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**REVISED CENTRAL GOVERNMENT SPENDING LIMITS FOR 2012—2015**

The Government has today, following preparatory consideration of the matter in the Cabinet Finance Committee and pursuant to Section 1 of the Budget Decree (1243/1992) and the Government's decision issued on 24 April 2003 on the principles of formulating central government spending limits proposals, budget proposals and operating and financial plans, issued the following decision on spending limits:

**1. Economic developments and fiscal policy**

The international economic environment is marked by uncertainty. Positive steps to solve the underlying problems both on an international level and in individual countries have not to date calmed the situation.

The fundamentals of the Finnish economy are good compared with many other countries. The Finnish economy has nevertheless clear challenges. In these conditions it is particularly important that the correct decisions are made to solve the problems we face.

It is important to improve the competitiveness of the Finnish economy and to maintain confidence in the capacity of Finland's public finances to meet its obligations in all situations. A concrete objective is to maintain the credit rating of the Finnish State at its current best possible level. This calls for goal-directed, tight fiscal policy combined with moderate domestic cost development.

The Government is committed to achieving a substantial reduction in the central government debt-to-GDP ratio by the end of this parliamentary term. In addition, the Government is committed to decide, by the end of the parliamentary term, on the measures required to close the sustainability gap in general government finances.

To achieve its targets, the Government is aiming to balance central government finances and achieve a favourable economic growth rate.

The Government specifies in its decision on spending limits a host of measures which will improve the financial position of central government finances by around EUR 2.5 billion by 2015. In addition, expenditure will be re-allocated to improve basic social security and to measures aimed at promoting economic growth and employment. These measures will improve the economic situation but, based on forecasts, will not

be sufficient alone to balance the central government finances and reduce the central government debt ratio. According to a Ministry of Finance forecast, the deficit on central government finances would still be 2.8% of GDP in 2015.

The Government is committed to implementing additional measures if there are indications that the central government debt-to-GDP ratio will not fall and there are signs that the deficit on central government finances will settle above 1% of GDP. There are grounds for preparing during the spending limits period for the specification and implementation of additional measures. The timing of additional measures will be important. Additional measures might be poorly suited to cyclical conditions in which a recession is threatened. Moreover, economic growth expectations will slow in the medium term as the growth potential of the economy declines.

It will not be possible to close the public finances sustainability gap merely through fiscal policy measures. Structural measures to promote a higher employment rate, longer working careers, better productivity and effectiveness in public services, and higher growth potential are essential for balancing central government finances, creating faster growth and closing the public finances sustainability gap.

The Government's aim is to raise the employment rate to 72% and to reduce unemployment to 5% by the end of this parliamentary term. Achieving these targets will require that the number of citizens outside the labour force declines significantly and that most of the citizens entering the labour force find employment. The unemployment rate target is particularly challenging. The target will require heavy investment in an active labour policy and to support labour demand and supply.

## **2. Revised central government spending limits for 2012—2015**

To ensure a prudent, long-term spending policy that promotes economic stability, the Government will continue to pursue the spending limits procedure. The Government Programme includes a comprehensive spending rule spanning the full parliamentary term, which will control central government on-budget expenditure. In this decision on spending limits, the Government strengthens the real parliamentary term spending limits for the period 2012—2015.

The parliamentary term spending limits are based on the spending level according to the March 2011 technical decision on spending limits. Appendix 2 of the Government Programme presents the priorities to which a total of around EUR 700 million of additional investment at the 2015 level will be allocated during the parliamentary term. Resources will be directed to combating youth and long-term unemployment, improving basic social security, developing social welfare and health services, promoting employment and growth, and protecting the environment and nature. Correspondingly, spending limits expenditure savings have been agreed in Appendix 2 of the Government Programme, such that the 2015 level of spending limits expenditure will fall by EUR 1,215.5 million compared with the March 2011 decision on spending limits. The parliamentary term spending limits for the period 2012—2015 are set such that they will achieve the expenditure reduction agreed in the Government Programme. The Government will reserve from the spending limits EUR 200 million per year for supplementary budgets.

Table 1 presents the annual allocation of the Government Programme's expenditure policies in the parliamentary term 2012—2015, which constitute the parliamentary term spending limits. The costs of certain additional investments have been adjusted at the 2015 level to be slightly lower than estimated, so in 2015 an EUR 44 million unallocated sum will remain from the level of the increases decided in the Government Programme. Correspondingly, an unallocated sum of EUR 44 million will also remain in the years 2012—2014.<sup>1</sup>

The Government Programme states that the central government contribution to the Social Insurance Institution for expenditure arising from the National Pensions Act will be brought within the spending limits system. As a consequence of this, a technical correction will be made to the parliamentary term spending limits. In addition, the spending limits level will take into account, as a technical correction, the transfer to within the spending limits of items relating to criteria improvements of unemployment security expenditure that belonged to the spending limits in the previous parliamentary term, and also the handling of maintenance compensation technically outside the spending limits.

**Table 1. Parliamentary term spending limits 2012—2015 according to the Government Programme (2012 prices), EUR million**

	2012	2013	2014	2015
<b>Decision on spending limits 23 March 2011</b>	<b>39 885</b>	<b>40 262</b>	<b>40 329</b>	<b>40 699</b>
<b>Government Programme changes, total</b>	<b>-451</b>	<b>-814</b>	<b>-1 155</b>	<b>-1 216</b>
— of which Government Programme (Appendix 2) spending savings	-1 063	-1 561	-1 917	-2 150
— of which Government Programme (Appendix 2) spending increases	412	547	562	690
— of which unallocated sum				44
— of which supplementary budget provision	200	200	200	200
<b>Unallocated sum for other years of parliamentary term</b>	<b>44</b>	<b>44</b>	<b>44</b>	
<b>Total</b>	<b>39 478</b>	<b>39 493</b>	<b>39 218</b>	<b>39 483</b>
Transfer of item 33.40.60 to within spending limits	3 187	3 153	3 123	2 968
Transfer to outside spending limits of items allocated in previous parliamentary term	-199	-215	-213	-216
<b>Parliamentary term spending limits in accordance with Government Programme policy outlines</b>	<b>42 466</b>	<b>42 431</b>	<b>42 128</b>	<b>42 236</b>

<sup>1</sup> Changes in appropriations relating to calculation criteria, among other things, have taken place in the level of spending limits expenditure in respect of the March 2011 decision on spending limits and these have not been included in the expenditure policies outlined in an appendix of the Government Programme. These adjustments change the final unallocated reserve of the decision on spending limits. The unallocated reserve after the decision on spending limits is presented in Table 3.

### Price and cost-level adjustments, and structural changes

The Government Programme states that only structural adjustments and adjustments corresponding to changes in price level can be made to the level of the spending limits.

In the March 2011 decision on spending limits, the 2012—2015 spending limits were set at the 2012 price and cost level in respect of statutorily and agreement-based indexed expenditure. Price- and cost-level estimates have been adjusted since then, and as a result the 2012 price adjustment for statutorily and agreement-based index-linked expenditure will be further adjusted by around EUR 74 million. Most of the change is explained by a 0.3 percentage point increase in the central government transfer index forecast (impact on central government transfers around EUR 29 million) and by a 0.38 percentage point increase in the National Pensions Index (impact on index-linked benefits around EUR 24 million). The University Index, on the other hand, will be frozen for six months in line with the Government Programme, which will reduce the 2012 statutory index increase by EUR 28 million, and the net adjustment made compared with the March decision on spending limits will thereby be around EUR 46 million.

In addition, the 2012 spending limits level will be reduced by EUR 228 million due to structural changes to the spending limits. The biggest technical change arises from the fact that the improvement of basic social security outlined in the Government Programme will be taken into account in setting the level of the parliamentary term spending limits level, instead of basic social security items outside the spending limits being divided into parts within and outside the spending limits, which is unnecessarily complex. In addition, the spending limits level will be adjusted according to certain timing changes and by taking into account in the spending limits level the tax subsidy-like energy tax cap, which is planned to be implemented as refunds in the appropriation system.

The factors behind the price- and cost-level adjustment and the structural changes are examined in more detail in Appendix 1.

**Table 2. Revised parliamentary term spending limits 2012—2015 (at 2012 prices), EUR million**

	2012	2013	2014	2015
<b>Parliamentary term spending limits in accordance with Government Programme's policy outlines</b>	<b>42 466</b>	<b>42 431</b>	<b>42 128</b>	<b>42 236</b>
Adjustments to price and cost level	46	47	47	47
Structural changes	-228	-273	-138	-151
<b>Revised parliamentary term spending limits</b>	<b>42 284</b>	<b>42 205</b>	<b>42 037</b>	<b>42 132</b>

### Expenditure outside the spending limits

The spending rule sets a maximum level for most, around four fifths, of budget expenditure. Expenditure that varies according to the economic cycle and automatic stabilisers, which is included, however, within the spending limits in terms of the

expenditure effects of changes made to their criteria, will mainly remain outside the spending rule and the 2012—2015 spending limits for central government finances confirmed in this document. In addition, interest payments on central government debt, value-added tax expenditure, financial investment expenditure and expenditure corresponding to technically transmitted payments, for example, also remain outside the spending limits.

Expenditure items outside the spending limits comprise:

- unemployment security, the central government's contribution to social assistance, pay security and housing allowance. However, expenditure effects generated by changes in the criteria for these items are included within the spending limits.
- debt interest payments
- possible compensation payable to other tax recipients for tax changes decided by central government (including social insurance contributions)
- expenditure corresponding to technically transmitted payments and external funding contributions
- expenditure corresponding to the revenue from betting and lotteries, revenue from totalisator betting and transferred earnings from the Slot Machine Association
- financial investment expenditure
- appropriations for value-added tax expenditure

If annual proceeds from the sale of shares exceed EUR 400 million, a maximum of EUR 150 million of the excess can be used for one-off infrastructure and skills investments to support sustainable growth.

Proceeds accruing to central government from the auction of emissions rights can be used without reference to the spending limits for one-off expenditure on climate measures and development cooperation.

If the level of expenditure falls below that specified in the spending limits after supplementary budgets, the difference, to a maximum of EUR 200 million, may be used for one-off expenditure in the following year without reference to the spending limits.

If economic growth proves to be faster than forecast, the increased revenue and lower expenditure as a result of growth will be used primarily to reduce central government indebtedness. If, before 2015, central government debt as a proportion of GDP begins to fall significantly, a maximum of 30% of the improved fiscal position can be used for expenditure increases in line with the Government's strategic goals.

