Finland is one of the most decentralised OECD countries. Local government share in GDP and public spending is among the highest in the OECD, on the same level as several federal countries (SNG spending represented an average of 16.6% of GDP and 40% of public spending in the OECD in 2013). The share of local government in public staff spending is also one of the highest, as with most federal countries, Denmark, Sweden and Japan. Staff expenditure represents almost half of SNG expenditure (vs 36% in the OECD). However, the share of SNGs in public investment is below the OECD average (59%) although local investment, as a percentage of GDP, is higher than in the OECD on average (2.2% vs 1.9%).
Local governments in Finland are responsible for large categories of spending. The two largest areas are healthcare and social protection. They are followed by education. More than half of municipal employees work in social services and healthcare, which explains the high level of municipal staff spending (which also includes teaching staff).

Local governments have considerable autonomy over their revenue. The main source of revenue comes from taxes, a level in line with the OECD average (44%) and above of the average of the OECD unitary countries (37%). In the framework of the current reform, a new Act on regional financing is being developed. Closely linked to the reform of health and social protection financing, the aim is to give the central government primary responsibility for financing the regions.

**TAX REVENUE.** Local taxes as a share of GDP and public tax revenue are particularly high, above the OECD average. In addition, most local taxes are own-source. Only one tax is shared with the central government: the corporate income tax established in 1993 (7% of local government tax revenue in 2013). The 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 30% in 2013). The largest source of own tax revenue is municipal income tax (86%). Its base is determined by the central government but municipalities have full control over the rate. Municipalities also levy property taxes (7% of local tax revenue) which consist of five taxes, the most important being general real estate tax and tax for permanent residential buildings. They 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.** A major 1993-95 reform of the central government transfer system transformed matching grants into formula-based grants. The latest reform, in 2014, simplified formulas and made the system more transparent. Two-thirds of all transfers are directed to specific municipal functions. Such transfers include, for instance, a general allowance, health and social care transfers, education and culture transfers, calculated based on different criteria according to the type of grants (population, geographic remoteness, pupils, age-specific cost coefficients for services, etc.). There is grant equalisation system based on municipal potential tax revenue, computed by applying the country average tax rates to the municipal tax bases. Equalisation can be significant for some municipalities with high service cost factors and low revenue bases (share of grants can represent more than 50% of all their revenues). The vast majority of grants are for current expenditure.

**OTHER REVENUES.** The majority of other revenues (22%) come from tariffs and fees. They include charges for utilities (water supply, waste disposal, power) and public transport, with modest fees charged on public health care, while basic education is free. The remaining part is made up of property income (assets sales and rents).

Local budgets in Finland must be balanced over a four-year period. Moreover, an amendment to the Municipal Act in 2015 reinforced macro-steering of the local finance system. An objective was set for local government deficit, and a spending limit was introduced on central government measures affecting local finances. Municipalities are free to borrow through bonds and loans to finance any type of operation. Deteriorating fiscal positions pushed municipalities to increase borrowing over recent years. However, in 2013, the level of local outstanding debt as a percentage of GDP in Finland (11.7%) remained below the OECD average (24%), including for unitary countries only (15%). Local debt is made up of other accounts payable (21%), loans (58%) and bonds (11%). Around 80% of municipal debt is financed through Municipal Finance (MuniFin), a fully publicly-owned provider of financial services to local governments.

### Sources

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