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CENTRAL GOVERNMENT SPENDING LIMITS FOR 2013–2016

1. Economic developments and fiscal policy

The Finnish economy is set to face significant challenges over the years ahead. Given the pace of population ageing, special effort is needed to secure the availability of labour supply. Furthermore, during periods of slower than average economic growth, the stabilisation of public finances becomes a particularly challenging task.

In 2011 Finnish GDP increased by 2.9%. Growth was strongest during the first half of the year. Late in the summer, the euro area's problem economies slowed considerably, and market confidence in these economies' ability to meet their obligations was significantly eroded. This contributed to a sharp slowdown of activity in the real economy, and growth remained sluggish in the latter part of the year.

In 2012 GDP growth will slow to less than one per cent. Most of that growth will be driven by domestic demand. It is a cause of some concern that the current account continues to remain in deficit and that the terms of trade are deteriorating. There are several short-term risks to economic growth.

Under the medium term baseline scenario, annual GDP growth in 2013–2016 is projected to average just under 2%. With the slowdown of potential output growth, economic growth will progressively slow to just over 1½% by 2016. Future potential output growth will depend largely on improving overall productivity since the other inputs, i.e. labour input and capital stock, are set to decline.

As a result of demographic change it is anticipated that the labour force as a proportion of the total working age population will slightly decrease. In the medium term the unemployment rate is expected to fall back towards its equilibrium level, standing at around 7½% in 2016. Consumer prices in Finland are set to rise by around 2% a year over the medium term, which is less than in 2010–2011.

The Finnish economy was severely affected by the global economic recession that started with the crisis in the financial markets. As a result, in 2009–2010, an exceptionally large gap opened up between general government expenditure and revenue.

The recession left a profound and lasting imprint on the general government budgetary position and public debt in a situation where public finances are increasingly burdened by population ageing. In contrast to most other advanced industrial countries, Finland has already reached the stage where population ageing is driving up public expenditure and hampering the economy's potential output growth.

According to the Ministry of Finance's estimate, the general government surplus should remain at almost 4½% of GDP in the medium term in order that central government, local governments and social security funds could meet their statutory obligations in the long term, without the need for an increased overall tax burden or accelerating central and local government debt.

The general environment for the Government's fiscal and economic policy is determined by the challenges presented by the recession and population ageing to the economy's growth potential, people's welfare and the sustainability of public finances.

The Government has set itself the target of substantially reducing the central government debt to GDP ratio by the end of the parliamentary term and of restoring balance in central government finances as quickly as possible. To achieve these targets a set of adjustment measures on both the revenue and expenditure side as well as a commitment to structural changes were incorporated in the Government Programme with a view to improving the prospects for stronger than predicted economic growth. These steps are central to the Government's efforts to bridge the sustainability gap in public finances and to ensure that the Finnish state's credit rating remains the best possible. The measures laid down in the Government Programme will improve central government's budgetary position by a total of around EUR 2.5 billion through to 2015.

When the economic outlook deteriorated, it became clear that additional adjustment would be needed so that the targets set for central government finances can be achieved. The new permanent adjustment measures will improve central government's budgetary position by a total of around EUR 2.8 billion from 2016 onwards. The savings and cost increases from these measures will reduce central government net expenditure by EUR 1.2 billion at 2015 price levels, and the tax increases and tax reductions will increase central government revenue by a net total of around EUR 1.2 billion. The decisions taken will put the public sector in a stronger position to fulfil its obligations in all situations even in the longer term.

Taken together, the net reinforcing effect of the measures adopted by the Government under the Government Programme, the October 2011 spending limits decision, the November 2011 framework agreement on central government finances and the current spending limits decision comes to almost EUR 5 billion in 2015 compared to the last spending limits decision of the previous parliamentary term in March 2011. By the end of the current parliamentary term the adjustment measures will be equally divided between the expenditure and revenue side. The level of permanent adjustments from 2016 onwards will be higher than in 2015 following the expiry of the temporary measures introduced by the Government for the parliamentary term.

The general government budgetary position improved in 2011, but still showed a deficit of almost one per cent of GDP. The main contributory factor behind this improvement was the narrowing of the central government deficit. The local government deficit grew slightly. The financial position of social security funds also weakened, but nonetheless remained at almost 3% of GDP.

It is estimated that the rate of GDP growth will not be enough to move central government finances onto a strong growth track. The measures put in place by the Government will improve the budgetary position of central government, but even so it will continue to remain in deficit throughout the planning period. However the deficit will narrow and the growth in the central government debt to GDP ratio will slow.