Expenditure outside the spending limits is expected to be around EUR 10.3 billion in 2012, which is around EUR 3.2 billion less than expenditure outside the spending limits budgeted for 2011. By 2015, expenditure outside the spending limits will grow to around EUR 11.2 billion. The biggest factor explaining the change during the spending limits period is growth of interest payments on central government debt.

The decline in the level of expenditure outside the spending limits from 2011 to 2012 is explained by the fact that the central government contribution for expenditure arising from the National Pensions Act will be budgeted in future as belonging to the spending limits. The resulting effect of reducing the expenditure outside the spending

limits will be around EUR 3.2 billion in 2012 compared with the decision on spending limits of 23 March 2011.

Cyclical expenditure such as unemployment security, housing allowance etc. will be around EUR 60 million higher than the 2011 level in 2012, but will decline during the spending limits period. A technical change in the budgeting of unemployment security, however, will increase expenditure outside the spending limits (EUR 199 million in 2012) compared with the March decision on spending limits. In the previous parliamentary term, discretionary changes in unemployment security expenditure (discretionary part) for the said parliamentary term were budgeted as expenditure within the spending limits, but from 2012 the items in question will be transferred completely outside the spending limits, because it will no longer be necessary in terms of the spending limits to monitor the impact of old decisions and the spending limits handling of changes in maintenance compensation can in future be taken into account directly through spending limits adjustments. In addition, the improvement of basic social security outlined in the Government Programme has been implemented technically by budgeting the spending increase as expenditure outside the spending limits instead of items being divided into parts outside and inside the spending limits. The impact on the parliamentary term spending limits has been taken into account as a reduction in the spending limits level in the manner required by the spending limits system. The improvement to basic social security will increase expenditure budgeted outside the spending limits by EUR 239 million in 2012.

Expenditure outside the spending limits will also be increased by compensation to municipalities for tax revenue losses arising from tax criteria changes in the Government Programme. Compensation will be EUR 263 million in 2012, rising to EUR 559 million in 2015. A total of EUR 400 million is earmarked for export refinancing for 2012 (EUR 300 million for 2013) but, despite this, financial investments in 2012 will decline by around EUR 1.2 billion from 2011. Debt interest payments for 2012 are estimated to be around EUR 2.2 billion, from which they are projected to rise to around EUR 3.4 billion by 2015.

**Table 3. Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2012—2015, EUR million at 2012 price and cost levels**

Administrative branch	2012 BP/SL	2013 SL	2014 SL	2015 SL
<b>23. Prime Minister's Office</b>	77	76	75	75
Estimate of expenditure outside spending limits	6	6	6	6
<b>Total</b>	<b>82</b>	<b>82</b>	<b>81</b>	<b>81</b>
<b>24. Ministry for Foreign Affairs</b>	1 255	1 249	1 247	1 263
Estimate of expenditure outside spending limits	28	28	28	28
<b>Total</b>	<b>1 283</b>	<b>1 276</b>	<b>1 275</b>	<b>1 291</b>
<b>25. Ministry of Justice</b>	805	778	791	792
Estimate of expenditure outside spending limits	51	51	51	51
<b>Total</b>	<b>856</b>	<b>829</b>	<b>842</b>	<b>843</b>
<b>26. Ministry of the Interior</b>	1 173	1 187	1 108	1 073
Estimate of expenditure outside spending limits	72	76	76	76
<b>Total</b>	<b>1 245</b>	<b>1 263</b>	<b>1 184</b>	<b>1 149</b>
<b>27. Ministry of Defence</b>	2 520	2 373	2 315	2 230
Estimate of expenditure outside spending limits	333	308	301	293
<b>Total</b>	<b>2 853</b>	<b>2 681</b>	<b>2 616</b>	<b>2 523</b>
<b>28. Ministry of Finance</b>	14 724	14 875	15 194	15 437
Estimate of expenditure outside spending limits	1 472	1 581	1 700	1 831
<b>Total</b>	<b>16 196</b>	<b>16 456</b>	<b>16 894</b>	<b>17 267</b>
<b>29. Ministry of Education and Culture</b>	6 112	6 064	5 948	5 897
Estimate of expenditure outside spending limits	551	556	562	567
<b>Total</b>	<b>6 663</b>	<b>6 620</b>	<b>6 510</b>	<b>6 464</b>
<b>30. Ministry of Agriculture and Forestry</b>	1 816	1 805	1 799	1 812
Estimate of expenditure outside spending limits	888	884	894	904
<b>Total</b>	<b>2 704</b>	<b>2 689</b>	<b>2 692</b>	<b>2 716</b>
<b>31. Ministry of Transport and Communications</b>	1 989	2 062	1 877	1 888
Estimate of expenditure outside spending limits	387	395	356	363
<b>Total</b>	<b>2 375</b>	<b>2 457</b>	<b>2 233</b>	<b>2 251</b>
<b>32. Ministry of Employment and the Economy</b>	2 491	2 418	2 341	2 296
Estimate of expenditure outside spending limits	876	746	427	387
<b>Total</b>	<b>3 367</b>	<b>3 164</b>	<b>2 768</b>	<b>2 684</b>
<b>33. Ministry of Social Affairs and Health</b>	8 656	8 546	8 550	8 586
Estimate of expenditure outside spending limits	3 455	3 388	3 277	3 236
<b>Total</b>	<b>12 111</b>	<b>11 934</b>	<b>11 827</b>	<b>11 822</b>
<b>35. Ministry of the Environment</b>	261	247	247	247
Estimate of expenditure outside spending limits	10	11	11	11
<b>Total</b>	<b>271</b>	<b>258</b>	<b>258</b>	<b>258</b>
<b>36. Interest on central government debt</b>	-	-	-	-
Estimate of expenditure outside spending limits	2 185	2 684	3 026	3 435
<b>Total</b>	<b>2 185</b>	<b>2 684</b>	<b>3 026</b>	<b>3 435</b>
<b>Administrative branch spending limits, total*</b>	<b>42 027</b>	<b>41 860</b>	<b>41 664</b>	<b>41 752</b>
Estimated expenditure outside spending limits, total	10 326	10 734	10 732	11 201
<b>Main titles, total</b>	<b>52 353</b>	<b>52 594</b>	<b>52 396</b>	<b>52 953</b>
<b>Parliamentary term spending limits</b>	<b>42 284</b>	<b>42 205</b>	<b>42 037</b>	<b>42 132</b>
- Administrative branch spending limits, total*	42 027	41 860	41 664	41 752
- Supplementary budget provision	200	200	200	200
- unallocated reserve	57	145	172	180

\* Main titles 21 and 22 are included in the total.

### **3. Revised central government spending limits by administrative branch 2012—2015**

The Government Programme's expenditure adjustment for public finances includes expenditure re-allocations and savings targeted particularly at different administrative branches as well as general savings for all administrative branches. The annual impact of the Government Programme's savings and increases on central government spending has been calculated by comparing the expenditure in 2015 of this decision on spending limits with the expenditure in the year in question of the technical March spending limits.

#### **3.1 Policy outlines for the administrative branches**

The appropriations of **the administrative branch of the Ministry for Foreign Affairs** take into consideration Finland's aspiration to become a non-permanent member of the UN Security Council in 2013—2014 and possible membership of the Council. The administrative branch appropriations also take into account the policy outlines of the Security and Defence Policy Report, the National Strategy for Civilian Crisis Management and peace mediation activities as well as expenditure savings in line with the Government Programme.

Greater emphasis will be placed on the role of peace mediation in future due to the importance of crisis prevention. Finland has a high level of internationally recognised expertise and experience in mediation activities. Peace mediation and developing the capacity to support it is an important part of Finland's contribution to international conflict prevention work and a significant element in efforts towards comprehensive crisis management.

The Government's objective is to maintain the trend in development cooperation appropriations, within the framework of which an appropriation level of 0.7% of GNI and Finland's international commitments can be achieved. The Government decision on spending limits takes into account the freezing of development cooperation appropriations in line with the Government Programme such that the appropriation level of actual development cooperation work in 2013 and 2014 is the same in euro terms as in 2012. This in itself would lead to a fall in development cooperation appropriations as a percentage of GNI. In the middle of the government term, revenue obtained from the auction of emissions rights will be directed to climate funding and development cooperation. In this context, the aim is to increase development cooperation appropriations as a percentage of GNI during the government term of office.

In the **administrative branch of the Ministry of Justice**, it is important to shorten the long legal proceedings processes. In criminal cases the overall duration of proceedings will be shortened by enhancing cooperation between police, prosecutors and courts of law. The functional capacity of the judicial system will be improved by developing structures and operating processes. The functioning of the judicial system and its links with the police and prosecutors will also be improved by reforming the case management systems of courts of law and prosecutors.

To boost the prevention of financial crime and the shadow economy, the annual resources of prosecutors and courts of law, special collection in enforcement and bankruptcy supervision will be strengthened by EUR 5.2 million in 2013—2015.

The criminal sanctions system will be developed by shifting the focus slightly from institutional sanctions to non-institutional, community sanctions and in the enforcement of punishments from closed institutions to open institutions. The use of electronic monitoring will be expanded. The Criminal Sanctions Agency's existing institutions, personnel levels and prison numbers will be adjusted in the manner required by the appropriations level according to the decision on spending limits. In the enforcement of punishments, functional capacity will be improved by developing operating processes and information systems.

An annual increase of EUR 1 million is allocated to election expenditure. In addition, the level of compensation payable to municipalities for the arrangement of elections will be raised from 2014 by 0.1 euro per person entitled to vote. In addition, a Citizens' Initiative Act will be passed and an information network to support it introduced.

The **administrative branch of the Ministry of the Interior** will implement expenditure savings in accordance with the Government Programme by reducing its expenditure level by 2015, with respect to the Police by EUR 10 million, the Border Guard by EUR 2 million and immigration by EUR 20 million.

Combating the shadow economy in accordance with the Government Programme is one of the new Government's spearhead projects. Implementing the programme's policy outlines requires additional investment in combating the shadow economy. Annual additional funding of over EUR 6 million in the years 2013—2015 will be allocated to the police to combat the shadow economy and financial crime. The appropriation increase will be directed in the police to the extension of financial crime posts, reducing case load and shortening investigation times, uncovering and investigating organised crime connected with the shadow economy, boosting real-time investigation and thereby increasing the recovery of criminal proceeds, more effective monitoring of prohibitions on engaging in business, uncovering corruption, strengthening the Money Laundering Investigation Centre, and increasing communication, research and training.

