FINLAND

UNITARY COUNTRY

EUROPE

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Euro (EUR)**

POPULATION AND GEOGRAPHY

AREA: **303 891** km²

POPULATION: **5.463** million inhabitants (2014), an increase of 0.5% per year (2010-14)

DENSITY: **18** inhabitants/km²

URBAN POPULATION: **84.1%** of national population

CAPITAL CITY: **Helsinki** (8.7% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **222.2** billion (current PPP international dollars) i.e. 40 666 dollars per inhabitant (2014)

REAL GDP GROWTH: **-0.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **8.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **14 812** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.883** (very high), **rank 24**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
313	**-**	**1**	**314**
MUNICIPALITIES (KUNTAA) AVERAGE MUNICIPAL SIZE: **17 530 INHABITANTS**		ISLAND PROVINCE OF ALAND	

MAIN FEATURES OF TERRITORIAL ORGANISATION. Finland has one subnational level composed of 313 municipalities, whose autonomy is entrenched in the Constitution of 1999. While there are 19 "regional councils", only one (the island region of Aland) has an autonomous administration (the other 18 are led by joint municipal boards). A regional self-government experiment was carried out with the region of Kainuu between 2005 and 2012. 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 co-operation. The number of municipalities has steadily decreased from 475 in 1976 to the current number. A new reform was launched in 2015 aimed at creating a new autonomous elected regional level above the existing 18 "regional councils". The reform should come into force in January 2019.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. Municipalities have a wide range of responsibilities which have been extended over the years. They include education (up to upper secondary schools, vocational education), healthcare (preventative, basic and specialised health care, dental care, including hospitals), social services (old-age, disabled people and childcare), town and land-use planning, water and energy supply, waste management, infrastructure maintenance, environmental protection and fire and rescue services. In the framework of the recent reform, new self-governing regions 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 take over other functions (not yet defined) presently under the responsibility of current regional councils, Centres for Economic Development, Transport and the Environment (mostly regarding regional development, rescue services, etc.).

SUBNATIONAL GOVERNMENT FINANCE

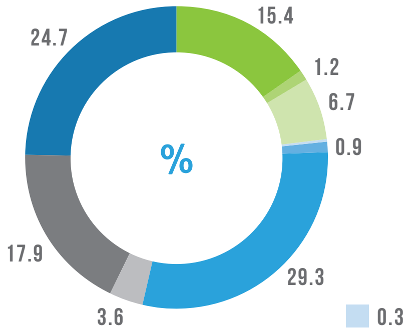
EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	**23.9%**	**41.4%**	**100%**
CURRENT EXPENDITURE	21.6%	-	90.7%
STAFF EXPENDITURE	10.7%	74.3%	44.9%
INVESTMENT	2.2%	53.3%	9.1%

Finland is one 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%).

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



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).

REVENUE BY TYPE

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	**23.1%**	**41.7%**	**100%**
TAX REVENUE	10.3%	33.0%	44.5%
GRANTS AND SUBSIDIES	7.0%	-	30.5%
OTHER REVENUES	5.8%	-	25.1%

Municipalities 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).

OUTSTANDING DEBT

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	11.7%	18.0%

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.

A joint- study of:

UCLG United Cities and Local Governments

OECD

Sources: OECD National Accounts Statistics • OECD (2015 and 2016), Subnational Governments in OECD Countries : Key data • Chatry I., Hulbert C. (2016), “Multi-level governance reforms: Overview of OECD country experiences”, OECD Publishing • André C. and C. García (2014), Local Public Finances and Municipal Reform in Finland, OECD Economics Department Working Papers, No. 1121 • Finnish Ministry of Finance (2015) General Government Fiscal Plan 2016—2019 • Kettunen P. (2014) The Finnish Municipal Reform • Moisio A. (2013), Paper on “Spend and tax, and then tax and spend? Looking for a relationship between municipal service responsibilities and taxing powers in Finland”, Government Institute for Economic Research.

Publication date: October 2016