Local government finances will remain in deficit throughout the planning period. As both tax revenue growth and central government transfers to local government are slowing, cost discipline and an increased average municipal tax rate will not be enough to restore balance in local government finances.

The surplus in earnings-related pension funds will decrease over the planning period with the growing number of pensioners and rising pension expenditure. Nonetheless the surplus will still reach around 2½% of GDP. Other social security funds will remain close to balance.

2. Spending limits for central government finances in 2013–2016

Committed to a long-term responsible expenditure policy designed to promote economic stability, the Finnish Government operates a spending limits system for central government finances. The current spending limits decision is a revised spending plan for 2013–2016 based on the earlier decision adopted by the Government on 5 October 2011.

In its first spending limits decision for the parliamentary term, dated 5 October 2011, the Government agreed on additional expenditures and expenditure cuts that, taken together, would reduce the level of expenditure under the spending limits by a total of EUR 1.216 billion at 2015 price levels compared to the March 2011 decision on spending limits. In this current spending limits decision the Government has adopted additional adjustment measures that will lower spending limits expenditure by a further EUR 1.23 billion at 2015 levels. Expenditure cuts in 2013 come to EUR 495 million.

Both overall and annual spending limits adopted for the parliamentary term on 5 October 2011 are here adjusted downwards by the amount equivalent to the additional expenditure cuts. In addition some of the expenditure cuts (through the suspension of indexations) will lower the spending limits' price level adjustment. Furthermore, the Government has taken the discretionary decision to lower the spending limits for the parliamentary term by EUR 100 million in 2013; by EUR 50 million in 2014; and by EUR 50 million in 2015. Spending limits can be lowered (but not raised) mid-term without undermining the credibility of the system.

Spending limits for parliamentary term, including additional expenditure cuts (2012 prices), EUR million

	2012	2013	2014	2015
Spending limits for parliamentary term				
5 Oct 2011	42 284	42 205	42 037	42 132
Additional expenditure cuts		-249	-488	-942
Discretionary lowering of spending limits		-100	-50	-50
Revised spending limits for parliamentary term 4 April 2012		41 856	41 498	41 140

On the other hand the Government also took on new expenditures under the spending limits, which will rise from around EUR 160 million in 2013 to EUR 200 million in 2015. These new expenditures will be dedicated to the prevention of youth exclusion, activation efforts in the employment and education policy field, and to securing the necessary conditions for effective policing. These outlays will be met from the unallocated reserve under the spending limits.

The 2013–2016 spending limits decision takes account of the new system for financing public service broadcasting in Finland. In 2013, the television fee will be replaced with a public service broadcasting tax. Revenue from this YLE tax will be credited to the State budget and transferred to the State Television and Radio Fund. Annual revenue from the YLE tax and the corresponding funds transfer in 2013 are estimated at EUR 500 million. The annual funds transfer will subsequently be increased based on a composite index in which the consumer price index represents one-third and the index of wage and salary earnings two-thirds of total index weight. Based on current price and cost projections it is estimated that the need for appropriations and accordingly the revenue target for the YLE tax will increase by close to 10% in 2013–2016. In line with the Government Resolution of 21 December 2011, the funds transfer will be included in the budget as an expenditure item outside the spending limits. This constitutes an exception to the spending limits rule set out in the Government Programme.

Price and cost level adjustments and structural changes

The level of expenditure under the spending limits over the parliamentary term is adjusted annually to reflect structural changes in the spending limits as well as in price levels.

The October 2011 spending limits decision for 2012–2015 was made at 2012 price and cost levels for all statutorily and contractually index-linked expenditure. The 2013–2016 decision is made at 2013 price levels. In line with index forecasts for 2013, the estimate for statutorily indexed expenditure should be increased by a total of EUR 634 million. However the 2013 index increase takes account of the suspension of the indexation of central government transfers in the administrative branch under the Ministry of Education and Culture (approx. EUR 61 million in 2013), the freezing of the university index (approx. EUR 45 million in 2013) and the freezing of child benefit indexation (approx. EUR 40 million in 2013). Total statutory indexations thus come to around EUR 488 million in 2013. Overall spending limits for the parliamentary term are adjusted accordingly.

In addition the Government has decided to bring forward the indexation of certain benefits to mid-2013 with a view to boosting the purchasing power of low income earners. The total effect of this increase would be EUR 45 million, EUR 26 million of which would be attributable to early statutory indexation under the spending limits. Therefore a corresponding increase is made to the 2013 spending limits, which will be taken account in connection with the 2014–2017 spending limits decision as a factor lowering the statutory price adjustment for 2014.