In the spending limits period, the Border Guard will complete the acquisition of a multi-purpose vessel capable of operating on the open sea and in ice conditions. The total cost of the acquisition is EUR 97 million, of which EUR 68 million will be in the spending limits period. The planned outpost ship is a multi-purpose vessel in which the needs of various central government authorities have been taken into consideration. The vessel's three most important purposes are border security, sea rescue and oil spill response. The acquisition supports the Government Programme's policy outlines in respect of measures to support domestic growth and employment as well as contingency preparation for environmental accidents.

The acquisition, introduction and maintenance of the TOTI emergency response centre information system will continue in the years 2013—2015. In the restructuring now under way, the number of emergency response centres will gradually fall from 15 to six by the end of 2015. An Emergency Response Centre Administration strategic change project (HAKMU) has been launched to support the restructuring and to implement strategic policy outlines. The goal, by combining emergency response centres, is to achieve productivity savings and harmonise emergency response centre services nationally.

The number of refugees and asylum seekers coming to Finland is expected to decline in the spending limits period such that the number of people in the reception system in 2015 will total around 3,000, of whom around 2,100 will be accommodated in reception centres. At the beginning of 2011 there were around 4,600 people in the reception system, of whom around 3,300 were accommodated in reception centres. Reception expenditure is expected to decline in the spending limits period such that 2015 spending will total around EUR 40 million lower compared with the previous decision on spending limits. Half of the decrease, i.e. around EUR 20 million, will come from a fall in the number of asylum seekers, half from enhancing the processing of applications.

In the **administrative branch of the Ministry of Defence** the operational focus will be on the extensive reform of the Defence Forces, to be implemented in 2011—2015, in accordance with the Government Programme. The objective of the reform is to safeguard Finland's defence capability and achieve permanent cost savings. In accordance with the Government Programme, the administrative branch will implement EUR 200 million of expenditure savings in 2015 in the Defence Forces and their material procurement compared with the previous spending limits.

In addition to savings in accordance with the Government Programme, the Defence Administration shall provide through re-allocations sufficient funding for new expenditure pressures and for implementing the reform, i.e. for the costs of change. The situation is challenging and calls for immediate savings measures as well as significant structural and operational changes. The level of defence operations will have to fall and material projects will be cut further.

Defence Administration will initiate, in accordance with the Government Programme, immediate adjustment measures to control cost pressures and implement the reform. Reservist training and military exercises as well as aviation and naval operations will be significantly reduced. The number of field training courses for conscripts will also be reduced. In the planning stage of the reform, material performance capacity will be restricted only to maintenance and modest updating, depending on existing commitments. Material procurement savings will require in some extent the cancellation of planned acquisitions. Real-estate investments will be allocated only to objects where there is no risk that the investments will remain unnecessary in the defence forces reform. The defence forces reform will be implemented to ensure that property refurbishments are placed on a financially sustainable basis. Operational needs in emergency conditions will be the primary justification for infrastructure development. Areas and operating facilities will be relinquished as complete units. The number, structure and expertise of the defence forces will be adjusted to the need for military forces in wartime, the duties of the defence forces and the long-term development of the defence system. The productivity measures required by personnel targets set for the end of 2015 will be implemented, personnel reductions in line with the defence forces reform will be planned and the necessary expertise ensured. Preparations will be made for military crisis management and to support other authorities within the framework of existing resources.

It has been decided to establish the defence forces catering services as a separate company as of 1 January 2012. As a result of this, the decision on spending limits includes the appropriations needed for the establishment costs of the new company,

the capital to be invested in the company and the supplementary pension insurance required for the employees transferred to the new company.

The appropriations of the **administrative branch of the Ministry of Finance** will remain at nearly the same level in 2015 compared with the spring decision on spending limits. The Tax Administration is currently reviewing the implementation of a comprehensive reform of information systems, which would take place in the period 2013—2017. System development would begin in 2012 with a competitive tender process, as required by the Act on Public Procurement. The Tax Administration's batch run platform will have to be renewed by 2017, because supplier support relating to the use of the batch run platform will expire in 2017.

In this decision on spending limits, provision has been made for the costs of the eServices and eDemocracy Acceleration (SADe) Programme to finance projects related to basic and upper secondary school education from the Learner's Service Entity as well as the Participation Environment Service Entity, the Employer's Service Entity, the Service Entity for Establishing a Business and the Built Environment and Housing Service Entity. The preparation of other projects (e.g. other parts of the Learner's Service Entity well as the Citizens' Welfare Service Entity and the Own Health Service Entity) will continue, but their implementation will depend on the Government's policies outlines and funding allocations. A total of EUR 18 million in each year of the spending limits has been allocated for the development, piloting and introduction of central government and local authority joint information system projects and for the preparation of projects to be decided later by the Government. The division of development, piloting and introduction costs between the central government and the local authorities in the projects will, as before, be 50%/50%. The municipalities' funding share has correspondingly been reduced by EUR 9 million in each year of the spending limits period from the central government transfer for the municipalities' basic public services. The users, namely the central government and the municipalities, will be responsible for maintenance costs. Maintaining the interoperability of the systems to be built in the projects will be ensured through authorisations granted by the Information Management Act.

Efforts to combat the shadow economy will be expanded and enhanced by introducing, among other things, a tax identity card for foreign tax payers in the construction trade and by creating a cross-administrative information source system for official information in respect of the shadow economy. To combat the shadow economy, it is proposed that the appropriation for the administrative branch of the Ministry of Finance be increased by over EUR 6 million per year in the years 2013—2015.

The Board of Customs' EU-wide electronic customs clearance information systems will be developed in the spending limits period with an additional investment of EUR 18.5 million from the administrative branch's productivity funds. Additional funding of EUR 2.25 million will be allocated to Statistics Finland's obligatory EU and statute projects. Similarly the development of municipal statistics and research services will be supported in the spending limits period with an additional investment of EUR 3.3 million. A total of EUR 2.1 million in the years 2014 and 2015 is allocated from the administrative branch's productivity funds to a project modernising the building and property data of the Population Register Centre's population information system.

A saving of EUR 15 million in accordance with the Government Programme is directed in the spending limits period at the structural reform of the **administrative branch of the Ministry of Education and Culture**. The reforms will begin in 2013.

In accordance with the Government Programme, a social guarantee will offer each young person under 25 years and recently graduated people under 30 years a job, on-the-job training, a study place or a period in a workshop or rehabilitation within three months of becoming unemployed. Student selection in vocational education will be developed to support the social guarantee. Similarly, student counselling and study supervision will be enhanced. The cross-administrative social guarantee will be fully implemented in 2013.

The quality of preschool and basic education, upper secondary school education, morning and afternoon activities, and basic education in art will be further improved during the spending limits period. The measures include the reduction of group sizes in basic education, the expansion of morning and afternoon activities, the consolidation of extra-curricular activities and enhancing student care. In addition, education to prepare immigrants for upper secondary education will be launched. Additional funding is allocated in the spending limits period to development measures from 2012.

The legislation preparation as well as the administration and supervision of early childhood education and day-care services will be transferred from the Ministry of Social Affairs and Health to the Ministry of Education and Culture.

Of the EUR 30 million savings in the funding of upper secondary schools, EUR 15 million will be implemented in 2014 and the full amount implemented from 2015. The implementation of the saving will require a more compact upper secondary school network structure and the reform of legislation relating to the funding of upper secondary schools during 2012.

Fixed expenditure arising from arranging the matriculation examination will be transferred to be partly covered by central government funds from 2012. This will facilitate the reduction of the examination fee and tuition charges paid by students. The cost, EUR 1.3 million, will be covered by transfers within the main title.

Appropriations for founding projects related to basic education, upper secondary school education and basic art education will be reduced by EUR 20.3 million by 2015.

The appropriation allocated to central government transfers for liberal adult education will be cut, in accordance with a Government decision, by EUR 11.5 million from 2012.

The vocational education provider network will be adjusted to regional demographic trends. The decision on spending limits has taken into account central government expenditure savings agreed in the Government Programme and the decision on spending limits in respect of vocational education totalling EUR 74 million by 2015. Of this, EUR 35 million will be directed at vocational training, EUR 8 million at supplementary vocational education and EUR 31 million at apprenticeship training. In respect of vocational education, the savings will be implemented gradually from 2014

and in respect of apprenticeship training and additional vocational education from 2013.

In accordance with the university reform that came into force at the beginning of 2010 and its funding system, the first central government funding index adjustment has been made for 2011. The adjustment will be implemented by increasing the appropriation allocated to universities in the previous year's Budget, excluding one-off items, corresponding to the annual increase in cost level of the University Index. The cost impact of the University Index in 2012 will be around EUR 56 million. Provision has been made in the decision on spending limits for the compensation in full of the universities' employer's unemployment insurance contributions from 2012. The decision on spending limits has also taken into account in accordance with the Government Programme an annual expenditure saving in respect of the universities of EUR 86.2 million by 2015. In 2012 EUR 30 million of this saving will be implemented by reducing additional funding to universities. In addition, a saving corresponding to the freezing of one half of the University Index adjustment will be implemented in 2012. In accordance with Government Programme, the saving will be implemented in full in 2014.

The Government has decided to initiate preparations to transfer the basic funding of the polytechnics during the parliamentary term completely to the central government. At the same time, the polytechnics will be made independent legal entities. The decision on spending limits has taken into account, in accordance with the Government Programme, a central government expenditure saving of EUR 51 million based on the reform of polytechnics network and funding system. The saving will be implemented gradually from 2012, such that in 2012 the saving is EUR 2 million, in 2013 EUR 20 million, in 2014 EUR 31 million and in 2015 EUR 51 million.

As a measure to promote growth, EUR 8.5 million in additional funding has been allocated from 2012 to strengthen research infrastructures. Of this investment, the Ministry of Education and Culture will receive EUR 4 million in 2012, EUR 5 million in 2013, and EUR 8.5 million in 2014 and 2015.

A cut of nearly 12% in the total level of the Academy of Finland's funding authorisation will be made in 2012—2015 in accordance with Government decisions. The level of the research appropriation will fall as a result of the funding cut by around EUR 34 million by 2015. In the calculation of the Academy of Finland's authorisation and research appropriations, a model will be introduced in which the EUR 24 million annual cost of the researcher post adjustment implemented at the beginning of 2010 will be incorporated into the Academy's overall authorisation. As a consequence of the change, the level of the total authorisation will remain the same in future whereas previously it fluctuated annually. The change of the calculation model will have no impact on the level of the appropriations allocated to the Academy of Finland.

