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**DECISION ON CENTRAL GOVERNMENT SPENDING LIMITS FOR 2011—2014**

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**

Along with the rest of Europe, the Finnish economy is expected to recover from the deep economic crisis in the medium term. Through a recovery of world trade and the export market, it is expected that exports will again begin to increase rapidly. Domestic demand will also grow as the labour market situation improves and pent-up investment needs are released. Economic structural change, population ageing and transfer of production closer to export markets and to countries with lower production costs will, however, begin to slow economic growth as the middle of the decade is approached. Post-recession recovery is therefore not comparable with the rapid recovery experienced after the recession of the early 1990s.

The labour market situation will improve in the medium term and job numbers are expected to increase rapidly. At the same time, however, labour market matching problems will worsen. New jobs will not arise in the same localities and sectors from which they were lost during the recession. This will slow employment growth. Moreover, population ageing will start to tighten the labour market during the current decade.

The traces of the recession will be evident in public finances for years to come. A strong general government financial balance quickly changed in 2009 to a deficit of nearly 2½% in ratio to GDP. In the current year, the deficit is expected to deteriorate further to around 4% and to therefore exceed the 3% deficit limit of the Stability and Growth Pact. The overshoot may prove temporary, however, because the 2011 deficit is expected to decline to just over 2% of GDP. Even though the economic recovery will strengthen public finances in the coming years, without new measures to support growth or strengthen public finances, general government finances overall are expected to still be clearly in deficit in 2014.

The deep recession and the sharp weakening of general government finances caused by it have fundamentally changed the bases of fiscal policy. The targets set in the Government Programme for employment and public finances will not be achieved.

General government finances are in a more vulnerable position from which to meet expenditure pressures caused by population ageing and a narrowing of the tax base. Ensuring the sustainability of public finances now represents a bigger challenge.

In the next few years, it will be essential in economic policy to implement a post-recession exit strategy in which measures supporting growth are combined with adjustment measures in general government finances. In fiscal policy, a strategy and measures to strengthen the long-term sustainability of public finances are required. Sustainability can be improved in principle in three ways: through structural reforms, increasing taxes or cutting spending. Of these, the Government has focused on structural reforms aimed at improving the sustainability of public finances, of which the most important is the lengthening of working careers.

By the budget session, the Government will prepare a plan for the stabilisation of public finances and the closing of the sustainability gap, having obtained the results of tripartite preparations. Balancing measures will be timed and scaled such that they do not hinder economic recovery and employment growth.

Post-recession after-care will take several years. Important tools in the long-term management of public finances are medium-term budget planning and, based on this, spending limits extending beyond the parliamentary term.

Economic prospects are discussed in more detail in the Economic Survey distributed as background material to this decision on spending limits.

## **2. Parliamentary term spending limits**

To ensure a responsible and long-term spending policy, the Government has committed to spending limits that control growth in central government expenditure. The spending outline of the decision on spending limits implements the Government's economic strategy, in which the priorities are developing social security, skills promotion, R&D activity, and climate and energy policy. The decision on spending limits takes into account the expenditure impact of stimulus measures decided in 2009.

2011 is the final year of this parliamentary term and spending limits period. The spending level for 2012—2014 does not include new policy outlines. On the other hand, the decision on spending limits takes into account the effects of decisions made by the present Government on the spending level of future years.

In May 2007 the spending limits level over the parliamentary term was confirmed at EUR 34,409 million for 2011 at 2008 prices. The current decision on spending limits does not involve changes in the underlying spending rule adopted in the Government Programme; the spending limits for the parliamentary term are revised technically only for changes in price and cost level and for adjustments in the budget structure. The revised spending limit for 2011 totals EUR 38,003 million, based on the Ministry of Finance's March 2010 price development forecasts. The price and cost level revisions made to the spending limit level will be specified through new forecasts in connection with the preparation of the 2011 budget proposal. The factors underlying both the cost and price level adjustments and the structural changes are discussed in Appendix 1.

**Table 1. Spending limits for the parliamentary term, EUR million**

	2011
Decision on spending limits 25 May 2007, at 2008 prices	34 409
Adjustments in cost and price level for 2008—2011	2 985
Budget structural changes for 2008—2011	609
<b>Revised spending limits over the parliamentary term, at 2011 prices</b>	<b>38 003</b>

### **Expenditure outside the spending limits**

In accordance with the May 2007 decision on spending limits, expenditure outside the spending limits consists of items specified in the Government Programme, which are mainly items that fluctuate according to business cycles and automatic funding mechanisms, those closely linked to certain revenue items or where central government acts as a technical intermediary. Expenditure items outside the spending limits comprise:

- unemployment security expenditure, central government contributions to expenditure incurred by the Social Insurance Institution under the National Pensions Act, central government contributions to social assistance expenditure, pay security, subsidies for low-paying jobs and housing allowances. However, expenditure effects generated by changes in the criteria for these items are included in the spending limits.
- interest expenses
- possible compensation payments to other tax recipients for changes in taxation decided by central government
- changes in the transfers payable to the Social Insurance Institution caused by changes in social security contributions
- expenditure corresponding to technically transmitted payments and external funding contributions
- expenditure corresponding to the revenue from betting and lottery, 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 25% but no more than EUR 150 million of the excess can be used for one-off investments without reference to the spending limits to boost expertise, innovation and economic growth, unless other reasons exist for not doing so.

If total annual expenditure falls below that specified in the spending limits even after supplementary budgets, the surplus, to a maximum of EUR 100 million, may be used for one-off expenditure in the following year without reference to the spending limits.

Expenditure outside the spending limits is expected to be around EUR 12.3 billion in 2011, which is around EUR 1.5 billion less than expenditure outside the spending limits budgeted for 2010. The decrease is mainly explained by high financial investments of a stimulus nature in 2010, which will dissipate by 2011. Compared with the previous decision on spending limits, expenditure outside the 2011 spending limits will, however, grow by around EUR 440 million on a net basis. Contributing

factors are of two kinds, of which the largest are a lowering of estimated central government debt interest expenses by around EUR 280 million owing to a change in the estimated level of interest rates, and an increase in unemployment security and housing allowance expenditure by around EUR 270 million, and an increase in compensation payments for municipalities' tax revenue losses by EUR 285 million.

Expenditure outside the spending limits will rise during the spending limits period, reaching around EUR 13.1 billion in 2014. The biggest factor raising expenditure outside the spending limits is growth in interest expenses on central government debt arising from an increase in the level of interest rates and substantial growth of central government debt. Estimated interest expenses for 2011 are around EUR 2.2 billion, from which they are projected to rise to around EUR 3.7 billion by 2014. On the other hand, cyclical expenditure outside the spending limits, such as unemployment security expenditure, will decline as the spending limits period progresses due to an expected improvement in the economic situation.

**Table 2. Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2011—2014, EUR million at 2011 prices and costs**

Administrative branch	2011	2012	2013	2014
<b>23. Prime Minister's Office</b>	73	75	75	75
Estimate of expenditure outside spending limits	6	6	6	6
<b>24. Ministry for Foreign Affairs</b>	1 230	1 282	1 333	1 382
Estimate of expenditure outside spending limits	33	18	18	18
<b>25. Ministry of Justice</b>	766	777	749	764
Estimate of expenditure outside spending limits	46	46	46	46
<b>26. Ministry of the Interior</b>	1 241	1 277	1 273	1 244
Estimate of expenditure outside spending limits	64	67	72	72
<b>27. Ministry of Defence</b>	2 443	2 429	2 426	2 426
Estimate of expenditure outside spending limits	326	308	319	319
<b>28. Ministry of Finance</b>	14 216	14 544	14 709	14 794
Estimate of expenditure outside spending limits	1 056	1 078	1 102	1 126
<b>29. Ministry of Education</b>	5 867	5 875	5 886	5 882
Estimate of expenditure outside spending limits	636	531	550	516
<b>30. Ministry of Agriculture and Forestry</b>	1 906	1 883	1 890	1 890
Estimate of expenditure outside spending limits	896	896	891	887
<b>31. Ministry of Transport and Communications</b>	1 655	1 838	1 881	1 701
Estimate of expenditure outside spending limits	437	391	403	295
<b>32. Ministry of Employment and the Economy</b>	2 255	2 217	2 110	2 109
Estimate of expenditure outside spending limits	468	449	402	404
<b>33. Ministry of Social Affairs and Health</b>	5 579	5 699	5 807	5 907
Estimate of expenditure outside spending limits	6 087	5 962	5 783	5 633
<b>35. Ministry of the Environment</b>	273	233	225	224
Estimate of expenditure outside spending limits	9	9	9	9
<b>36. Interest on central government debt</b>	-	-	-	-
Estimate of expenditure outside spending limits	2 232	2 722	3 170	3 733
<b>Administrative branch spending limits, total*</b>	<b>37 650</b>	<b>38 284</b>	<b>38 516</b>	<b>38 548</b>
Supplementary budget provision	300			
Unallocated reserve	53			
<b>Parliamentary term spending limits</b>	<b>38 003</b>			
Estimate of expenditure outside spending limits, total	12 311	12 502	12 788	13 081

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

### **3. Central government spending limits by administrative branch 2011—2014**

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

The formulation of these central government spending limits draws on the spending limits decision adopted on 25 May 2007. The decisions in this document, including additional specifications, reconfirm the policy outlines for the different administrative branches adopted in the spending limits decision of 26 March 2009.