Furthermore the decision has been made to suspend indexation on defence materiel acquisitions for 2015.

The overall spending limits are also adjusted in line with contractual increases to reflect the wage and salary adjustments negotiated under the framework agreement. These amount to around EUR 164 million in 2013 and to around EUR 182 million from 2014 onwards.

Spending limits expenditure that does not come under statutory or contractual indexation rules is adjusted to 2013 price and cost levels according to the weight structure of the type of expenditure, i.e. each expenditure item is adjusted using the most appropriate index forecast (total adjustment EUR 272 million). The price and cost level adjustments for 2013 are examined more closely in Appendix 1.

In addition the 2013 spending limits level is adjusted in line with the structural changes made to the spending limits by a total of EUR –38 million. All the structural adjustments to the spending limits are detailed in Appendix 1.

Revised parliamentary term spending limits for 2013–2015 (at 2013 prices), EUR million

	2013	2014	2015
Revised parliamentary term spending limits 4 April 2012	41 856	41 498	41 140
Adjustments to price and cost level	984	970	969
Structural changes	-38	-149	-102
Revised parliamentary term spending limits	42 801	42 319	42 007

Development of spending limits expenditure 2013–2016

Spending limits expenditure in 2013 amounts to around EUR 42.4 billion, EUR 0.4 billion more than budgeted for 2012. During the parliamentary term spending limits expenditure will fall by around EUR 1.2 billion from 2013 through to 2016. Average annual expenditure in the administrative branches is over EUR 200 million higher than under the October 2011 spending limits decision. The factor with the greatest upward effect is the change in price levels, while the additional savings measures agreed by the Government have the greatest downward effect.

Over the 2013–2016 planning period administrative branch expenditure will fall in real terms by an average of around 1% a year. Nominal expenditure in administrative branches will increase on average by just over 1% a year.

Expenditure outside spending limits

The spending rule specifies the maximum level for around four-fifths of all budgeted expenditure. Items excluded from budget expenditure include those that fluctuate with economic cycles as well as automatic fiscal stabilisers, which are nonetheless included in the spending limits insofar as their effects result from changes made to the criteria for these items. Also excluded from the spending limits are interest payments on central government debt, VAT expenditure, financial investment expenditure and expenditure corresponding to technically transmitted payments and external funding contributions.

The following items are excluded from the spending limits:

- unemployment security expenditure, the central government contribution to the cost of basic social assistance, pay security and housing allowances; however expenditure effects resulting from changes to the criteria for these items are included in the spending limits
- debt interest payments
- any compensation payable to other tax revenue recipients as a result of tax changes made by central government (including social insurance contributions)
- expenditure corresponding to technically transmitted payments and external funding contributions
- expenditure corresponding to revenue from betting and lottery, totalisator betting and transferred earnings from the Slot Machine Association
- financial investment expenditure
- appropriations for VAT expenditure

If annual revenue from the sale of shares exceeds EUR 400 million, a maximum of EUR 150 million of the excess can be spent on one-off, infrastructure and skills investments aimed at promoting sustainable growth. Central government revenue from the auctioning of emissions rights can be allocated to one-off climate change and development cooperation expenditure items, spending limits notwithstanding.

If annual expenditure falls below the spending limits even after supplementary budgets, the difference, up to a maximum of EUR 200 million, can be spent the following year on one-off expenditure items, spending limits notwithstanding.

If economic growth is faster than anticipated, the increased revenue and decreased expenditure will primarily be used to reduce central government debt. If the central government debt-to-GDP ratio falls clearly before 2015, no more than 30% of the improved fiscal position can be assigned to additional expenditure in line with the Government's strategic objectives.

It is estimated that expenditure outside the spending limits will reach about EUR 11.8 billion in 2013, which is some EUR 1.1 billion more than the non-spending limits expenditure budgeted for 2012 (including the supplementary budget proposal). By 2016 expenditure outside the spending limits will fall back to around EUR 11.4 billion. During the planning period expenditure outside the limits will be driven by rising interest payments on central government debt, but on the other hand financial investment expenditure will fall with the discontinuation of export refinancing expenditure.