Financial aid to students will be tied to the cost-of-living index from 1 September 2014. The maximum period of aid for secondary-level studies will be limited from 1 August 2014. An annual EUR 1.6 million in additional funding, based on a higher-than-expected increase in ticket prices, is allocated to transport aid for students in upper secondary and vocational education.

In culture policy, the objective of the spending limits period is to promote employment in the culture and creative sector, increase the equal availability of cultural services and the positive impact of culture on the national economy. Preparations for the establishment of the Finnish National Gallery as a foundation will be initiated as part of the Government Programme savings, such that the establishment of the foundation will be implemented from 2014. The position of sport and exercise as a basic public service will be strengthened in the spending limits period with the aim of promoting an active life style, the equal availability of services and success in international top-level sport. Active citizenship and empowerment will remain at the centre of youth policy. The implementation of the social guarantee will facilitate the maintenance of the present level of workshop activities and outreach youth work. The EUR 6 million saving directed at youth work in the Government Programme will be implemented by re-allocating betting and lottery revenue among youth work beneficiaries.

In the **administrative branch of the Ministry of Agriculture and Forestry**, agriculture, rural development and fisheries will be supported in accordance with national objectives as well as those of the EU Common Agricultural and Fisheries Policies with both EU and national funding.

The Government Programme assigns to the administrative branch of the Ministry of Agriculture and Forestry EUR 110 million in expenditure savings by 2015. Of these savings, EUR 40 million has been allocated to agricultural support items and EUR 50 million to other items than those allocated for agricultural support. In addition, the Government Programme states that during the parliamentary term EUR 20 million of additional savings targets included in the spending limits will be allocated from the main title of the Ministry of Agriculture and Forestry.

As an additional investment in the green economy in accordance with the Government Programme, the administrative branch spending limits have taken into account annual additional funding of EUR 1.6 million in a development programme for the organic production sector and local food. Government Programme increases allocated to the protection of the Baltic Sea have been taken into account in the administrative branch spending limits of the Ministry of the Environment. The purpose of this, however, is to support removal of fish to reduce the environmental load on sea and inland waters. Of the Metsähallitus nature heritage service increase, EUR 0.5 million per year will be taken into account in the spending limits of the Ministry of Agriculture and Forestry.

In setting the level of national support for agriculture and horticulture, the reduction of opportunities for the use of appropriations, owing to the Commission's decisions on national support, has been taken into account, which will lower the spending limits level compared with the 2011 Budget. In addition, national support for agriculture and horticulture has taken into account in 2014—2015 an annual EUR 40 million saving based on the Government Programme and in 2012—2013 a total EUR 37 million saving compared with the spring decision on spending limits.

The statutory compensation system for agricultural crop damage will be renewed in line with the comprehensive reform of the EU Common Agricultural Policy by 2014. As a result, the system's expenditure will decline by EUR 3.4 million in 2015.

Agricultural early-retirement support expenditure will also be reduced by EUR 17 million per year in the years 2012—2015. In accordance with the Government Programme, the lease option of the early retirement pension will be dropped.

In accordance with the Government Programme, the functioning, structure and position of the Development Fund of Agriculture and Forestry (MAKERA funding system) as a channel for funding investments in its present form will be evaluated. The spending limits do not include the transfer to the Development Fund of Agriculture and Forestry. The level of the annual interest subsidy authorisation for interest-subsidy loans to rural businesses has been set at EUR 300 million.

Based on the Government Programme, the transfer of the Rural Policy Section in the Rural Development Unit of the Ministry of Agriculture and Forestry's Department of Agriculture to the Ministry of Employment and the Economy main title has been taken into account in setting the level of the spending limits.

In accordance with the Government Programme, the savings of the administrative branch of the Ministry of Agriculture and Forestry also include savings related to the funding of the use and management of water resources as well as support for the water supply. Due to this, the 2015 spending limits level is EUR 11 million lower on an annual basis compared with the spring decision on spending limits.

Improving the competitiveness and profitability of forest-based businesses will be continued through new initiatives and measures within the National Forest Programme. By the end of the spending limits period, owing to expenditure savings agreed in the Government Programme, central government annual support funding will decline compared with the spring decision on spending limits by EUR 10 million for the forest management and regeneration of private forests, by EUR 9 million for promoting the energy use of small-diameter wood, and by EUR 5 million for promoting the management of forest nature. As appropriations fall, maintaining the effectiveness of support systems will require an examination of support targets, terms of support and support levels.

Based on the Government Programme, the financial position of central government finances will also be improved by increasing the annual transferred earnings of Metsähallitus by EUR 20 million. To achieve this target, Metsähallitus will reduce its commercially managed forest investments, increase land sales and improve business profitability.

In accordance with the Government Programme, a saving has also been directed at the operational appropriations and real-estate commissions of the National Land Survey of Finland. A total of EUR 4.5 million (EUR 1.5 million per year) in additional funding is allocated in 2012—2014 for repairs to the Metsähovi Research Station. The estimated total cost of the repairs is EUR 8.1 million. The remaining funding will come from funds allocated to Ministry of Agriculture and Forestry productivity measures.

At the beginning of the parliamentary term, a transport policy report will be prepared in the **administrative branch of the Ministry of Transport and Communications** outlining long-term strategic objectives and medium-term projects for developing transport networks within the framework of the decision on spending limits.

As savings measures in line with the Government Programme, the administrative branch will implement an appropriation cut of EUR 22 million in 2013 and reductions of EUR 53 million in 2014 and 2015. The most significant savings in the main title are directed at shipping subsidies (EUR 20 million in 2015 compared with the spring decision on spending limits) and at unnamed transport infrastructure projects (EUR 20 million per year in 2014—2015).

In accordance with the Government Programme, funding for basic transport infrastructure maintenance will be secured at the current level, laying special emphasis on the basic maintenance of rail infrastructure. Appropriations for the basic maintenance of rail infrastructure will be increased by EUR 20 million in 2012, EUR 25 million in 2013, EUR 30 million in 2014 and EUR 35 million in 2015. A total of EUR 90.8 million in 2014 and EUR 144 million in 2015 will be available for new, as yet unspecified, transport infrastructure construction projects.

A discretionary government transfer of EUR 8 million per year is proposed for the maintenance and improvement of private roads. In the spending limits period EUR 98 million per year will be spent on the procurement and development of public transport. The national broadband project will continue. A total of EUR 32 million has been earmarked in the spending limits period to support broadband construction in sparsely settled areas.

The duties of the Finnish Communications Regulatory Authority's National Communications Security Authority (NCSA) will be increased from the beginning of 2012 as a result of changes presented in the Act on Background Checks. Additional duties will also arise to the Finnish Communications Regulatory Authority from the amendment of the Postal Act. The personnel needs required by the duties will be handled by personnel arrangements within the administrative branch.

The following savings measures in accordance with the Government Programme have been directed at the **administrative branch of the Ministry of Employment and the Economy**: a EUR 149 million decrease in 2013, a EUR 189 million decrease in 2014 and a EUR 207 million decrease in 2015. The most significant savings in the main title will be implemented through efficiency improvements in the regional state administration (ELY centres – EUR 10 million by 2015), reducing business subsidies (EUR 110 million), cutting subsidies for renewable energy (EUR 25 million) and lowering the national funding contribution to EU Structural Funds (EUR 30 million).

Technology and innovation policy funding will be reduced by the end of the spending limits period by around EUR 85 million per year compared with the spring decision on spending limits. As part of the savings on business subsidies, annual grant authorisations of Tekes – the Finnish Funding Agency for Technology and Innovation – will be reduced by EUR 55 million by the end of the spending limits period compared with the spring decision on spending limits. Similarly, the annual appropriation for project and programme activity will be cut by EUR 5—6 million. As growth investments in line with the Government Programme, annual additional funding of EUR 4.4 million will be granted for the promotion of the green economy and EUR 4.5 million in 2012 and EUR 3.5 million in 2013 invested in the research infrastructure of VTT, the Technical Research Centre of Finland.

In the field of employment and entrepreneurship policy, the Government will initiate a joint project of the Ministry of Employment and the Economy, the Ministry of Education and Culture and the Ministry of Social Affairs and Health in which measures necessary to introduce the social guarantee for young people by 2013 will be prepared and implemented. The appropriation for the introduction of the social guarantee for young people will be increased by EUR 60 million per year in the period 2013—2015. A total of EUR 30 million of the annual increase will be directed in the administrative branch of the Ministry of Employment and the Economy to employment, training and special measures in 2013—2015.

The participation of the unemployed, particularly young people and the long-term unemployed, in training, wage-subsidised work and other services will be increased. To reduce long-term unemployment, a fixed-term trial pilot programme lasting until the end of this Government's term will be initiated in which, after 12 months' unemployment at the latest, the main responsibility for managing an individual's unemployment support will be transferred to the municipality or municipalities jointly, such that sufficient resources are allocated to the municipalities for the pilot programme. As a result of the pilot programme, the appropriation for employment, training and special measures will be increased by EUR 20 million per year in the period 2013—2015. Based on the result of the pilot programme, decisions on the division of work between the municipalities and the central government in promoting employment will be made.

The job bank trial will be expanded across the country and appropriations have been allocated for this to the main title of the Ministry of Social Affairs and Health. In the same context, the annual appropriation for employment, training and special measures will be increased by around EUR 12—13 million in the period 2013—2015. The operating model of the joint Labour Force Service Centres of the Employment and Economic Development Offices, the Social Insurance Institution of Finland (KELA) and the municipalities will be expanded to cover the whole country and as a result of this the operating expenditure funding of the Employment and Economic Development Centres will be increased by EUR 5 million per year.

Finnvera Plc's risk-taking capacity will be enhanced and its funding increased by EUR 15 million in 2013 and by EUR 18 million in the years 2014 and 2015. A total of EUR 263 million per year is proposed as Finnvera's interest-subsidy loan authorisation. The final funding decisions of the temporary refinancing model, administered by Finnish Export Credit Ltd and introduced to safeguard export funding, will be made by the end of 2011. It is estimated that EUR 300 million will be needed in 2013 to fulfil the commitments of agreements made.

Based on efforts to combat the shadow economy, Finnish Competition Authority's annual funding will be increased by EUR 0.5 million and the Ministry of Employment and the Economy's operating expenditure by EUR 0.2 million in 2013—2015.

During the next programming period 2014—2020, project financing from the European Regional Development Fund will be channelled more strongly for the generation of new sources of livelihood, enhanced employment, growth-oriented entrepreneurial activity, and the reduction of emissions. The areas of priority for the European Social Fund (ESF) include the employment of people in the most difficult labour market position and the development of the labour force skills. The ESF funds are also used to promote the employment and integration of immigrants.