To create sufficient room for manoeuvre and to facilitate changes in priorities, the decision on spending limits includes EUR 47 million of savings in agencies' operating expenditure for 2011 and just over EUR 30 million in other years of the spending limits period. In addition, appropriations for actual development cooperation in the spending limits period have been reduced compared with the previous decision on spending limits, in 2011 by EUR 79 million. Despite this, appropriations for actual development cooperation will increase by EUR 90 million compared with 2010.

The decision on spending limits includes a EUR 23.2 million appropriation increase due to changes in the employer's pension insurance contributions in the central government administration. With respect to the equal pay item based on the central government collective agreement, which was agreed in 2007 and which expired on 31 January 2010, as well as the central government collective agreement made for the period 2010—2013, on which a negotiated result was achieved on 7 March 2010, the intention is to include the resulting total additional requirement of EUR 56 million in the preparation of the second 2010 Supplementary Budget Proposal (EUR 38 million) and in the 2011 Budget Proposal (a further EUR 18 million). These additions are not taken into account in this decision on spending limits. Moreover, the intention is to increase 2010 central government funding for universities to correspond with the central government national-level labour market agreement in the second 2010 Supplementary Budget Proposal. From 2011, basic funding for universities will be increased in accordance with a university index to correspond with the rise in cost level.

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. The administrative branch appropriations also take into account the policy outlines of the Security and Defence Policy Report as well as the ministry's productivity programme. The Ministry for Foreign Affairs will develop its operations, adapting the duties and structures of the diplomatic mission network to the boundary conditions of central government finances. The civilian crisis management appropriations have taken into account the policy outlines of the National Strategy for Civilian Crisis Management and the Security and Defence Policy Report.

The Government is internationally committed to increasing the GNI share of development cooperation appropriations to 0.70% by 2015. In addition, Finland is committed to spending at least EUR 110 million on climate measures in developing countries in 2010—2012. From 2013 Finland is committed to participating in the long-term climate funding for developing countries agreed at the Copenhagen Climate Conference. These appropriations can be reported as part of Finland's official development cooperation.

The Government decision on spending limits provides for growth in actual development cooperation appropriations such that the level of development cooperation appropriations rises to 0.55% in ratio to the projected GNI in 2010 and 0.58% in 2011. With respect to 2012—2014, a technical assumption has been made that this share of GNI will be maintained. The next Parliament will decide on development cooperation appropriations for these years.

In 2010 and 2011 Finland's development cooperation appropriations will exceed its international commitments, so the commitments made in terms of climate funding can be implemented within their framework in these years. At a uniform rate, the achievement of the 0.7% development cooperation target alone will require an annual rise of around 0.03 percentage points in 2012—2015.

In the **administrative branch of the Ministry of Justice**, the activities of the district court organisation that came into force on 1 January 2010 will be consolidated. Development of the activities of the courts of appeal and the administrative courts will be continued, taking into account, among other things, the results of surveys on the need for structural reform conducted during 2010. Information management and facilities management will be enhanced with the aim of linking the development of information technology aids and working environments more closely to the development of the administrative branch's basic tasks, key operating processes and customer service. This development work and a strengthening of different sectors' training systems will commit the administrative branch's resources significantly in the spending limits period. The manner in which general interest-representation services are provided will be developed based on a study to be completed in 2010.

The criminal policy priorities will be enhancing crime prevention, rapid enforcement of criminal responsibility, reducing recidivism and improving the position of victims of crime. In reducing violence, the focus of attention will be on violence directed at women and children and on domestic violence. Victim-support services will be developed to improve the position of victims of crime. In enforcing criminal responsibility, the interoperability of the processing chain for criminal cases and the balanced allocation of resources will be improved further.

Minor violence in close relationships will be changed from a complainant offence into an offence subject to a public prosecution. The annual additional costs will be EUR 1.5 million.

A wide-ranging administrative and operational development programme will be implemented in the Criminal Sanctions Agency. In the enforcement of punishments, the focus will shift from institutional sanctions to non-institutional, community sanctions and from closed institutions to open institutions. The development of existing institutions will be continued on the basis of a development programme currently in preparation.

In the **administrative branch of the Ministry of the Interior**, funding totalling EUR 11 million will be allocated in the spending limits period to continuing the comprehensive reform of police information systems (VITJA project). This additional funding will ensure the continuation and completion of the project according to the planned schedule.

The renewal of the Border Guard's twin-engine helicopter fleet will begin in 2011 and the funding allocated to this during the spending limits period will total EUR 47 million. The total price of the acquisition is EUR 62 million, for which finance from the European Union's External Borders Fund will also be sought. The renewal of the helicopter fleet will maintain present performance in border security tasks, maritime rescue and in exacting official assistance duties of the police and rescue authorities. A total of EUR 8.2 million will be allocated in 2011 and 2012 for the acquisition of ten patrol boats. A total of EUR 2 million will be allocated in 2012 and 2013 for the renewal of maritime monitoring systems.

In the immigration administration, additional funding of, on average, EUR 117 million per year compared with the previous decision on spending limits will be allocated for the reception of refugees and asylum seekers and for compensation payable to municipalities owing to a larger than anticipated number of refugees and asylum seekers.

In addition to the previous decision on spending limits, the present decision provides a total of EUR 2.7 million to operating expenditure for the promotion of public administration network security in 2014.

A total of EUR 30 million will be allocated in 2011—2014 for the structural reform of the Emergency Response Centre Administration and for the acquisition of a new information system (TOTI) required by the reform. The gradual reduction of the number of emergency response centres from 15 to 7 will begin in 2011, at which time two emergency response centres will be discontinued and their functions transferred to another emergency response centre. In 2012 two further emergency response centres will be discontinued, as well as one each in 2013 and 2014, and two in 2015. The development of the emergency response centre system will create a nationally integrated Emergency Response Centre Administration, in which tasks and resources will be evenly distributed. Development measures will be implemented so that emergency response centre services are not jeopardised at any stage.

In addition to measures initiated on the basis of the previous decision on spending limits (a pilot project to ensure security services of sparsely settled areas and a project to increase joint use of the authorities' boat fleet), preconditions for deeper joint action as well as for joint use of resources in functions handled by the ministry's security authorities as well as those operating in other administrative branches (including the Defence Administration and the National Board of Customs) will be studied further on a local level.

Cooperation between central government authorities and local government rescue departments will be deepened in the acquisition and use of the maritime fleet. The objective is to prevent duplication of fleet investments and increase joint use of fleet as well as to improve at the same time preconditions for a common situational view. In addition, reforms to improve joint action and operating practices will be prepared and provision made for oil spill recovery in maritime areas.

In the **administrative branch of the Ministry of Defence**, the policy outlines of the 2009 Security and Defence Policy Report will be taken into account in the activities of the defence forces and their development.

Tasks of the defence forces, for example maintenance and development of national defence, giving support to other authorities and participation in international military crisis management, demand clear prioritisation of functions and acquisitions. The objective is to keep personnel costs, material development and operating expenditure in balance. This requires growth in the relative share of personnel and real-estate expenditure to be brought to a halt. To maintain a credible national defence capability, an average of around one third of the defence appropriations will be used in the planning period for material maintenance and development. Key objectives in the planning period are organisational and defence material development, taking into account changes in warfare as well as the impact of developing technology and international joint action.

To replace the capacity of anti-infantry mines, a total of EUR 200 million will be allocated during 2009—2016 for the purchase of systems to replace anti-infantry mines.

In the **administrative branch of the Ministry of Finance**, the development of information systems in the Tax Administration will be continued on the basis of an action programme prepared separately to reduce the costs of basic maintenance of information systems in the spending limits period. A schedule for the renewal of FAS-language software must be prepared and the renewed programme must be taken into use at the latest by the end of the spending limits period.