In 2013 cyclical expenditure such as unemployment security and housing allowances will come to around EUR 226 million more than budgeted for 2012, but will fall back during the planning period. Annual cyclical expenditure will be around EUR 270–470 million higher than in the October spending limits decision. This is mainly due to the deteriorating cyclical outlook, changes to unemployment security expenditure arising from the framework agreement, and improvements to basic income security beyond the level anticipated in the October spending limits decision. The effects of the above changes on overall spending limits were taken into account in the spending limits for the parliamentary term by lowering the expenditure limits by amounts equivalent to the costs of base changes (see Appendix 1).

Financial investment expenditure will decrease over the spending limits period from around EUR 1.1 billion in 2013 to around EUR 120–170 million in 2015–2016. A total of EUR 640 million is

earmarked for export refinancing and shipbuilding credit in 2013, and a further EUR 850 million in 2014.

Estimated debt interest payments in 2013 are around EUR 2.1 billion, which is expected to rise to around EUR 2.9 billion by 2016. However since the interest rate has fallen, this figure is some EUR 0.6–0.8 billion lower than in the October spending limits decision.

Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2013–2016, EUR million at 2013 price and cost levels

Administrative branch	2013 SL	2014 SL	2015 SL	2016 SL
23. Prime Minister's Office	77	76	76	76
Estimate of expenditure outside spending limits	6	6	6	6
Total	83	82	82	82
24. Ministry for Foreign Affairs	1 258	1 251	1 226	1 257
Estimate of expenditure outside spending limits	28	28	28	28
Total	1 286	1 279	1 255	1 286
25. Ministry of Justice	806	823	813	798
Estimate of expenditure outside spending limits	55	55	55	55
Total	861	878	868	853
26. Ministry of the Interior	1 231	1 163	1 132	1 133
Estimate of expenditure outside spending limits	84	84	84	84
Total	1 315	1 248	1 216	1 217
27. Ministry of Defence	2 449	2 389	2 294	2 288
Estimate of expenditure outside spending limits	335	326	315	313
Total	2 783	2 715	2 609	2 601
28. Ministry of Finance	15 126	15 123	15 109	14 991
Estimate of expenditure outside spending limits	1 513	1 517	1 676	1 698
Total	16 639	16 641	16 784	16 689
29. Ministry of Education and Culture	6 056	5 960	5 887	5 881
Estimate of expenditure outside spending limits	558	561	616	571
Total	6 614	6 520	6 502	6 452
30. Ministry of Agriculture and Forestry	1 815	1 797	1 762	1 701
Estimate of expenditure outside spending limits	890	896	906	859
Total	2 705	2 692	2 667	2 560
31. Ministry of Transport and Communications	2 083	1 879	1 902	1 806
Estimate of expenditure outside spending limits	903	857	873	860
Total	2 985	2 736	2 776	2 666
32. Ministry of Employment and the Economy	2 461	2 381	2 355	2 216
Estimate of expenditure outside spending limits	1 403	1 294	405	403
Total	3 864	3 676	2 760	2 619
33. Ministry of Social Affairs and Health	8 651	8 658	8 670	8 746
Estimate of expenditure outside spending limits	3 877	3 638	3 535	3 511
Total	12 528	12 296	12 205	12 257
35. Ministry of the Environment	243	233	229	211
Estimate of expenditure outside spending limits	11	11	11	11
Total	254	245	241	222

36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	2 093	2 342	2 649	2 941
Total	2 093	2 342	2 649	2 941
Administrative branch spending limits, total¹	42 435	41 907	41 624	41 271
Estimate of expenditure outside spending limits total	11 772	11 630	11 173	11 355
Main titles, total	54 207	53 537	52 797	52 626
Parliamentary term spending limits	42 801	42 319	42 007	
– Administrative branch spending limits, total ¹	42 435	41 907	41 624	
– Supplementary budget provision	200	200	200	
– Unallocated reserve	166	211	184	

¹⁾ Main titles 21 and 22 are included in the total.

3. Central government spending limits by administrative branch for 2013–2016

This spending limits decision for central government finances is based on an earlier decision issued on 5 October 2011. In preparation of this decision the need for additional expenditure and tax adjustment has been verified in line with the Government Programme.

The spending limits incorporate the effect of the collective agreement on public-service employment signed under the 25 November 2011 framework agreement between the labour market confederations. For 2013 that effect amounts to EUR 164 million and for 2014–2016 to EUR 182 million.