Energy policy appropriations will be just over EUR 260 million in 2013, around EUR 245 million in 2014 and EUR 268 million in 2015. The annual energy subsidy authorisation will be reduced by EUR 20 million in the years 2013—2015. The renewable energy production subsidy will be EUR 10 million lower in the final year of the spending limits period compared with the March decision on spending limits. This is due to an increase in the tax level of peat in accordance with a decision made earlier as well as the discontinuation of the fixed electricity production subsidy.

In line with the Government Programme, the annual funding for integration measures to be transferred to the Ministry of Employment and the Economy will be EUR 115 million in 2013—2015.

The appropriation level of the **administrative branch of the Ministry of Social Affairs and Health** will be affected in the spending limits period by cyclical factors such as the change in the unemployment rate, statutory index adjustments and factors relating to demographic structure.

To improve the position of people living on basic security, the unemployment security basic allowance and labour market support will be raised by EUR 100 per month from 1 January 2012 (including index adjustment). The basic component of social assistance will be increased by 6% and the basic component of social assistance for single parents' will be raised by 10% from 1 January 2012. The increases in the basic social security levels will increase central government spending by EUR 282 million on an annual basis. Central government social assistance expenditure, on the other hand, is expected to fall by EUR 22.5 million due to the raising of the unemployment security basic allowance.

Housing allowance income limits will be raised in line with the increase in labour market support from 1 January 2012 so that individuals receiving labour market and who live alone will continue to have the right to full housing allowance after labour market support is increased. In addition, the housing allowance system will be reformed from 1 January 2015 such that the reforms will increase the annual level of central government spending by a total of EUR 68.5 million while reducing central government spending on social assistance by a total of EUR 30 million on an annual basis.

Resources for occupational safety monitoring will be boosted by EUR 1.3 million per year in the period 2013—2015 to combat the shadow economy. The intention is to use the appropriation to increase human resources assigned to monitor foreign workers and the Act on the Contractor's Obligations and Liability. A total of EUR 2.0 million will be allocated in 2013, EUR 2.2 million in 2014 and EUR 2.5 million in 2015 to expand the job bank trial across the country.

In accordance with the Government Programme, drug reimbursement expenditure under statutory health insurance will be reduced and the patient's co-payment per journey in compensation of travel costs will be increased to EUR 14.25 from 1 January 2013. The reforms will reduce central government spending from 2013 by EUR 133 million on an annual basis. The compensation level of job alternation leave will be reduced from 2012, which will save EUR 7.5 million in central government expenditure on an annual basis.

In the spending limits period, provision will be made for the technical renewal of benefit systems administered by the Social Insurance Institution of Finland. The target schedule of the project extends to the 2020s and annual costs of around EUR 17 million have been taken into account in the spending limits.

To compensate under law for the general rise in wage levels, provision has been made to adjust the income limits for the means testing of labour market support through a change in the wage coefficient in 2013 and 2015. The appropriation would accordingly be increased by EUR 3.2 million in 2013—2014 and by EUR 5.8 million in 2015.

The central government transfer paid to municipalities for the cost of basic social assistance will grow in 2012 but the need for the appropriation is expected to fall by the end of the spending limits period. The discretionary government transfer to municipalities' projects will be EUR 17.5 million per year in the spending limits period.

There remain uncertainties connected with the revenue that will be generated by the gaming activities of Slot Machine Association (RAY) but, due to positive revenue development, to some extent more money is planned to be distributed in the grants that RAY awards to organisations and foundations in the spending limits period than in previous years on average. It is expected that the sum to be distributed to the Treasury from the revenue generated by RAY will be EUR 95.2 million in 2012. This is expected to fall in the spending limits period as the number of beneficiaries declines.

Issues relating to basic public services arranged by local government and the central government transfers paid for them are discussed as a whole in Chapter 5 Basic Public Services Programme.

In the spending limits period, important environmental issues in the **administrative branch of the Ministry of the Environment** will include, for example, active participation in negotiations towards an International Climate Agreement, international and national cooperation to improve the state of the Baltic Sea, and domestic measures to safeguard the environment and the diversity and sustainability of nature. Energy efficiency in construction and land use as well as safeguarding the social and regional balance of the housing market, where the adequate planning of housing plots in growth centres has an important role, will be highlighted in housing and buildings issues.

During the spending limits period, in accordance with the re-allocation of expenditure included in the Government Programme, appropriations will be increased for the development of Baltic Sea protection, the funding of Metsähallitus nature services, the continuation of the Forest Biodiversity Programme for Southern Finland (METSO), the implementation of earlier protection programmes and the protection of marshlands. Within the administrative branch of the Ministry of the Environment, additional investment in the green economy will mean an annual appropriation increase of EUR 2.5 million. An appropriation saving in accordance with the Government Programme, on the other hand, will be directed at house repair and energy grants, particularly at grants for the renovation of old lifts.

The Climate and Energy Strategy will be implemented by, among other things, supporting the shift to renewable forms of energy in the heating of residential buildings. As part of the annual EUR 55.5 million renovation grant funding, a specific annual appropriation has been earmarked for these grants in the spending limits period. The focus of renovation grants will be on the construction of lifts as well as the refurbishment of housing for elderly and disabled people to facilitate their living at home. The construction of social rented housing aimed at groups with special needs whose situation is weakest will be encouraged in the spending limits with annual investment grants totalling EUR 110 million. The construction of social rented housing aimed at groups other than those with special needs will be encouraged by halving the interest contribution payable on interest-subsidy loans in the period 2012—2014, after which the effectiveness of the measure will be assessed. In the provision of interest-subsidy loans for housing production, flexibility will be exercised so that they are sufficient to meet demand at the time in question, taking into account the cyclical situation of the construction industry and the need to safeguard price stability.

In accordance with the policy outlines of the Government Programme, a new housing policy action plan will be prepared by the end of 2011. The National Damp and Mould Programme will be continued in the period 2012—2013.

### **3.2 Allocation of joint savings to different administrative branches**

Government Programme also includes the following joint expenditure savings for all administrative branches affecting this year's Budget and the spending limits period 2013—2015:

- savings in operating expenses throughout central government and revamping of operating methods (EUR 60 million);
- promoting joint procurement (EUR 55 million);
- subsidies to civil society organisations and membership fees throughout central government (EUR 10 million).

Savings in operating expenses have been allocated in the same proportion to all administrative branches and they amount to approximately 1% of operating expenditure. The allocation of procurement expenditure savings is based on Hansel Oy information pertaining to the use and potential of agency-specific framework agreements. Savings directed at subsidies to civil society organisations and membership fees consist of approximately 16% of the total expenditure in question.

In addition, the Government Programme also includes the following as yet unallocated joint expenditure savings for all administrative branches affecting the spending limits period 2013—2015:

- public administration ICT reform (EUR 105 million),
- facilities efficiency in public administration (EUR 10 million)
- reforms in sectoral research (EUR 4 million)

The distribution of these expenditure savings between the administrative branches for the period 2013—15 will be decided later.

#### **4. Revenue estimates and balance in central government finances**

The on-budget revenue estimates for central government are based on medium-term economic projections for the Finnish economy, which in turn have been used to formulate projections of tax bases. In addition, the tax policy outlines of the Government Programme, most of which have already been included in the 2012 budget proposal, have been taken into account. A basis of the Government Programme is the objective of implementing both expenditure and revenue adjustment measures in a front-loaded manner.

Economic growth is expected to slow in the medium term, above all as a result of a decline in work input, which will also limit growth of tax bases. On the other hand, tax criteria changes in line with the Government Programme will contribute to increasing tax revenue growth. Actual on-budget revenue is expected to grow in the spending limits period (2011—2015) by an average of 4.3% per year. Tax revenue growth is expected to be slightly more than this, at 4.7%. As economic growth and growth of tax bases slow towards the end of the spending limits period, tax revenue growth will also slow. Tax revenues account for around 85% of actual on-budget revenues. In addition to central government decisions, the total tax burden is also affected by the level of municipal taxation and social security contributions.

In accordance with the Government Programme, the tax base will be expanded in order to strengthen central government finances. The focus of taxation will move away from growth-hampering taxation of labour and entrepreneurship towards environmentally and health motivated taxation. In the context of moderate wage settlements, the Government is prepared to consider measures aimed at fostering economic growth, household purchasing power and domestic demand, and business competitiveness. If there are signs that the balancing of public finances is not happening as planned, the Government will initiate further adjustment measures, of which half will consist of new decisions on taxation.

The Government Programme includes measures that both increase and reduce tax revenues. The tax-policy measures decided by the Government are projected to increase central government tax revenues by a net amount of just under EUR 1.3 billion in 2015 compared with the estimate included in the March 2011 decision on spending limits. In addition, an increase of around EUR 0.2 billion in the 2015 on-budget revenue estimate will arise from changes in accrual data and tax base forecasts. This includes, among other things, changes to central government interest income and repayment of loans arising from new loan arrangements relating to Greece. In 2015 on-budget revenues (excluding borrowing) are expected to be EUR 50.9 billion.

Revenues from taxes on earned and capital income are expected to grow by 4.1% in 2012 and by an average of 4.3% per annum in the spending limits period (2011—2015). Wage income is expected to grow by an average 4.3% and capital income by an average 5.7% per year. Tax receipts will be increased, in line with the Government Programme, by lowering the domestic work deduction, reducing mortgage interest relief, raising the capital income tax rate and tightening dividend taxation of unlisted companies. Revenues will be reduced by increasing the earned income deduction. The calculation assumes, in accordance with the measures outlined in the Government Programme, that in the period 2012—2015 tax basis will be adjusted such that taxation of earned income does not increase as a result of a rise in inflation or earnings

level. In 2012 a 3.3% adjustment will be made to tax criteria. Adjustments to the tax criteria of earned income will reduce central government earned income tax receipts by an average of around EUR 300 million per year and cumulatively by around EUR 1.2 billion in 2015.

Corporate income tax receipts will be reduced by a lowering of the tax rate by one percentage point in 2012. The lowering of the corporate income tax rate will reduce total corporate income tax receipts by around EUR 200 million on an annual basis. In the spending limits period, from 2013 onwards, total corporate income tax receipts are expected to grow by an average of just under 5% per year. Tax receipts are expected to grow at the same rate as the operating surplus according to national accounting. Central government corporate income tax receipts are expected to grow faster than this, however, by an average 6% per year. This is a consequence of the ending of the temporary increase in municipalities' and parishes' corporate income tax share.