The IT operations of the National Board of Customs will be enhanced and centralised, and customs handling processes integrated among EU countries. The objective is to transfer to electronic customs formalities within the spending limits period. The focus of investments will shift to the building of these information systems. Cooperation between Customs and the Border Guard as well as joint use of resources will be deepened further at the local level. In terms of the National Board of Customs and the Tax Administration, the focus will particularly be on organising and coordinating taxation tasks.

Supplementary pensions for artists and journalists are granted by the Ministry of Education, but they are funded from the main title of the Ministry of Finance. The artist and journalist pensions are primarily a system intended to support art and journalism, and are not connected with the public service and employment pensions which are the responsibility of the Ministry of Finance. As a result of this, funding for new supplementary pensions for artists and journalists and for those granted earlier, around EUR 17.5 million in 2011, will be transferred to the main title of the Ministry of Education from the beginning of 2011.

Processing and service of pension matters relating to the Treasury's individual customers will be transferred to the Local Government Pensions Institution as of 1 January 2011. In the same context, personnel working in pension security implementation tasks, around 145 people, will transfer to the service of the Local Government Pensions Institution. The objective of the change is to achieve cost savings in the Treasury in the development and maintenance of information systems required by the employment pension system as well as in handling costs of the central government pension system.

The focus of Treasury activity in the spending limits period will be the implementation and introduction of the agencies' joint administrative and human

resources management information system configuration (KIEKU). To bring forward the central government's administrative and human resources management efficiency savings and other benefits, the objective is to take the system fully into use already from the beginning of 2014 instead of the earlier 2015. For this, around EUR 12 million per annum of appropriations has been brought forward for 2012—2013. Accelerated introduction will be supported in the Treasury by refocusing plans and by tightening cooperation with agencies and the Government Administrative and Human Resources Management Service Centre in planning and implementing the introduction.

A total of EUR 75 million has been reserved in the spending limits period for promoting electronic public services (e.g. SADe project). An unallocated appropriation of EUR 80 million has been reserved annually from 2012 for the development of information systems and for other productivity-promotion needs.

The Government IT Service Centre is responsible for providing the central government's shared IT services. From 2012 the funding of services will be completely customer-funded on the absorption principle. Operations will be further developed to ensure cost-effective and quality services. The IT Service Centre will operate until further notice as part of the Treasury, but during the spending limits period the separation of the IT Service Centre into its own agency will be prepared, and this will be implemented at the latest by the end of the spending limits period.

The Government Administrative and Human Resources Management Service Centre (Palkeet) is responsible for providing administrative and human resources management service centre services in the state administration. In the spending limits period, the cost-efficiency of the service centre's operations and service production will be improved further by developing standardisation of information systems, integrated electronic operating models and human resources skills. Operational efficiency will be ensured through, for example, benchmarking with peer organisations.

As a member of the World Bank, Finland is committed, like other member states, to participating in the capital funding of the financial institution and to bearing a predetermined share of liabilities as possible loan liabilities lapse. For this purpose, it is proposed that around EUR 6 million per annum be reserved for the capital increases of international financial institutions.

Low-wage support will expire at the end of 2010.

Central government transfers to local government are examined in Chapter 5. Basic Services Programme of the decision on spending limits.

In the **administrative branch of the Ministry of Education**, the development of the quality of basic education in accordance with the Government Programme will be continued in 2011, such that funding will be directed to, among other things, reducing the size of teaching groups in basic education. During the spending limits period, significant additional funding will be allocated to the construction of educational establishments and particularly to renovations. This is based on stimulus measures agreed earlier in 2009 and on a central government investment package decided in connection with the 2010 Budget, in which the ex-post funding authorisation of central government transfers was raised by EUR 38.5 million.

Appropriations for vocational education and adult education will be increased, particularly to prevent the social exclusion of young people. For example, the number of vocational education student places was increased by 500 student years in the second 2009 Supplementary Budget and by a further 750 student years in connection with the 2010 Budget. To support youth employment and prevent the social exclusion of young people, additional funding was decided in connection with the first 2010 Supplementary Budget proposal, which will be reflected to a certain extent in the spending limits period.

In accordance with a policy outline formulated in the Government policy review on 24 February 2009, the Government will launch a reform to raise the employment rate of young people, accelerate studies and lower the starting age of studies, which will substantially lower the average age at which graduates enter working life.

A reform of student selection for higher education establishments will be implemented in the manner proposed by a Ministry of Education working group (Ministry of Education working group memorandum 2010:11). The reform will be implemented such that it will already impact selection in spring 2011. A common electronic application system for higher education establishments will be introduced in the 2013 selection process. Training of study supervisors will be enhanced.

International cooperation will be strengthened by increasing the Fulbright appropriation, which is directed at supporting gifted young researchers, study cooperation between higher education establishments and inviting top US researchers to Finland. Provision will be made for developing national supercomputing and data centre activity such that the replacement of the present supercomputer with new hardware will be provided for from 2012.

The decision on spending limits has taken into account the university reform that came into force at the beginning of 2010, by which the universities have become independent institutions or foundations under public law, for which central government funding has been allocated according to grounds for assessment enacted separately. According to the new funding system, the first central government funding index adjustment has been made for 2011. As a technical assumption, provision has also been made in the spending limits for financial investments totalling EUR 100 million for universities other than foundation universities in 2011. The actual amount of the central government's investment will be determined according to an earlier ratio, depending on the amount of private investment.

The research funding authority of the Academy of Finland will grow from 2010 to 2011 by EUR 21.1 million, excluding a technical reduction caused by changes to nature of researcher posts. An additional EUR 11.5 million will be allocated to funding of research infrastructure projects in 2011—2012.

Betting and lottery proceeds are expected to increase by 1.5% each year during the spending limits period. In addition, a total of around EUR 87 million of previously non-distributed proceeds will be allocated in 2011—2014 to the four beneficiaries (science, the arts, sports and youth work) in accordance with the Act on the criteria for the distribution of betting and lottery proceeds.

Provision has been made for equipment purchases in 2011—2012 for new premises of the National Board of Antiquities and the Finnish National Gallery. From 2012, provision has been made to assist the renovation of the Swedish Theatre in Helsinki with a total of EUR 4.3 million per annum.

A comprehensive reform of the system of central government transfers to local government came into force at the beginning of 2010. As a result of this, central government transfers for services belonging to the administrative branch of the Ministry of Education relating to pre-school and basic education, libraries, municipal cultural activities and basic art education funded per capita has been transferred to the administrative branch of the Ministry of Finance as part of the central government transfer to the arrangement of municipalities' basic public services. Issues relating to central government transfers to local government are discussed as a whole in Chapter 5. Basic Services Programme.

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 EU and national funding.

The minimum interest rate of interest-subsidy loans taken by farms in 2000—2007 will be lowered to facilitate the financial situation of farms, which have made investments. The next Parliament will decide on the possible need to transfer funds to MAKERA (The Development Fund for Agriculture).

Efforts will be made to prevent damage caused by large carnivores more effectively, particularly in the reindeer husbandry area in accordance with confirmed management plans. Provision had already been made earlier in the spending limits for changes to damage compensation arising from the Game Damage Act.

In forestry, support for safeguarding the sustainability of wood production will be kept at the level of around EUR 72 million in 2011—2014. The management of forest nature will be promoted with around EUR 12 million in each spending limits year.

Provision has been made to allocate EUR 360,000 per annum for the protection of the Saimaa Ringed Seal.

In the **administrative branch of the Ministry of Transport and Communications**, major transport route projects will be implemented in accordance with the Government Transport Policy Report, and during the spending limits period a total of 33 such projects are underway. In 2011 seven new projects will be initiated, namely the E18 Hamina by-pass, the Main Road (VT) 8 Sepänkylä bypass, the VT 12 Tampere lakeside road, the VT 19 Seinäjoki eastern by-pass, phase II of the service level improvement of the Seinäjoki—Oulu rail section, the Uusikaupunki fairway and the Rovaniemi—Kemijärvi track electrification, as well as provision made for the continuation of phases II and III of Savonlinna city centre. An appropriation of EUR 94 million has been reserved for unnamed projects in 2014.

For basic maintenance of transport routes, EUR 892.6 million will be allocated in 2011, rising to EUR 895.1 million in 2014.

The appropriation for the purchase of public transport services will rise in the first year of the spending limits period by EUR 1.5 million to EUR 65.2 million. According to a long-distance train transport agreement that expires in 2011, central government purchases are EUR 31.5 million per annum. From 2012 an imputed EUR 20 million per annum has been reserved for this purpose. The level of the appropriation will be decided by the next Parliament.

Information society infrastructure will be improved through an action plan Making Broadband Available to Everyone. A total of EUR 66 million has been allocated to the funding of the action plan in 2009—2015. The 2011 appropriation is EUR 9.8 million, from which it will rise to EUR 11 million by 2015.

