax revenues. Property taxes are collected by the central tax authority, but each municipality decides its own property tax rates within upper and lower limits set by the central government.

GRANTS AND SUBSIDIES. Central transfers to municipalities are formula based and the system consists of revenue equalisation and cost equalisation. Revenue equalisation takes into account municipal differences in calculated (not real) tax revenues. Revenue equalisation equalises transfers, not actual tax revenues. Cost equalisation takes into account differences in service needs and other factors affecting the cost of service provision (population, geographic remoteness, number of pupils, age-specific cost coefficients for services, etc.). Transfers are non-earmarked block grants, i.e. municipalities are free to allocate the total amount of grants as they wish.

The transfer system can be a significant source of income for some municipalities with high service cost factors and low revenue bases (for those municipalities, grants can account for more than 50% of all their revenues). In practice, all grants are used for current expenditure.

OTHER REVENUES. The majority of other revenues (21.3%) come from tariffs and fees. User fees from healthcare, charges for utilities (water supply, waste disposal, power) and public transport form the main sources for this income, while basic education is free. The remaining part is made up of property income - assets sales and rents, a percentage in line with the OECD average (2% of subnational government revenue in 2016).

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	5 268	12.7%	16.8%	100%
Financial debt*	3 774	9.1%	13.3%	72%

* Currency and deposits, loans and bonds

FISCAL RULES. Local budgets in Finland must be balanced over a four-year planning period. Moreover, an amendment to the Municipal Act in 2015 reinforced the macro-steering of the local finance system. An objective was set for local government deficits, and a spending limit was introduced on central government measures affecting local finances. According to the Local Government Act, each municipality must have a local authority audit committee to arrange audits and assessments of the administration and finances. Members are elected by local councillors. For the audit of the administration and finances, the local council shall appoint an authorised public accountant.

DEBT. Municipalities are free to borrow through bonds and loans to finance any type of operation. Deteriorating fiscal positions pushed municipalities to increase borrowing between 2009 and 2016, but in 2017 the borrowing slowed down markedly. Local debt is still below the OECD average (24.5% of GDP and 20.7% of public debt) but on par with the average for OECD unitary countries (14.5% of GDP and 11.8% of public debt). In 2016, local debt was made up of financial debt (72%) and other accounts payable (28%). Financial debt (“Maastricht debt”) accounted for 9.1% of GDP and 13.3% of public financial deb. It included loans (86%) and bonds (14%). More than 80% of municipal debt is financed through the Municipal Finance (MuniFin), a 100% publicly-owned provider of financial services to local governments.



Lead responsible: OECD
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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Statistics Finland.

Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Statistics Finland.

Other sources of information: Valtioneuvosto (2018) Regional government, health and social services reform // OECD (2017) Multi-level governance reforms: Overview of OECD country experiences // Council of Europe (2017) Local and Regional Democracy in Finland, Congress of local and regional authorities // European Committee of Regions (2016) Division of Powers // André, C. and C. Garcia (2014) Local Public Finances and Municipal Reform in Finland, OECD Economics Department Working Papers, No. 1121 // Moisio et al. (2010) Public services at the local level - The Finnish way. VATT Policy Reports 2.