The extension, in accordance with the Government Programme, of the 9% value-added tax rate to newspaper and magazine subscriptions will increase tax revenues by around EUR 90 million per year. Value-added tax revenue is expected to grow in the spending limits period (2011/2015) by an average of around 4%, following estimated growth in household consumption expenditure.

Excise duty revenue will grow by just over 10% in 2012. Of the increases in indirect taxes in accordance with the Government Programme, most will be implemented next year. In addition, tax revenues will be boosted by the increase in the excise duty on diesel fuel decided by the previous government, which will be implemented at the beginning of 2012. Thereafter, excise duty revenues will grow by an average of less than 2% per year. In 2012 the excise duty rates on tobacco, alcohol and sweets, ice cream and soft drinks will be increased, which is expected to increase tax revenues by a total of EUR 215 million on an annual basis. The transport fuels tax will be increased in two stages, the first being in 2012. The increases are expected to boost tax revenues by EUR 250 million in 2015. The tax on peat will be increased in 2013.

Car tax revenue is estimated to grow by EUR 90 million as a result of a scale adjustment to be implemented in 2012. Thereafter revenue is expected to grow in line with growth in household consumption expenditure. Vehicle taxation will be increased in line with the objectives outlined in the Government Programme, which is expected to increase vehicle tax revenue by EUR 140 million on an annual basis. The lottery tax will also be increased, which is expected to increase tax revenue by EUR 34 million on an annual basis.

To broaden the tax base, the Government's aim is to introduce a bank tax as soon as possible and a windfall tax during the spending limits period. An increase in tax revenue assumed in the Government programme and arising from efforts to combat the shadow economy has not, on the other hand, been included in the forecast, due to the fact that concrete measures and proposals to increase tax receipts are still in preparation.

In terms of other on-budget revenue, dividend revenue is expected to reach EUR 1 billion in 2012 and thereafter by EUR 800 million on an annual basis. In addition, with respect to proceeds from share sales, the Government will apply the technical assumption inherited from past years by which, of proceeds from the sale of state-owned shares, on-budget revenue totalling EUR 400 million per year accrues either

directly or as Solidium capital refunds. The estimate of central government interest income has risen owing to the three loan instalments to Greece agreed in the current year as well as from the increased estimate of the size of the export refinancing loan portfolio.

It is assumed that central government debt will grow this year to EUR 82 billion. If, according to estimates, central government debt grows during the entire spending limits period, the debt in 2015 will be around EUR 108 billion, corresponding to around 48% of GDP.

In terms of national accounts, central government finances are expected to be in deficit during the entire spending limits period. In 2012 the deficit is expected to be 3.3% of GDP, improving on this level only slightly during the spending limits period.

## **5. Basic Public Services Programme**

In the early part of current year, the economy continued to grow. During recent months, the economic outlook has weakened, however, and uncertainty about the future development of the economy has increased. Growth prospects are particularly overshadowed by the European debt crisis and the uncertain international economic outlook.

According to preliminary financial statements for 2010, the annual margin of municipalities and joint municipal authorities reached EUR 3.0 billion and clearly exceeded depreciation of fixed assets. The operating margin weakened less than was indicated in financial statement estimates. The more positive than anticipated development was due particularly to faster than expected growth of local government tax revenue.

The outlook for local government finances will tighten in the next few years due to adjustment measures in central government finances and a slowing of growth in tax revenue. At the same time, expenditure pressures directed at local government finances by population ageing will increase further. As revenue performance weakens, maintaining the stability of municipal and joint municipal authority operational finances will require strict spending discipline. Controlling growth of wage expenditure and implementing measures to improve productivity will be of key significance.

The operating expenditure of municipalities and joint municipal authorities is still expected to grow relatively modestly, nominally at just over 4%. This estimate is based on the fact that municipalities will have to control expenditure growth after the recession and prepare for future uncertainties related both to slowing revenue performance and general economic development. Price and cost development in local government finances may remain relatively modest, even though rising consumer prices will create spending pressures. The local government earnings level is expected to rise by around 2½% and the wage bill by around 3%. The volume of operating expenditure is expected to increase by around 1%, which corresponds to demand pressure exerted by demographic structure on social welfare and health services.

The rise in cost level will accelerate in the spending limits period to just over 3%, but volume growth is expected to remain at just under 1% as local government revenue

performance slows. Investment is expected to remain at a level of EUR 4.4 billion per year.

In 2012 tax criteria changes will reduce municipal income tax receipts by a net EUR 309 million. Municipalities will be compensated in full for these tax revenue losses. The reduction of the corporate income tax rate will be compensated for by increasing the municipalities' share of corporate tax revenue by 0.88 percentage points and other changes compensated for via the system of central government transfers to local government. The increased apportionment of corporate income tax will be continued in 2012 and 2013, but the increase will be one half smaller than in the years 2009—2011. The reduction of the increase will reduce local government tax receipts by around EUR 259 million compared with 2011.

Real-estate tax will be dropped from the equalisation system for central government transfers based on local government tax revenue from the beginning of 2012.

Tax revenue and central government transfers are together expected to grow by an average 3.4% per year in the spending limits period. In income taxation, changes to criteria will be made annually to compensate for rising earnings and inflation, which will reduce local government tax revenue by EUR 100 million per year. With these assumptions, local government tax revenue will grow by an average 2½% per year.

As a result of the pay settlement reached in February 2011, the local government earnings level is expected to rise by around 2.5%. Growth of the local government wage bill is expected to be 3%, based on accrual data from the early part of the year. In 2012 the local government earnings level is expected to rise by 3% and in the years 2013—2015 by around 3½%, i.e. slightly more slowly than the general change in earnings level. The number of local government employees is assumed to remain from 2011 at around 461,000, so the local government wage bill will grow in line with the development of earnings, by an average of around 3½%.

In nominal prices, purchases are expected to grow by just under 7% in 2011. The price development of purchases is expected to remain modest and volume development is also expected to slow slightly due to the tight economic situation. Nevertheless, it is anticipated that in future purchases will grow clearly more quickly than growth of operating expenditure. The biggest pressure on the volume growth of local government operating expenditure will come from purchases of services.

Local government operating revenue is assumed in the calculation to develop in parallel with growth of operating expenditure at around 4% per year.

With the aforementioned development, the annual margin of local government finances would be sufficient to cover depreciation in 2012 and 2013, but not in 2014 and 2015. Local government expenditure pressures are large, however, and investment is also projected in the calculation to remain on a high level. The annual margin would therefore remain throughout the period significantly lower than net investment. This would mean in practice that local government finances would continue to accumulate debt, and pressure to increase municipal income tax rates would grow. Securing the stability of local government finances and implementing necessary investment without continuous growth of debt will require growth of operating expenditure to remain within the limits set by revenue performance. A rise in the level of interest rates in the medium term will increase debt interest payments.

The pressures directed at central and local government finances from population ageing will grow year on year, which further underlines the necessity of reforms to improve the productivity of basic public services.

The benefits paid by municipalities will remain stable in the medium term. It is proposed that the basic benefit of social assistance and the single parent's allowance be increased in 2012. The raising of basic social security and an increase of housing allowance income limits, on the other hand, will reduce social assistance expenditure. The net increase in local government social assistance expenditure will be EUR 44 million in 2012 and correspondingly the social assistance expenditure saving is expected to be EUR 22 million. Social assistance expenditure will gradually fall as employment improves. There is a risk, however, that social assistance expenditure will remain after the recession at a high level for a number of years, if periods of unemployment lengthen and earnings-related income falls.

In 2012, central government transfers and grants to local government will total around EUR 10.5 billion. Of this, most consists of imputed central government transfers to local government, including equalisation items, within the sphere of the central government transfer system. The level of central government transfers in the administrative branch of the Ministry of Finance is around EUR 8.4 billion and in the administrative branch of the Ministry of Education and Culture around EUR 1.0 billion.

Overall central government transfers to local government will grow in 2012 by around EUR 368 million, i.e. 4%. The index adjustment will increase central government transfers by EUR 363 million, of which the municipalities and joint municipal authorities will account for EUR 341 million. Changes in age structure and population numbers will increase central government transfers by a net EUR 68 million. In addition, central government transfers will be increased by the above-mentioned compensation for tax revenue losses (EUR 263 million) and the four-yearly statutory adjustment to the division of costs (EUR 412 million) as well as by increases for developing the quality of education (EUR 10 million), the implementation of the social guarantee for young people in youth work and liberal education (EUR 14 million), and immigrant compensation (EUR 10 million). In 2012, on the other hand, central government transfers will be reduced in accordance with the Government Programme by a EUR 631 million cut in transfers for basic public services as well as savings directed at, among other things, educational institution establishment costs.

The central government transfer for municipal basic public services will be increased by returning to the central government transfer in 2012 the EUR 45 million reduction caused by the ceiling prescribed for merger assistance and EUR 1.25 million allocated to funding of the Government IT Shared Service Centre. Of the central government transfers for basic public services, EUR 9 million on an annual basis will be transferred in the spending limits period for the funding of central government and local government joint information system (SADe) projects.

In accordance with the Government Programme, an increase of EUR 145 million at the 2015 level will be made in the central government transfer for municipal basic public services for the development of social welfare and health services. Appropriations will be allocated from 2013 to developing services for the elderly, disability services, foster care, child welfare, student care, home care for families with children and the service structure, and for reinforcing basic health care. Allocations of

EUR 28 million in 2013, EUR 56 million in 2014 and EUR 132 million in 2015 will be made for the development of services for the elderly and other social welfare and health care services. A total of EUR 13 million will be allocated in both 2014 and 2015 to the development of student care.

In accordance with the Government Programme, the central government transfer for local government social welfare and health care projects will be reduced by EUR 4.5 million per year.

The quality of preschool and basic education, upper secondary school education, morning and afternoon activities, and basic education in art will be improved. Measures in this respect will include reducing class sizes in basic education and consolidating extra-curricular activities. Additional funding of EUR 34.6 million will be allocated to development measures through to 2015, including the above-mentioned EUR 10 million in 2012. Expenditure savings within the sphere of the basic public services budget analysis outlined in the Government Programme for the administrative branch of the Ministry of Education and Culture will be implemented mainly in the period 2013—2015. The EUR 11.5 million saving directed at liberal adult education and the EUR 10 million saving targeted at central government transfers to museums, theatres and orchestras will, however, be implemented starting in 2012. Of the EUR 20 million saving directed at educational institution establishment projects, a total of EUR 6 million will be implemented in 2012. The EUR 30 million savings in upper secondary school education, EUR 43 million savings in vocational education, EUR 31 million savings in apprenticeship training and EUR 51 million savings in universities of applied sciences will be implemented by 2015.