An intelligent transport programme will be implemented such that EUR 0.75 million will be transferred as an increase from basic maintenance of transport routes to the use of the Finnish Meteorological Institute. An additional EUR 2 million will be allocated in 2012 and 2014 for the renewal of the Finnish Meteorological Institute's radar network.

In the **administrative branch of the Ministry of Employment and the Economy**, funding for innovation policy and the internationalisation of companies will grow in the spending limits period to an annual level of around EUR 777 million. Public R&D&I funding as a proportion of GDP is projected to be at an annual level of around 1% in the spending limits period.

The payments arising from the EUR 10 million funding authority granted in the 2010 Budget to innovation support to ship building has been taken into account in the 2012 appropriation provisions. Labour policy funding will be increased by EUR 61 million for 2011 and by EUR 2 million for 2012 compared with the previous decision on spending limits. In addition, the appropriation provisions of the decision on spending limits have taken into account the impact on appropriations in the spending limits period arising from funding authorisation increases granted in 2009 and 2010 for development grants to businesses and employment-based investment expenditure.

The decision on spending limits has taken into account the termination at the end of the parliamentary term of fixed-term aid (aid to sole entrepreneurs, increases in employment-based investments and development grants to businesses). Their continuation and level from 2012 forward will be decided, however, by the next Parliament.

The decree on the transport subsidy scheme is valid until the end of 2013. The decree on the village shops subsidy scheme is valid until the end of 2014. The next Parliament will decide on the continuation of these schemes.

Funding for Structural Fund programmes will be directed in a manner required by the cyclical situation and as quickly as possible to measures creating entrepreneurship, new business and new jobs as well as to employment and training measures. EUR 86.5 million of the funding authorisation for Structural Funds will be brought forward from 2013 to 2011.

The level of the energy subsidy appropriation takes into account the appropriation needs arising for the years of the spending limits from the authorisation increases of

the Autumn 2009 Supplementary Budget and the 2010 Budget. In February 2010, the Government made a resolution on energy efficiency measures.

In the **administrative branch of the Ministry of Social Affairs and Health**, the biggest changes in appropriations result from a changing of estimates relating to economic development. The unemployment rate is expected in 2011 to be nearly 1 percentage point higher than assumed in the previous decision on spending limits. The unemployment security appropriations for 2011 are around EUR 110 million higher than in the previous decision on spending limits as a consequence of a rise in projected unemployment and index adjustments. Correspondingly, due to the difficult employment situation, living allowance expenditure will grow by around EUR 110 million compared with the previous decision on spending limits. On the other hand, the total wage bill forecast for 2011 is now clearly lower than that projected a year ago.

Compared to the previous spending limits, additions to appropriations in 2011—2014 resulting from and relating to decisions made in connection with the 2010 Budget are, among other things, an expansion of the vaccination programme with pneumococcal conjugate vaccination (EUR 9.5 million), regionalisation costs pertaining to the Finnish Medicines Agency (EUR 1.5 million) and improvement of unemployment security for family members of entrepreneurs (EUR 1 million).

The following measures were already included in the previous decision on spending limits: a “guaranteed pension” safeguarding a reasonable level of the smallest pensions as of 1 March 2011, the linking of minimum rehabilitation allowances and daily allowances, family allowance, child home care allowance and private child care allowance to the National Pension Index as of 1 March 2011, which describes the change in consumer prices, as well as the transfer of psychotherapy compensated from health insurance as discretionary rehabilitation to within the arrangement responsibility of the Social Insurance Institution of Finland from 1 January 2011 onwards.

In terms of YEL and MyEL earned income, the insurance principle will be strengthened such that an entrepreneur can receive a daily allowance from both pension schemes. The reform will be funded by a daily allowance fee charged from entrepreneurs.

The development of electronic customer data systems in social services and health care will continue. In the health care segment, a project which has been under way for a number of years will be supported annually with a supplementary appropriation of around EUR 20 million (including certification services handled by Valvira, the National Supervisory Authority for Welfare and Health).

The estimate of the revenue of the Slot Machine Association (RAY) remitted to the Budget is reduced from 2010 level by around EUR 7 million, after which it will rise annually by EUR 3—4 million. Taking into account an increase in Lottery Tax, which is expected reduce RAY’s distributable revenue by EUR 10½—11 million per annum, revenue prospects are, however, to some extent more optimistic than in the previous spending limits. RAY’s revenue development is reflected mainly in the grants RAY distributes to organisations and foundations, which in gross terms would be EUR 6—7 million smaller in the next few years than was assumed in the previous spending limits. As the funding of the helicopter medical emergency service, handled by RAY

up to 2010, in the future will be included in the Budget in a new universal item at a level of just under EUR 12 million, the appropriations available for other support activity will grow, however. By a Government decision made in 2009, the intention is to fund with RAY support appropriations EUR 1.6 million of appropriations earlier used to promote health.

Social services and health care arranged by local government are discussed in Chapter 5. Basic Services Programme.

In the **administrative branch of the Ministry of the Environment**, the implementation of the five-year National Damp and Mould Programme, initiated in 2009, will be continued. The objective of the programme is to reduce the health hazards posed by damp and mould damage, and to prevent the creation of new damage in new and renovation construction. A total of EUR 3.4 million has been allocated to the Ministry of the Environment, which coordinates the programme, for study, training and communications expenditure incurred, of which EUR 1.1 million has been budgeted in 2009—2010 and the remaining EUR 2.3 million allocated to 2011—2013.

The climate and energy policy strategy will be implemented within the spending limits framework. The extension of the International Climate Agreement beyond 2012 is still open following the Copenhagen Conference. Finland will also make provision for its participation in the costs of the Climate Agreement and its implementation.

More appropriations than before can be directed to the Forest Biodiversity Programme 2008—2016 (METSU II programme) after the earlier protection programmes have been for the most part implemented.

The improvement of oil spill response preparedness will continue. The oil damage duty has been tripled for three years, which will enable an increase in oil spill response investments in the spending limits period. The aim will be for vessel acquisitions to also have an employment impact.

Demand for cyclical apartment block and terraced house renovation grants awarded in 2009 and 2010 significantly exceeded advance estimates. A total of EUR 132 million will be provided for payments arising from these in 2011—2012, of which EUR 75 million will be financed by the Housing Fund of Finland.

### **3.2 Policy programmes**

The Government Programme adopted three cross-administrative policy programmes: the policy programme for employment, entrepreneurship and working life, the policy programme for health promotion, and the policy programme for children, youth and families. Appropriations for implementing these programmes are included in the spending limits for this parliamentary term. The Government will decide on the possible allocation of appropriations to policy programmes each year in connection with the spending limits procedure and the budget cycle.

### **3.3 Productivity programme implementation**

The central government productivity programme will be implemented as decided earlier, so that the central government's labour requirement can be reduced, through

reforming organisations, operating practices and processes and enhancing use of information technology, by 9,645 man-years up to 2011 compared with the 2005 level, and additionally by 4,800 man-years up to 2015. The administrative-branch targets for the impact of the productivity programme on man-year figures by the end of 2011 and 2015 will be implemented in accordance with Appendix 3.

The implementation of the programme is falling short of target development. From 2008 to 2009 the number of man-years within the sphere of the central government productivity programme grew by 413 man-years to around 116,600. If the change is examined excluding agencies and institutions belonging to the university reform, the number of central government man-years declined by 498 man-years. Based on the 2009 Budget, the implementation of productivity enhancing measures in the administrative branches should have meant a reduction of personnel needs by a total of 1,678 man-years in 2009, excluding universities and teacher training schools. This was not achieved. In spring 2010 the Government will review the reasons for falling short of the target and examine the significance of this for implementing the productivity programme.

In connection with measures aimed at regionalisation and productivity improvement, such as in the transfer of administrative and human resources management tasks to service centres, there has arisen some degree of double manning. To avoid double manning, the ministries will enhance steering of the planning and implementation of change situations. In organisational change situations, ministries are responsible for the active implementation of personnel changes in accordance with a Government resolution on organisational change situations made on 23 March 2006 and Ministry of Finance guidelines on support and relocation measures. The measures in use include public post arrangements, transfer to the service of another employer in the central government, local government or private sector, exploiting remote working opportunities and support for retraining. In certain situations, use can be made of the Treasury's Personnel Services Unit, which supports agencies' and institutions' change situations and personnel relocation. Additional funding may in some situations be allocated to measures in accordance with the above operating practice.

Ministries will be requested in autumn 2010 to provide productivity measures as an administrative branch project portfolio, by which the productivity programme targets for 2012—2015 will be implemented. Each ministry's project portfolio will describe productivity improvement measures and their implementation. An evaluation of the man-year impact of projects in the period 2005—2011 as well as the relationship of productivity projects to the development of other operational effectiveness and wellbeing in work will be made in early 2011.