3.1. General policy orientations for administrative branches

Ministry for Foreign Affairs

Work will continue to improve the structure and best practices of Finland's external representation. This will involve the closing down of foreign missions wherever there is duplication and overlap, combining representations of different sectors wherever possible, and increasing joint actions and representation with the Nordic countries and other EU Member States. Foreign affairs administration will reduce the amount of travel and the size of its delegations and make more efficient and diverse use of personnel hired on site.

The appropriations reflect Finland's bid to become a non-permanent member of the UN Security Council in 2013–2014 as well as its possible membership of the Security Council. Furthermore they reflect the orientations outlined in the Security and Defence Policy Report (2009), the National Strategy for Civilian Crisis Management (2008) and the Peace Mediation Action Programme (2011) as well as plans in place to reform cross-border regional cooperation. From 2014 onwards the appropriations for military crisis management reflect the reduction in operational staff numbers and the transfer of UNIFIL command.

As articulated in the Government Programme, key objectives in cross-border regional cooperation include nuclear safety, improving the state of the environment and the prevention of communicable diseases. Over the planning period increasing focus will be given to multilateral regional cooperation and to promoting the Government's Russia Action Plan. The way in which Finnish funding is allocated can contribute to channelling international funding into multilateral projects in Finland's neighbouring regions. The appropriation allocated for radiation and nuclear safety cooperation between Finland and Russia was transferred to the Ministry of Social Affairs and Health in the 2012 budget.

The development of international data security shall be continued jointly by the Public Sector ICT unit and the Ministry for Foreign Affairs. During the planning period discussions will be held to weigh the future of the project under joint state administration guidelines.

The Government is committed to secure an adequate level of budgetary appropriations for development cooperation so that the target level of 0.7% of GNI as well as Finland's international commitments can be met. The spending limits decision reflects the freezing of development cooperation appropriations as part of the savings measures included in the Government Programme, which will mean that appropriations for development cooperation in 2013–2014 will be unchanged in euro terms from 2012. From 2015 appropriations for development cooperation proper will be EUR 30 million lower than under the previous spending limits. This will in all likelihood result in reduced development cooperation appropriations as a proportion of GNI. However midway through the Government's term in office revenue from the auctioning of emissions rights will be allocated to climate funding and development cooperation. In this connection the aim will be to increase the GNI proportion of development cooperation appropriations.

Ministry of Justice

The expenditure cuts planned and underway in central government finances and the growing expenditure pressures from higher ICT and facilities costs will require significant adjustment in the judicial system and the criminal sanctions field. Achieving the targets set in the Government Programme will also require operational and structural reforms as well as finding ways of generating increased revenue.

Currently under preparation with the objective of shortening the duration of legal proceedings and improving the quality of legal protection, the Legal Protection Programme sets the broad goals and priorities for the development of the judicial system. Steps shall be taken to improve cooperation between the police, prosecutors and courts of law in the handling of criminal cases. Plans are in place to roll out the so-called Follo model in order to speed up the resolution of custodial disputes in a manner that is more satisfactory to both the parents and child concerned. The overhaul and restructuring of the court system shall be continued by reducing the number of courts of appeal and administrative courts. Industrial property rights and copyright cases, currently referred to the National Board of Patents and Registration's Board of Appeal and district courts, shall be tried centrally by the Market Court as of 1 September 2013. An integrated databank and information system shall be created to assist the efficient operation of general courts of law and prosecutors. Work is currently underway to draft new legislation designed to reduce the adverse impacts associated with payday loans. In order to ensure the speedy processing of asylum claims in the Supreme Administrative Court and the Helsinki Administrative Court, an annual increment of EUR 1.0 million will be made available in 2013–2015.

In the Criminal Sanctions Agency the aim is to slightly increase the number of places in open institutions, which by the end of the planning period should account for 35% of all prison places. Renovation work will be undertaken at Hämeenlinna Prison and the western wing of Helsinki Prison in order to upgrade the last remaining dry cells in the country that have no toilet facilities. These projects will be allocated EUR 2.5 million from 2016 onwards. The Criminal Sanctions Agency's most important information systems will reach their expected life span by 2016, presenting a significant risk to the reliable enforcement of sanctions. The plan is to replace these ageing systems with a new client and enterprise resource planning system, which will also reduce the amount of office work related to enforcement.

The Government will submit its human rights policy report at the end of its term in office, and a new Human Rights Action Programme will be launched in 2016. Linguistic rights shall be promoted on the basis of the national language strategy. An online platform will be launched for civic initiatives

and participation in governance. A democracy report will be drafted, starting with a comprehensive review of the state of democracy.