The implementation of the social guarantee for young people will begin in 2012. In the spending limits period 2013—2015, EUR 30 million on an annual basis is allocated to the implementation of the social guarantee in the Ministry of Education and Culture. In addition, a EUR 4 million increase is allocated to local government employment support.

To reduce long-term unemployment, a fixed-term trial pilot programme lasting until the end of this Government's term will be initiated in which, after 12 months' unemployment at the latest, the main responsibility for managing an individual's unemployment support will be transferred to the municipality or municipalities jointly. A total of EUR 20 million in annual funding is allocated to the trial in the spending limits period.

In the spending limits period 2013—2015, net government transfers and grants within the scope of the local government basic public services budget analysis will grow in nominal terms by around EUR 1.4 billion from EUR 10.5 billion in 2012.

The legislation preparation, administration and supervision of early childhood education and day-care services will be transferred from the Ministry of Social Affairs and Health to the Ministry of Education and Culture. Closer cooperation will be encouraged between early childhood education and social welfare and health care.

The share of customer fees collected from the users of social welfare and health services in relation to the overall funding of the services has diminished since the year

2000. In 2009 customer fees accounted for EUR 1,431 million, i.e. 7.7%, of the overall operating costs of local government social welfare and health care.

The intention is to gradually develop the customer fee system in social welfare and health care. In the first stage (legislative changes coming into force in 2013), changes will be made to social welfare and health care customer fees, correcting the most evident shortcomings of the fee system. These include standardising service housing fees as well as changing the fee criteria for part-time and part-day care to correspond to care time agreed in advance. Through the transfer of early childhood education, preparation relating to customer fees in respect of child day-care will be transferred to the administrative branch of the Ministry of Education and Culture. In the second stage (legislative changes coming into force in 2014—2015) a unified payment cap in health care will be implemented in accordance with the Government Programme by combining the municipal health care spending cap and the patient's maximum annual co-payment for medication costs under statutory health insurance. In the third stage (legislative changes coming into force in 2014—2015) the social welfare and health care payment system will be standardised by bringing regulations relating to social welfare and health care payments into the same act.

The Government will implement a nationwide municipal reform with the objective of creating a thriving municipal structure built on economically robust municipalities. The reform will create a service structure in which power and responsibility for organising and funding services are allocated to a single authority equipped with a sufficiently large population and skills base. The Government will specify more detailed criteria and a schedule for municipal reform by the end of 2011. The existing framework act will be replaced with a new structural act.

New instruments to facilitate the reorganisation of the municipalities will be adopted in the legislative provisions governing the reform. The reform will take into consideration the diverse nature of different areas, such as the special characteristics of growth centres, sparsely populated areas, long distances, vast stretches of archipelago, and language-related conditions.

The service structures in remote areas beyond the economically robust municipalities will be reformed by bringing services together into sufficiently large units in a controlled manner, drawing on the service structures of the economically robust municipalities and applying a model where certain municipalities bear primary responsibility.

The reform of the structure of municipalities will serve as the basis for a comprehensive reform of the Local Government Act, which will examine, from the perspective of new structures in local government administration and the evolving operating environment of municipalities, particularly the internal control of local government finances, leadership management systems, the position of elected officials, the relationship between the Local Government Act and special statutes, municipal administration in different subareas, and the relationship between municipalities and the markets.

Action will be taken to foster the capability of municipalities to finance their duties and responsibilities mainly by means of their tax revenue. Municipalities' corporate income tax apportionment will be paid at a five percentage points higher rate in 2012 and 2013. Changes in local government revenue arising from adjustments in taxation

will be compensated in full. Compensation for reductions in municipal taxation will be made on an individual basis for each municipality, being channelled mainly through the tax system.

As part of the reform of the structure of municipalities, the system of central government transfers to local government will be revised. The system will be made simpler and clearer, and incentives within the system will be improved.

Statistics Finland's productivity statistics for municipalities and joint municipal authorities indicate that the productivity of municipalities and joint municipal authorities has deteriorated on average since the year 2000. There are problems, however, associated with measuring the productivity of municipalities and joint municipal authorities and the productivity statistics do not take into account the quality and effectiveness of services. The quality of services arranged by municipalities has remained on a high level in general education, library, health and early childhood education services. Moreover, except in health care services, where availability problems arise from time to time, the availability of services is good.

Raising the productivity of welfare services is one key factor in resolving the sustainability problem of general government finances overall. In terms of local government funding and the availability of sufficient personnel, it is essential that, in conditions of growing shortage of labour, service structures and processes are developed as part of the municipal reform utilising, for example, information technology, so that in future the relative need for personnel would be less than at present.

Together with various actors in central government, the municipalities and social partners, the Government will launch a joint development campaign for municipal productivity and effectiveness. This will include the creation of a robust set of indicators to be used in assessing the quality and effectiveness of municipal services. The progress towards meeting the national productivity targets will be monitored and assessed in the Basic Public Services Programme procedure.

Minister of Finance

Jutta Urpilainen

Director General,  
Budget Director

Hannu Mäkinen



### Structural changes and adjustments in the cost and price level of the spending limits

#### *Structural changes*

Structural changes arising from the 2011 third supplementary budget, the 2012 budget proposal and the decision on spending limits for 2012—2015 will reduce the 2012 spending limits level by EUR 228 million compared with the March 2011 decision on spending limits. The spending limits levels of future years will also be reduced due to structural changes.

Table 1 below presents a more detailed description of these structural changes and their impact on expenditure levels during the parliamentary term.

**Table 1. Budgetary structural changes compared with the spending limits decision of 23 March 2011, EUR million**

Item	Matter	2012	2013	2014	2015
22.02.75	Delaying the implementation of real-estate refurbishments (timing change)	-7.9		2	5.9
27.10.18	Deferral of defence forces' order authorisation payments from 2011	48.6	19.5	21.1	25.2
28.91.41	Expenditure impact of energy tax subsidy arising from energy tax increases, compared with the 2010—2013 decision on spending limits and the 2011 budget proposal estimate	-39.2	-39.2	-39.2	-39.2
28.91.41	Net expenditure impact (tax subsidy-like) of adjustment of energy tax cap			120	120
31.10.77	City of Kotka's funding contribution to transport project (corresponding revenue in item 12.31.10)	0.5	1.4	8.0	5.6
32.30.46	Change in payment schedule of ship building innovation support	4.6	-4.6		
32.60.01	Gross budgeting of Energy Market Authority surveillance fees (corresponding revenue in item 11.19.10)		2.8	2.8	2.8
33.20.50, 51, 52, 33.60.35	Technical adjustment so that the items do not need to be divided into parts within and outside the spending limits as a result of the increases of basic daily allowance and labour market support (net)	-192	-204.5	-204.5	-204.5
33.10.54, 33.60.35	Technical adjustment so that the items do not need to be divided as a result of the general reform of housing allowance (net)	-3	-4.5	-4.5	-23
33.60.35	Technical adjustment so that the item does not need to be divided as a result of the increase of basic assistance	-44	-44	-44	-44
35.20.56	Deferral of cyclical repair grant payments (EUR 19 million remaining unused from 2010)	4			
	<b>Structural changes in total</b>	<b>-228</b>	<b>-273</b>	<b>-138</b>	<b>-151</b>

#### *Adjustments to price and cost level*

The central government spending limits for 2012—2015 are expressed in cost and price levels for 2012. Some of the expenditure in the spending limits, such as

development aid expenditure and national financing contributions corresponding to EU Structural Fund contributions, have been included in the spending limits decision at current prices, including an estimate of the impact on the appropriation of the rise in price level in the spending limits period. In other respects, the spending limits expenditure level will be revised annually according to the estimated rise in cost and price levels. The parliamentary term spending limits are adjusted to the price level of the following year always in connection with the decision on spending limits, and the price- and cost-level adjustment made is determined according to the latest forecast data in connection with the preparation of the budget proposal.

The size of the price adjustment varies annually, according to the development of price and cost levels. In the decision on spending limits of 23 March 2011, the spending limits for 2012—2015 were transferred to the 2012 price and cost level, whereby a total EUR 768 million price- and cost-level adjustment was made to the spending limits level for 2012. The price- and cost-level adjustments for 2012 presented in following table are based on the Ministry of Finance September 2011 price development forecasts and they update the decision on spending limits of 23 March 2011. The indices used in the adjustments are in Appendix 2.

The price- and cost-level adjustments compared with the decision on spending limits of 23 March 2011 total around EUR 46.4 million for 2012, when the freezing of the University Index for six months, which lowers the price adjustment, is taken into account.

The adjustments only take into account statutory and agreement-based price corrections, which are made to both the spending limits level and appropriations. The first cost-level adjustment of spending limits expenditure other than that price-corrected on a statutory or agreement basis will be made in the decision on spending limits for 2013–2016 in accordance with the following indices specified at the start of this government's term of office.

#### **Adjustments to the 2012 price and cost level compared with the 23 March 2011 decision on spending limits, EUR million**

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory	Agreement-based	Other cost adjustments
15—17 Pensions	Employee Pension Index (TyEL)	8.6		
18—19 Procurement of defence materials	Predictive increase 1.5%*			
01—14 Wages and social security contributions	Agreement increases		0.6	
Transport infrastructure expenditure	Building Cost Index (RKI)			
01—14, 20—28 Other operating expenses and consumption	Consumer Price Index (KHI)			
30—39 Imputed central government aid to	Index of Central Government	29.1		

municipalities and joint municipal authorities	Transfers to Local Government (VOS)			
30—39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			
40—49 Central government aid to trade and industry	KHI			
50—59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	National Pension Index (KEL)	9.8		
50—59 Non-indexed central government aid to households	KEL			
50 Central government funding for universities' activities	University Index	-26.3		
50—59 Other central government aid to households and non-profit-making organisations	KHI			
60 Transfers to off-budget central government funds	KHI			
60 Transfers to Social Insurance Institution of Finland	KEL	14.1		
60 Central government transfer for expenditure arising from the Sickness Insurance Act	KEL / KHI	0.5		
61—65 Central government funding contributions corresponding to EU Structural Fund contributions and other domestic transfers	Incl. in programme spending limits			
66—68 Transfers abroad	At current prices			
69 Transfers to the EU	EU's GDP Price Index and KHI	10.0		
70—79 Real investments	Building Cost Index (RKI)			
90—99 Other expenditure	KHI			
Supplementary budget provision and unallocated reserve	KHI			
<b>Total in 2012</b>		<b>45.8</b>	<b>0.6</b>	

\* A predictive 1.5% price- and cost-level adjustment will be made to appropriation levels (excl. personnel expenses) for defence forces operating expenditure and defence material procurement. This adjustment will be revised later to correspond with the rise in price level indicated by the cost-of-living index in terms of defence forces operating expenditure and military crisis management equipment and administrative expenditure as well as the rise of the DK subindex of the industrial producer price index fleet in terms of defence material procurement.