Alongside the productivity programme, the Ministry of Finance has initiated a sustainable productivity development project, whose objective is to produce operating models, which when applied can simultaneously support and produce innovations, improve the quality of working life and boost productivity.

### **Lengthening of working careers and the productivity programme**

Both the lengthening of working careers and the central government productivity programme have the same long-term objective: to strengthen the sustainability of public finances. Reconciling the lengthening of working careers and the productivity programme requires good human resources planning. In some cases, however, the

delaying of retirement will be difficult to predict, which means that agencies may have difficulties in reconciling lengthened working careers with the man-year reductions resulting from the productivity improvement measures and required in spending limits and budget decisions. Retirement of central government personnel will in any case increase rapidly in the spending limits period. In 2010 around 2,200 people will reach old-age pension age, in 2011 around 2,500 and in 2014 around 2,900.

The Government will support the lengthening of working careers as part of the productivity programme, such that in monitoring the implementation of central government productivity programme measures it will be possible to exclude in the total number of man-years the number of man-years that will arise in agencies from the work input of those continuing their working careers beyond their personal retirement age. This procedure will be applied from 2010. The Ministry of Finance will give more detailed guidelines on the application of the procedure.

In addition, the Ministry of Finance will prepare procedural guidelines and other support material to assist agencies' management and supervisors so that they would be better equipped and encouraged to discuss the extension of working careers, for example, in development discussions and in human resources planning in a way that supports the extension of working careers.

In summer 2009, the Cabinet Committee on Economic Policy supported the implementation of the central government productivity programme to increase training opportunities for young people, such that the number of those hired as fixed-term trainees can be increased in the state administration in 2009 and 2010 without the interference of the man-year targets under the productivity programme.

### **Information system projects promoting productivity**

The state administration's centralised funding intended for promoting productivity will be allocated in 2011 to, among other things, developing the electoral data system, the real-estate recording system, the National Archive Service's electronic data acceptance and service system and the Occupational Safety and Health Inspectorates' information system, to the acquisition of the central government's shared administrative and human resources management information system, and to the eServices and democracy project (SADe programme).

## **3.4 Cross-administrative projects**

The provision of central government shared services will be increased and their use promoted to achieve productivity benefits and savings and also to develop operating processes and service provision. On 4 February 2010, the Government made a resolution on a substantial increase in the use of shared services in the state administration and also outlined certain other means to support agencies' and institutions' work to achieve permanent savings. The operating areas of units providing and developing shared services for the state administration include, for example, procurement activity, administrative and human resources management services, shared IT services and systems as well as premises management. Led by the Ministry of Finance, the preparation and implementation of forms of cooperation will be initiated to curb cost pressures in terms of information management expenditure and investments. Possible means include shared information system solutions in

accordance with the central government's information management strategy and also the restructuring of information management organisations. The effectiveness of measures in accordance with the resolution will be monitored in the Ministry of Finance and the other ministries.

#### **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. Tax revenues account for around 85% of actual on-budget revenues.

On-budget revenues (excl. net borrowing) are expected to grow by 2% in 2010 and by an average of 5½% per annum in the spending limits period. Revenue estimates are based on tax criteria and other solutions decided earlier.

Recovery of total output and modest growth in the spending limits period will also be reflected in the development of tax revenues. In 2009 central government tax revenues declined as a consequence of a contraction of total output and changes in tax criteria by 15%, i.e. EUR 5.7 billion. In 2010, revenues from corporate tax and indirect taxes in particular are expected to pick up and tax revenues overall to grow by 1½%. In 2011 tax revenues are expected to grow by 9½%, after which growth will slow. Tax revenues are expected to grow by an average of 6% per annum in the spending limits period 2011—2014. In 2012 central government tax revenues would reach the level of the 2008 financial statements, and at the end of the period under review the level of tax revenues would be EUR 3.1 billion higher than in 2008. In addition to a growth of tax bases, tax revenues in the spending limits period will be increased by increases in indirect taxes that come into force in 2010—2011 and by the removal of the temporary reduction of the central government's proportion of corporate tax in 2012.

Revenues from taxes on earned and capital income are expected to fall by 1½% in 2010 and to grow in the spending limits period by an average of 5½% per annum. Wage income is expected to grow by an average of 4% per annum and capital income by 5% per annum. The overall burden of taxation on work will be influenced by the level of municipal income tax and social security contributions in addition to income tax criteria decided by the central government.

In 2010 companies' profit development is expected to improve clearly from the low level of 2009 and central government corporate tax revenue to grow by over 5%. Corporate tax revenue is expected to grow during the spending limits period by an average of 7% per annum and central government corporate tax revenue by an average of 13% per annum. The faster growth of central government corporate tax revenue will result from the fact that the temporary increase of municipalities' and parishes' proportion of corporate tax in 2009—2011 will end.

Value-added tax revenue is expected to grow by 0.5% in 2010. The value-added tax on food was reduced as of 1 October 2009 by 5 percentage points, which will cut tax revenue on an annual basis by EUR 520 million. All value-added tax percentages will be increased as of 1 July 2010 by one percentage point and at the same time the value-added tax on restaurant food will be reduced to the level of the value-added tax percentage for food, i.e. 13%. On an annual basis the increase in tax percentages will

increase tax revenue by around EUR 690 million and the restaurant food reduction will cut tax revenue by around EUR 260 million. In 2011 value-added tax revenue will grow by 6½% and by an average of 4½% in the spending limits period. The average growth in the value of households' consumption expenditure in the spending limits period is expected at the same time to be 4½%.

Revenues from excise duties are projected to grow in the spending limits period by an average of 5% per annum. Growth will be greatest in 2011, when energy taxes are increased by EUR 750 million. The excise duty on soft drinks will be raised and an excise duty on sweets will be introduced from the beginning of 2011, which is expected to increase tax revenues on an annual basis by EUR 100 million.

The lottery tax percentage will be increased to 10% from the beginning of 2011, which will increase tax revenue by just over EUR 10 million.

Dividend revenues are expected to reach EUR 770 million on an annual basis in the spending limits period. In accordance with established practice, the revenue estimates also include EUR 400 million per annum of proceeds from the sale of shares owned by the state.

It is assumed that central government debt will grow this year to EUR 77 billion. According to estimates, central government debt will grow during the entire spending limits period to around EUR 110 billion in 2014, corresponding to around 50% of GDP.

In terms of national accounts, central government finances are expected to be in deficit during the entire spending limits period. Excluding new decisions, the deficit is expected to be 4.7% of GDP in 2011, falling to 4.0% of GDP in 2014.

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

The economic situation of local government finances and particularly that of large cities and export industry localities weakened rapidly last year due to a slowing of municipal income tax growth and a collapse in corporate tax revenue. Preliminary data indicates that the operating margin also weakened, particularly in large cities.

According to 2009 year-end reports, the annual margin of local government finances declined by one fifth, but did not collapse as much as was feared. Municipal indebtedness, on the other hand, continued to accelerate as investments remained at a high level. In the current year, municipalities have patched their finances with both a significant 0.4 percentage point increase in municipal income tax and an exceptionally large increase in real-estate taxes.

This year a weakening of employment prospects and thereby the municipal income tax base will extend the crisis to affect the entire municipal sector. Recovery will be slow as the development of tax revenues will also be weak next year. If local government expenditure growth is not curbed substantially and permanently, local government finances will remain on the path of tax increases and indebtedness in the next few years.

A starting situation weakened through the local government financial crisis, a weakening of prospects for the next few years and the weak situation for central government finances highlight the need to safeguard the long-term sustainability of local government finances. As expenditure pressures directed at local government finances by population ageing will grow year on year, the necessity of reforms to improve the productivity of basic public services will be further emphasised. In labour-intensive local government, the raising of productivity will be focused particularly on the sustainable dimensioning of personnel numbers both from the perspective of local government financing and the productivity development of economy overall.

The central government decided in connection with the previous spending limits on significant measures to support local government finances, whose impact began in 2009 and will extend into the 2011—2014 period. Of these measures, the most significant was the temporary raising of the municipalities' proportion of corporate tax by 10 percentage points, decided for 2009—2011, which will increase municipalities' tax revenues by around EUR 380 million per annum. In addition, the limits on the municipal real-estate tax were raised from the beginning of 2010 such that municipalities' tax revenues will increase by at least EUR 50 million. Municipalities' expenditure will be permanently lowered by the phased abolition of the employer's national pension contribution from 1 April 2009, the impact of which on an annual basis will be EUR 250 million.

**Local government tax revenues** are projected to decline by 0.6% in 2010 despite the fact that the raising of income tax and real-estate tax percentages decided by the municipalities will increase tax revenue by a total of EUR 510 million. Municipal income tax revenue is projected to decline by 2.8% due to growth in unemployment and tax cuts. As economic prospects revive, companies' financial performance is expected to improve and corporate tax revenue to return to growth in 2010. The corporate tax revenue received by the municipalities is expected to grow by 12%. Real-estate tax revenue is expected to grow by 20% as a consequence of the increase in real-estate tax percentages.

In 2011—2014, local government tax revenues are expected to grow by an average of 3.2% per annum. This calculation does not include assumptions about changes to tax criteria, and the municipalities' income tax percentage has been kept at the 2010 level. Municipal income tax revenue is expected to grow by an average of 3.6% per annum. In 2011 municipal income tax revenue will grow only 3%, but thereafter growth will accelerate. In the spending limits period, municipalities' corporate tax revenue is projected to decline by an average of 0.8% per year, even though corporate tax revenue overall is expected to grow. The temporary increase in the municipalities' proportion of corporate tax will be removed after tax year 2011, which will be evident in a decline of the municipalities' corporate tax intake by one fifth in 2012. Real-estate tax revenue is expected to grow by an average of 2.5% per year.

In accordance with a **reform of central government transfers to local government** implemented from the beginning of 2010, central government transfers have been combined into the administrative sector of the Ministry of Finance. The combined central government transfers include the municipality's general part of the central government transfer, social welfare and health care funding as well as per capita funding of preschool and basic education, public libraries and culture activity, and basic art education. The central government transfer for upper secondary school

education and polytechnic education is paid from the administrative branch of the Ministry of Education. The central government transfer for municipalities' youth work as well as sports and exercise services are still paid from betting and lottery revenue.

Central government transfers and grants payable to municipalities from various administrative branches within the scope of the **basic public services budget deliberations** will total EUR 9,857 million in 2011 (Appendix 6). In the spending limits period 2011—2014, government transfers and grants to local government will grow by a net amount of EUR 358 million. Central government transfers within the central government spending limits are computed for the spending limits period at the cost level for 2011, and therefore the change in central government transfers only includes the index adjustment for 2011. The index adjustment will increase central government transfers by EUR 161.6 million, of which the municipalities and joint municipal authorities will account for EUR 140.8 million.

**Central government transfers for basic public services** budgeted for the administrative branch from the Ministry of Finance will be EUR 7,877 million in 2011. Central government transfers for basic public services will grow in the spending limits period by a total of EUR 342 million compared with 2010.

Of the central government transfers of the administrative branch of the Ministry of Finance, central government transfers intended for the improvement of **social welfare and health services** will be increased in connection with the implementation of the Government Programme by EUR 21.25 million in 2011. Of the increase, around EUR 3.3 million will be directed to the implementation of the reform of the Services and Assistance for the Disabled Act, which came into force on 1 September 2009, around EUR 9.3 million to the full implementation of the health check rules of the decree on clinic services and school and student health care, which came into force on 1 July 2009, and around EUR 8.7 million to the possible improvement of other services. In addition, the index adjustment to be made on 1 March 2011 for the child home care allowance, the private child care allowance and the partial child care allowance will increase central government transfers to local government on an annual basis by around EUR 2.8 million. The implementation of the Disabled Act legislation, the improvement of clinic services and school and student health care, and the index adjustment to the home care allowance will increase municipalities' expenditure by around EUR 31 million.

The transfer to the central government of interpretation services for the serious disabled and related operating expenses as of 1 September 2010 will reduce central government transfers to local government by EUR 5.9 million in 2010 and, on an annual basis, an additional EUR 11.7 million in 2011. Local government expenditure will be correspondingly reduced.

A sum of EUR 2 million will be allocated in 2010—2011 to support services for the long-term homeless. Moreover, social welfare and health care project funding totalling EUR 5 million will be allocated to this purpose in 2010—2011.

In 2011 EUR 5 million in central government compensation to health care units will be raised for costs arising from doctor and dentist training.

An ex-post funded discretionary government transfer of EUR 10 million will be granted in 2012 for mould repair projects for day-care centres, homes for the elderly and health centres. Local government expenditure will correspondingly increase.

Per capita central government transfers budgeted for the administrative branch of the Ministry of Finance will change automatically due to changes in population and age structure. Central government transfers intended for the funding of social welfare and health services will be increased by EUR 61 million in 2011 and by a total of around EUR 271 million in the spending limits period. Municipalities' expenditure will grow correspondingly by an imputed EUR 179 million in 2011 and by EUR 795 million in the spending limits period. On the other hand, a decline in the age group of students within **preschool and basic education** will automatically reduce central government transfers budgeted for basic public services by around EUR 22 million in 2011 and by a total of around EUR 80 million in the spending limits period. Expenditure on basic education will decrease correspondingly by an imputed EUR 65 million in 2011 and by EUR 235 million in the spending limits period. Municipalities' preschool and basic education funded separately from the Ministry of Education will grow due to growth in the number of pupils to be funded by EUR 13 million in 2011 and it will grow further to EUR 23 million by the end of the spending limits period.

In the administrative branch of the Ministry of Education, central government measures decided in the 2009 and 2010 Budgets and Supplementary Budgets supporting employment and training in vocational basic and further education will be continued in the spending limits period in 2011—2014. Overall central government transfers to local government for this purpose will grow in the spending limits period by around EUR 42 million and local government expenditure will grow correspondingly by around EUR 64 million.

A total of EUR 58 million of central government aid granted to projects founding educational establishments as part of the central government's stimulus measures will be paid in 2011—2014. To improve the employment and activation of young people, the appropriation for youth work will be increased in 2010, which will continue to have an impact in 2011. The objective is raise the unit price of youth work during the spending limits period to correspond at least with the rise in cost level. In addition, around EUR 20—25 million of discretionary government transfers allocated from the youth work appropriation will be directed to the municipalities.

Of the central government transfers for basic public services, EUR 10 million will be transferred on an annual basis in the spending limits period for funding **central government and local government joint information system projects**.

Seven **municipal mergers** are expected to take place in 2011, three in 2012 and 20 in 2013, at which time merger assistance will be granted for the last time in accordance with the Act on Local Authority Boundaries. EUR 115 million in 2011, EUR 46 million in 2012, EUR 76 million in 2013 and EUR 37 million in 2014 will be provided for financial support for municipal mergers and cooperation assistance. Merger assistance payable in 2008—2011 will exceed the ceiling prescribed for merger assistance by EUR 49 million, which has been deducted from central government transfers for basic public services in 2011. Of the appropriation, EUR 1 million has been reserved to assist inter-municipal cooperation in 2010—2012, after which the assistance will be withdrawn.

**Compensation** payable to municipalities **for refugees and asylum seekers** will rise by EUR 22 million in 2011 and will grow slightly in the spending limits period.

The **employment subsidy to the municipalities** will fall slightly in the spending limits period from the 2010 level as employment improves.

Minister of Finance

Mr Jyrki Katainen

Director General,  
Budget Director

Mr Hannu Mäkinen

APPENDIX 1 Structural changes and adjustments in the cost and price level of the spending limits

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

#### *Structural changes*

Structural changes of the Second 2009 Supplementary Budget, the 2010 Budget, the 2010 Supplementary Budget Proposal and the spending limits decision for 2011—2014 will increase the 2011 spending limits level by EUR 16.5 million compared with the March 2009 spending limits decision. Table 1 below presents a more detailed description of these structural changes and their impact on expenditure levels in 2011. Overall, structural changes made after the May 2007 spending limits decision will increase the 2011 spending limits by a total of EUR 609.4 million.