## APPENDIX 2

**Macroeconomic forecasts and assumptions for 2010—2015**

	2010	2011	2012	2013	2014	2015
<b>GDP, change in volume</b>	3.6	3.5	1.8	2.3	2.0	1.6
<b>GDP, change in price</b>	0.4	2.7	2.7	1.9	2.2	2.2
<b>GNI, value, EUR million</b>	183 390	193 300	201 620	210 050	218 380	226 240
<b>Consumer Price Index, change %</b>	1.2	3.5	3.3	2.1	2.0	2.0
<b>Index of Wage and Salary Earnings, change %</b>	2.6	2.6	3.2	3.4	3.7	3.7
<b>Building Cost Index, change %</b>	1.1	3.7	3.3	3.1	3.0	3.0
<b>Basic Price Index of Domestic Supply, change %</b>	5.0	7.2	4.1	3.0	2.0	2.0
<b>Unemployment rate, %</b>	8.4	7.9	7.6	7.4	7.0	6.9
<b>Wage bill, change %</b>	2.2	5.0	3.8	4.0	3.8	3.6
<b>Employee Pension Index (TyEL)</b>	2292	2323	2407	2483	2540	2598
<b>National Pension Index (KEL)</b>	1502	1508	1567	1618	1651	1684
<b>Index of Central Government Transfers to Local Government:</b>						
Change in cost level, forecast	2.0	2.6	3.1	3.2	3.2	3.2
Change in cost level, budget proposal	2.6	1.6	3.7	3.2	3.2	3.2
— includes index adjustment	+0.6	-1	+0.6			
Actual change in cost level	2.6					
<b>University Index</b>	2.7	3.5	3.4	3.1	3.1	3.1
<b>Unemployment insurance contributions</b>						
— employer, average	2.12	2.32	2.32	2.32	2.32	2.32
— employee	0.40	0.60	0.60	0.60	0.60	0.60
<b>Employee pension contributions (TyEL)</b>						
— employer	16.9	17.1	17.3	17.6	17.7	18.0
— employee aged 53 yrs and under	4.5	4.7	5.2	5.3	5.6	5.7
— employee over 53 yrs	5.715	6.0	6.6	6.7	7.1	7.2
— wage coefficient	1.231	1.253	1.288	1.323	1.363	1.406
<b>Health insurance contributions for the insured</b>						
— employees' daily allowance contribution	0.93	0.82	0.82	0.82	0.83	0.83
— wage earners' and entrepreneurs' medical care contribution	1.47	1.19	1.22	1.34	1.37	1.39
— pensioners' medical care contribution	1.64	1.36	1.39	1.51	1.54	1.56



## APPENDIX 3

**Ordinary on-budget revenue estimates of the Ministry of Finance for 2011—2015, EUR billion**

	2011	2012	2013	2014	2015	2011—2015 average annual change, %
	B+SB	BP				
Total tax revenue	36.1	38.2	40.0	41.9	43.4	4.7
— taxes on earned and capital income	7.5	7.7	8.1	8.5	8.9	4.3
— corporate income tax	3.5	3.7	3.8	4.3	4.5	5.9
— value-added tax	14.9	15.6	16.2	16.9	17.5	4.1
— excise duties	6.1	6.7	6.8	7.0	7.1	3.9
— other tax revenue	4.1	4.5	5.0	5.3	5.5	7.7
Miscellaneous revenue	4.7	4.8	4.9	5.0	5.1	1.8
Interest income, income from share sales and profit entered as income	2.0	2.0	1.9	1.9	2.0	-0.7
— Dividend income and proceeds from sales of shares	1.3	1.4	1.2	1.2	1.2	-2.0
<b>Total revenue*</b>	<b>43.1**</b>	<b>45.3</b>	<b>47.0</b>	<b>49.2</b>	<b>50.9</b>	<b>4.3</b>

\* Including repayment of loans granted by central government.

\*\* Not including use of cumulative surplus.

**Ordinary on-budget balance estimate of the Ministry of Finance for 2011—2015, EUR billion, at current prices**

	2011	2012	2013	2014	2015
On-budget revenue estimate, total*	43.1**	45.3	47.0	49.2	50.9
Total expenditure total (at current prices)	51.3	52.4	54.0	55.1	57.0
<b>On-budget balance</b>	<b>-8.2</b>	<b>-7.1</b>	<b>-7.0</b>	<b>-5.9</b>	<b>-6.1</b>
Central government debt-to-GDP ratio, %	42½	44½	46	47	48

\* Including repayment of loans granted by central government.

\*\* Not including use of EUR 1.8 billion cumulative surplus.

**The development of and outlook for local government finances (municipalities and joint municipal authorities) in 2010—2015, based on municipal accounts, EUR billion (at current prices)**

	2010	2011	2012	2013	2014	2015
<b>Profit/loss itemisation</b>						
<b>1. Operating margin</b>	<b>-22.94</b>	<b>-23.89</b>	<b>-24.85</b>	<b>-25.85</b>	<b>-26.92</b>	<b>-28.04</b>
2. Tax receipts	18.35	19.16	19.28	19.90	20.38	21.11
3. Central government transfers, operational finances	7,43	7,71	8,06	8,47	8,93	9,45
4. Financial income and expenses, net	0,19	0,17	0,15	0,08	0,06	0,04
<b>5. Annual margin (=1.+2.+3.+4)</b>	<b>3.02</b>	<b>3.15</b>	<b>2.64</b>	<b>2.60</b>	<b>2.45</b>	<b>2.56</b>
6. Depreciation and amortisation	-2.13	-2.22	-2.32	-2.43	-2.54	-2.65
7. Extraordinary items, net*	1.06	0.25	0.25	0.25	0.25	0.25
<b>8. Profit for the financial period*</b>	<b>1.95</b>	<b>1.18</b>	<b>0.56</b>	<b>0.42</b>	<b>0.16</b>	<b>0.15</b>
<b>Financing</b>						
<b>9. Annual margin</b>	<b>3.02</b>	<b>3.15</b>	<b>2.64</b>	<b>2.60</b>	<b>2.45</b>	<b>2.56</b>
10. Extraordinary items	1.06	0.25	0.25	0.25	0.25	0.25
11. Current income adjustments*	-1.38	-0.45	-0.45	-0.45	-0.45	-0.45
<b>12. Current income, net (=9.+10.+11.)</b>	<b>2.70</b>	<b>2.95</b>	<b>2.44</b>	<b>2.40</b>	<b>2.25</b>	<b>2.36</b>
13. Investment in fixed assets*	-5.76	-4.40	-4.40	-4.40	-4.40	-4.40
14. Financial contributions and sales gains*	2.67	1.00	1.00	1.00	1.00	1.00
<b>15. Investment, net (=13.+14.)</b>	<b>-3.09</b>	<b>-3.40</b>	<b>-3.40</b>	<b>-3.40</b>	<b>-3.40</b>	<b>-3.40</b>
<b>16. Financial balance (=12.+15.)</b>	<b>-0.38</b>	<b>-0.45</b>	<b>-0.96</b>	<b>-1.00</b>	<b>-1.15</b>	<b>-1.04</b>
17. Outstanding loans**	11.67	12.22	13.22	14.27	15.47	16.57
18. Cash	4.75	4.71	4.65	4.60	4.55	4.51
<b>19. Net debt (=17.-18.)</b>	<b>6.92</b>	<b>7.51</b>	<b>8.57</b>	<b>9.67</b>	<b>10.92</b>	<b>12.06</b>

\* These items include, with respect to 2010, entries resulting from the founding of the Helsinki Region Environmental Services Authority (HSY). The founding of HSY has no impact on the financial position of local government finances.

\*\* Outstanding loans are determined in the calculations according to the development of the financial balance. For example, as municipal taxation tightens (other factors being equal), the financial balance rises and growth of outstanding loans falls.

## APPENDIX 5

**Central government transfers and grants to local government within the Basic Public Services Budget deliberations, EUR million (spending limits period 2012—2015 at 2012 price level)**

	2010*	2011*	2012	2013	2014	2015
<b>Imputed transfers including equalisation items within the system of central government transfers to local government</b>						
Ministry of Finance	7 797	8 074	8 433	8 617	8 826	9 071
Ministry of Education and Culture**	979	1 004	1 046	1 063	1 039	1 013
- of which unit pricing for joint municipal authorities***	1 353	1 422	1 481	1 505	1 471	1 435
<b>Total</b>	<b>8 776</b>	<b>9 078</b>	<b>9 479</b>	<b>9 680</b>	<b>9 864</b>	<b>10 084</b>
<b>Other government aid included in the basic public services budget</b>						
Ministry of the Interior	86	102	112	115	115	115
Ministry of Finance	114	115	44	52	19	16
Ministry of Education and Culture	196	223	223	224	219	227
Ministry of Employment and the Economy	36	41	63	78	78	78
Ministry of Social Affairs and Health	532	536	542	532	538	508
<b>Total</b>	<b>964</b>	<b>1 017</b>	<b>983</b>	<b>1 001</b>	<b>969</b>	<b>944</b>
<b>Other government aid included in the basic public services budget deliberations, total</b>						
	<b>9 740</b>	<b>10 095</b>	<b>10 463</b>	<b>10 681</b>	<b>10 833</b>	<b>11 028</b>

\* Budgeted (Budget and Supplementary Budgets)

\*\* Includes upper secondary high school, vocational education, university of applied sciences and other small central government transfers that are not included in the 2010 reform. Of the present central government transfers for education and culture, the imputed share of education maintained by local government is estimated at 68% in 2009 and 43% from 2010.

\*\*\* The unit-price funding of the joint municipal authorities is greater than the central government transfers received by the municipalities, because most of the tasks remaining to the administrative branch of the Ministry of Education are maintained by a body other than a municipality, as a consequence of which the per capita funding contribution for the municipalities will be greater than the central government transfers received by them ('maintainer system').