**Table 1. Budgetary structural changes compared with the spending limits decision of 26 March 2009, EUR million**

Item	Matter	2011
25.20.01	Increase in gross-budgeted enforcement fees	4.0
29.40.52	Compensation to the University of Helsinki for the withdrawal of the University Pharmacy's tax-free status (corresponding annual income impact in item 11.01.02)	5.5
29.50.51	The transfer relating to the university reform from the Ministry of the Education's VAT item (29.01.29) outside the spending limits to item 29.50.51 within the spending limits will be raised by EUR 5.8 million on the basis of the 2008 year-end report data.	5.8
30.50.20	The bringing forward of the renovation of the Uljua reservoir embankments and the extension of the Inari fish farming facility	-2.0
30.70.01	Net-budgeting of real-estate recording task income (a corresponding sum will be deducted from item 12.25.10).	-11.0
31.10.20	Bringing forward of road ferry acquisitions	-2.6
31.20.01	The annual effect of the gross budgeting of inspection activity surveillance fees EUR 1.08 million greater than estimated in connection with the 2009–2012 spending limits	1.1
31.40.50	Bringing forward of broadband projects (funding to be brought forward within the parliamentary term)	-2.0
32.20.40	EUR 2.5 million relating to the university reform transferred from the Ministry of Employment and the Economy's VAT item (32.01.29) to item 32.20.40 included in the spending limits.	5.0
32.20.40	The transfer relating to the university reform from the Ministry of the Education's VAT item (32.01.29) outside the spending limits to item 32.20.40 within the spending limits has been adjusted in terms of 2011 to be EUR 2.5 million lower than previously estimated.	-2.5
33.01.26	Lottery tax increase will reduce spending level of the Slot Machine Association grants item 33.90.50, outside the spending limits, which will correspondingly increase funding to a new item 33.01.26 within the spending limits (central government funding for helicopter medical emergency service expenditure).	10.5
33.10.28	Transfer resulting from a re-examination of Social Insurance Institution of Finland operating expenditure shares from an item (33.40.60) outside the spending limits to an item within the spending limits	8.2
33.20.50, 33.20.51, 33.20.52	Transfer of benefits and certain maintenance compensations payable for the period of preparatory training for working life from item 32.30.51 to items 33.20.50, 51 and 52, i.e. a transfer to items outside the spending limits.	-8.4
33.20.53	Increase in workforce training reduces unemployment security expenditure (33.20.50), i.e. a transfer to an item within the spending limits.	3.7
33.20.54	Increase in workforce training reduces unemployment security expenditure (33.20.50), i.e. a transfer to an item within the spending limits.	11.5
33.30.60	Transfer of taxation costs paid by the Social Insurance Institution of Finland to the Tax Administration from an item 33.40.60 outside the spending limits	10.5
35.10.77	Bringing forward of certain transfer sewer projects (funding to be brought forward within the	-1.9

	parliamentary term)	
35.20.56	EUR 50 million authority with appropriation impacts in 2010 for cyclical repair grants transferred to the responsibility of the Housing Fund of Finland.	-19.0
	<b>Structural changes in total</b>	<b>16.5</b>

*Adjustments to price and cost level*

The central government spending limits for 2011—2014 are expressed in cost and price levels for 2011. 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, thereby including an estimate of the impact on the appropriation of the rise in price level in the spending limits period. In other respects, the overall spending limits for the parliamentary period will be revised annually according to the estimated rise in cost and price levels in accordance with Table 2.

The size of the price adjustment varies annually, according to the development of price and cost levels. The price- and cost-level adjustments for 2011 presented in Table 2 are based on the Ministry of Finance March 2010 price development forecasts. The indices used in the adjustments are in Appendix 2. Price adjustments will be specified in more detail through new forecasts made in connection with the preparation of the 2011 budget proposal.

Price- and cost-level adjustments for 2011 compared with the 25 May 2007 decision on spending limits total EUR 2,985 million.

**Table 2. Adjustment of the 25 May 2007 decision on spending limits to the level of prices and costs in 2011, EUR million**

Spending limits expenditure by economic nature	2011 spending limits at 2010 price level (without structural changes)				Price- and cost-level adjustments to 2011 price level		
	Decision on spending limits 25 May 2007	2008–2010 Price adjustments	Total	Index	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
					Statutory	Agreement-based	Other cost adjustments
15–17 Pensions	3 645	305	3 950	Employee Pension Index (TyEL)	71		
18–19 Procurement of defence materials	667	47	715	Predictive increase 1.5%		7	
01-14 Wages as well as social security and pension contributions	5 437	531	5 968	Agreement increases		0	
01-14, 20–28 Other operating expenses and consumption	2 912	187	3 098	Predictive increase 1.5%*/KMPHI		5	86
30–39 Imputed central government aid to municipalities and joint municipal authorities etc.	8 473	731	9 204	Index of central government transfers to local government (VOS)	162		
30–39 Other central government aid to municipalities and joint municipal authorities etc.	636	38	675	Basic price index for domestic supply (KMPHI)			24
40–49 Central government aid to trade and industry	2 152	131	2 283	KMPHI			80
50–59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	1 167	64	1 232	TyEL / National Pension Index (KEL) / Consumer Price Index (KHI) **	46		
50-59 Non-indexed central government aid to households	2 282	111	2 393	KEL			14
50–59 Other central government aid to households and non-profit-making organisations	1 357	55	1 412	KHI			35
60 Transfers to off-budget central government funds and the Social Insurance Institution of Finland	156	5	161	KHI			4
60 Central government transfer for expenditure arising from the Sickness Insurance Act	1 358	44	1 402	KHI	0		35
61–65 Central government	614		614	incl. in			

funding contributions corresponding to EU Structural Fund contributions and other domestic transfers				programme limits			
66–68 Transfers abroad	1 076		1 076	Spending limits at current prices			
69 Transfers to the EU	1 670	70	1 740	EU's GDP price and KHI	40		
70–79 Real investments	350	14	364	Building Cost Index (RKI)			11
90–99 Other expenditure	56	4	59	KHI			2
Unallocated reserve and supplementary budget provision	401	15	416	KHI			10
<b>Parliamentary term spending limits, total in 2011</b>	<b>34 409</b>	<b>2 352</b>	<b>36 762</b>		<b>319</b>	<b>11</b>	<b>301</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.

\*\* Statutory price adjustments have been made, depending on the item, based on the change of the projected annual level of the Consumer Price Index (KHI), the National Pension Index (KEL) or the Employee Pension Index (TyEL). Calculations will be reviewed according to the benchmark index of the statutory index-linked benefit in connection with a supplement to the budget proposal for the year in question, when the real index figure is already known.

**Macroeconomic forecasts and assumptions for 2009—2014**

	2009	2010	2011	2012	2013	2014
<b>GDP, change in volume</b>	-7.8	1.1	2.1	3.3	2.8	2.3
<b>GDP, change in price</b>	0.6	1.8	2.2	2.2	2.2	2.2
<b>GNI, value, EUR million</b>	170 851	175 580	183 140	192 920	202 660	211 910
<b>Consumer Price Index, change</b>	0	1.5	2.5	2.0	2.0	2.0
<b>Index of Wage and Salary Earnings, change</b>	3.9	2.8	2.5	3.0	3.7	3.7
<b>Building Cost Index, change</b>	-1.1	3.5	3.0	2.0	2.0	2.0
<b>Basic Price Index of Domestic Supply, change</b>	-6.4	2.7	3.5	2.0	2.0	2.0
<b>Unemployment rate</b>	8.2	10.2	9.6	8.8	8.0	7.3
<b>Wage bill, change</b>	-1.0	0.3	3.5	4.1	4.5	4.2
<b>Employee Pension Index (TyEL)</b>	2286	2292	2335	2392	2443	2500
<b>National Pension Index (KEL)</b>	1502	1502	1511	1548	1579	1611
<b>Index of Central Government Transfers to Local Government:</b>						
Change in cost level	3.0	2.0	2.5	2.9	2.8	2.7
Change in cost level, budget proposal	3.9	2.6	1.7	2.9	2.8	2.7
— includes index adjustment	+0.8	+0.6	-0.8			
<b>University Index</b>	1.5	2.5	2.7	2.6	3.1	3.1
<b>Unemployment insurance contributions</b>						
— employer, average	1.92	2.12	2.32	2.52	2.52	2.52
— employee	0.20	0.40	0.60	0.80	0.80	0.80
<b>Employee pension contributions (TyEL)</b>		21.3	21.6	22	22.7	23.1
— employer	16.8	16.9	17	17.3	17.5	17.7
— employee aged 53 yrs and under	4.3	4.5	4.8	5.2	5.4	5.6
— employee over 53 yrs	5.4	5.7	6.1	6.6	6.9	7.1
— wage coefficient	1.192	1.231	1.262	1.284	1.314	1.356
<b>Health insurance contributions for the insured</b>						
— employees' daily allowance contribution	0.70	0.93	0.89	0.88	0.88	0.88
— wage earners' and entrepreneurs' medical care contribution	1.28	1.47	1.47	1.52	1.55	1.56

— pensioners' medical care contribution	1.45	1.64	1.64	1.69	1.72	1.73
<b>Central government employer contributions</b>	23.8	22.5	22.3	21.9	21.9	21.8
— national pension contribution	1.32					
— health insurance contribution	2.00	2.23	2.19	2.18	2.18	2.18
— pension contribution (under Central Government Employees' Pensions Act [VaEL])	20.5	20.2	20.1	19.7	19.7	19.6
<b>Local government employer contributions</b>	30.2	29.3	29.6	29.8	29.8	29.7
— national pension contribution	1.32					
— health insurance contribution	2.00	2.23	2.19	2.18	2.18	2.18
— other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7
— unemployment insurance contribution	2.57	2.81	3.10	3.34	3.35	3.21
— pension contribution (under Local Government Employees' Pensions Act [KuEL])	23.6	23.6	23.6	23.6	23.6	23.6

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**Personnel impact of productivity measures by administrative branch, man-years \***

Administrative branch	Measures by 2011 including those already implemented	Measures by 2015 including those	Measures total
Prime Minister's Office	-9	-2	-11
Ministry for Foreign Affairs	-111	-32	-143
Ministry of Justice	-685	-103	-788
Ministry of the Interior	-692	-385	-1 077
Ministry of Defence	-1 890	-1 153	-3 043
Ministry of Finance	-1 844	-624	-2 468
Ministry of Education Universities	-325 -1 000	-220 **	-545 -1 000
Ministry of Agriculture and Forestry***	-650	-408	-1 058
Ministry of Transport and Communications	-440	-254	-694
Ministry of Employment and the Economy	-1 483	-1 192	-2 675
Ministry of Social Affairs and Health	-340	-413	-753
Ministry of the Environment	-176	-98	-274
<b>Total</b>	<b>-9 645</b>	<b>-4 884</b>	<b>-14 529</b>

\* Overall impact of measures corresponds to the 26 March 2009 decision on spending limits. In a manner agreed between the Ministry of Finance and the Ministry of Employment and the Economy, a target corresponding to 59 man-years has been transferred to the administrative branch of the Ministry of Employment and the Economy. The transfer is due to the allocation of the Regional Administration Information Management Unit's productivity targets as well as the specification of the targets.

\*\* No targets have been set for the new form of universities for the period ending in 2015.

\*\*\* Includes targets of forest administration state aid organisations (-60 man-hours by 2011 and -100 man-hours by 2015).

**Ordinary on-budget revenue estimates of the Ministry of Finance for 2010—2014, EUR billion**

	2010	2011	2012	2013	2014	2010—2014 average annual change, %
<i>incl. Supplementary Budget Proposal</i>						
Total tax revenue	32.0	35.1	37.2	38.8	40.4	6.0
— taxes on earned and capital income	7.1	7.4	7.9	8.3	8.7	5.4
— corporate tax	2.7	3.2	3.9	4.2	4.4	13.2
— value-added tax	13.4	14.3	14.9	15.5	16.1	4.7
— excise duties	5.2	6.2	6.2	6.2	6.3	5.0
— other tax revenue	3.7	4.0	4.4	4.6	4.8	7.1
Miscellaneous revenue	4.7	4.6	4.7	4.8	4.8	0.7
Interest income, income from share sales and profit entered as income	1.3	1.6	1.7	1.7	1.8	8.5
— of which sale of assets	0.4	0.4	0.4	0.4	0.4	
<b>Total revenue*</b>	<b>38.3</b>	<b>41.5</b>	<b>43.8</b>	<b>45.5</b>	<b>47.1</b>	<b>5.3</b>

\* Including repayment of loans granted by central government.

**Ordinary on-budget revenue estimate of the Ministry of Finance for 2010—2014, EUR billion, at current prices**

	2010*	2011	2012	2013	2014
On-budget revenue estimate, total	38.3	41.5	43.8	45.5	47.1
Total expenditure total (at current prices)	50.6	50.0	51.9	53.6	55.0
<b>On-budget balance</b>	<b>-12.3</b>	<b>-8.5</b>	<b>-8.1</b>	<b>-8.1</b>	<b>-7.9</b>
Central government debt-to-GDP ratio, %	44	46	48	50	51

\* According to the Supplementary Budget Proposal position negotiated by the Government.

**Projected development of local government revenue and expenditure (pressure calculation) based on municipal accounts, EUR million (at current prices)**

	2008	2009	2010	2011	2012	2013	2014
<b>Profit/loss itemisation</b>							
<b>1. Operating margin</b>	<b>-21.43</b>	<b>-22.65</b>	<b>-23.38</b>	<b>-24.13</b>	<b>-25.04</b>	<b>-25.98</b>	<b>-26.95</b>
2. Tax receipts	17.53	17.61	17.51	18.19	18.42	19.06	19.83
3. Central government transfers, operational finances	6.43	6.90	7.44	7.67	8.01	8.32	8.63
4. Financial income and expenses, net	-0.13	0.09	0.05	0.02	-0.02	-0.07	-0.12
<b>5. Annual margin (=1.+2.+3.+4)</b>	<b>2.40</b>	<b>1.95</b>	<b>1.62</b>	<b>1.75</b>	<b>1.36</b>	<b>1.34</b>	<b>1.39</b>
6. Depreciation and amortisation	-1.94	-2.01	-2.07	-2.13	-2.19	-2.26	-2.32
7. Extraordinary items, net	0.26	0.11	0.25	0.25	0.25	0.25	0.25
<b>8. Profit/loss for the financial period</b>	<b>0.72</b>	<b>0.05</b>	<b>-0.19</b>	<b>-0.13</b>	<b>-0.58</b>	<b>-0.67</b>	<b>-0.68</b>
<b>Financing</b>							
<b>9. Annual margin</b>	<b>2.40</b>	<b>1.95</b>	<b>1.62</b>	<b>1.75</b>	<b>1.36</b>	<b>1.34</b>	<b>1.39</b>
10. Extraordinary items	0.26	0.11	0.25	0.25	0.25	0.25	0.25
11. Current income adjustments	-0.53	-0.35	-0.45	-0.45	-0.45	-0.45	-0.45
<b>12. Current income, net (=9.+10.+11.)</b>	<b>2.13</b>	<b>1.71</b>	<b>1.42</b>	<b>1.55</b>	<b>1.16</b>	<b>1.14</b>	<b>1.19</b>
13. Investment in fixed assets	-4.13	-3.97	-4.10	-4.00	-4.00	-4.00	-4.00
14. Financial contributions and sales gains	1.12	0.78	1.05	1.00	1.00	1.00	1.00
<b>15. Investment, net (=13.+14.)</b>	<b>-3.01</b>	<b>-3.19</b>	<b>-3.05</b>	<b>-3.00</b>	<b>-3.00</b>	<b>-3.00</b>	<b>-3.00</b>
<b>16. Financial balance (=12.+15.)</b>	<b>-0.88</b>	<b>-1.49</b>	<b>-1.63</b>	<b>-1.45</b>	<b>-1.84</b>	<b>-1.86</b>	<b>-1.81</b>
17. Outstanding loans	9.60	11.07	12.57	14.02	15.82	17.62	19.42
18. Cash	4.04	3.69	3.56	3.56	3.52	3.46	3.45
<b>19. Net debt (=17.-18.)</b>	<b>5.55</b>	<b>7.38</b>	<b>9.00</b>	<b>10.46</b>	<b>12.30</b>	<b>14.16</b>	<b>15.97</b>

**Central government transfers and grants to local government within the Basic Public Services Budget deliberations, EUR million (spending limits period 2011—2014 at price level for 2010)**

	2008	2009	2010	2011	2012	2013	2014
<b>Imputed transfers including equalisation items within the system of central government transfers to local government</b>							
Ministry of Finance*	6 637	7 184	7 753	7 877	7 979	8 040	8 095
Ministry of Education**	994	964	981	987	992	989	986
— of which unit pricing for joint municipal authorities***	1 245	1 299	1 351	1 360	1 368	1 365	1 361
<b>Total</b>	<b>7 631</b>	<b>8 148</b>	<b>8 734</b>	<b>8 864</b>	<b>8 971</b>	<b>9 029</b>	<b>9 081</b>
<b>Other government aid included in the basic public services budget</b>							
Ministry of the Interior	46	46	79	101	101	111	111
Ministry of Finance	44	142	114	115	46	76	37
Ministry of Education	153	155	196	209	217	217	216
Ministry of Employment and the Economy	57	40	32	30	27	27	27
Ministry of Social Affairs and Health	388	449	500	537	549	547	541
<b>Total</b>	<b>687</b>	<b>832</b>	<b>921</b>	<b>992</b>	<b>941</b>	<b>978</b>	<b>932</b>
<b>Other government aid included in the basic public services budget deliberations, total</b>	<b>8 319</b>	<b>8 980</b>	<b>9 655</b>	<b>9 857</b>	<b>9 911</b>	<b>10 007</b>	<b>10 013</b>

\* Central government transfers for 2008—2009 have been computationally changed to correspond with the structure of the 2010 central government transfers reform.

\*\* Includes upper secondary high school, vocational education, polytechnic 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 72% in 2008, 68% in 2009 and 43% in 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 will be 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').