Ministry of the Interior

The Board Guard's marine rescue helicopters will undergo an extensive maintenance and modification programme in 2013–2017 as part of the ongoing modernisation of its helicopter fleet.

During the current planning period a step increase will be made to appropriations allocated to the police with a view to balancing the Police Department's finances and securing the conditions for its efficient operation. In 2013 the increase will be EUR 12.0 million; in 2014 EUR 23.1 million; in 2015 EUR 30.1 million; and in 2016 EUR 30.1 million. In addition the Police Department will take measures to reduce its expenditures by a total of EUR 35 million by 2016. As a result of these measures and increases in appropriations, it is anticipated that the number of people working in the police force will decline somewhat. The staff reductions will be focused as far as possible in areas other than fieldwork and criminal investigations.

In order that the police can continue to deliver solid operational results it is necessary that the following development measures be implemented:

- Upgrade the police service network with a view to improving the operational security of the police force and its spatial efficiency by reducing the number of police stations.
- Reshape the structure of police administration (National Police Board, national units and police departments) in 2014–2015 with a view to increasing the efficiency and effectiveness of police units by reducing their number and by reassessing their tasks. The aim of this reform is to improve operational efficiency and to streamline the police organisation.
- Launch a development project to upgrade police online services, and licence services in particular, with funding provided through appropriations under the central government productivity item (28.70.20).
- Implement the police enterprise resource planning system project by the beginning of 2014.
- Launch a project for the development of automatic traffic control based on the project plan set out in the National Strategy for Intelligent Transport.

Progress with these measures and the development of police expenditure will be monitored annually in connection with spending limits decisions.

A field management system will be commissioned in 2012–2016 for joint use by the police, rescue services, social and health care services, the Border Guard, Defence Forces and Finnish Customs, replacing the systems currently operated by these authorities. Project funding will be made available through appropriations under the state corporate governance productivity promotion item once an agreement of cooperation has been signed between the Ministry of Finance and the relevant ministries.

Funding will be made available for the development of online police services (and licence services in particular) through an appropriation of EUR 2.85 million set aside under the state corporate governance productivity promotion item once an agreement of cooperation has been signed between the Ministry of Finance and the Ministry of the Interior.

EUR 75,000 has been added to the operating costs of the Ombudsman for Minorities to cover the salaries of two staff positions.

An annual appropriation of EUR 2.7 million is made available through to the end of 2015 for the continued hiring of fixed-term staff (40 FTEs) at the Finnish Immigration Service.

Ministry of Defence

The reform of the Defence Forces will be completed in 2012–2015 as outlined in the Government Programme. The aim is to maintain the country's defence capability and to achieve permanent cost savings.

In addition to the expenditure savings implied by the spending limits decision, the Defence Administration must prepare itself for internal cost pressures. Under the spending limits decision a total of almost EUR 236 million are transferred from defence materiel acquisitions to operating expenditure with a view to secure an adequate level of operations, to finance the reform of the Defence Forces and to cover the anticipated expenditure and cost pressures. The situation requires considerable adjustment as well as significant structural and operational changes.

The Defence Administration will continue to pursue its adjustment efforts in order to achieve expenditure savings, to contain cost pressures and to push forward with the reform. Reservist training, military exercises and aviation and naval operations will be continued at reduced levels. The quality of conscript training will not be compromised. While the reform is still in its planning stage, materiel performance will be limited to maintenance and moderate upgrading to ensure that existing commitments are met. Investment in real estate will be limited to maintenance and moderate upgrading, with the exception of health-based real estate investment. Infrastructure development needs will primarily be judged on the basis of operational needs in emergency conditions. Areas and facilities will be sold as complete entities. The number of staff involved in crisis management operations will be reduced and the command structure in the Lebanon operation will be reviewed. The number, structure and skills of Defence Force personnel will be adjusted according to wartime needs and in view of the duties of the Defence Forces and the long-term development of the defence system. The steps that are needed to achieve the personnel reduction targets will be designed and prepared in connection with the broader reform of the Defence Forces and the next security and defence policy report. Preparations for military crisis management and for the provision of support to other authorities will be continued within the existing resources.

Ministry of Finance

The Tax Administration has been preparing a major reform that comprises all current tax legislation and software that manages taxation based on the application of tax laws. Based on an OTS reform, this enterprise resource planning system is thought to best ensure the long-term efficiency and proper functioning of taxation.

The National Board of Customs will continue to invest in developing EU-wide electronic customs clearance information systems throughout the planning period. At the same time Finnish Customs will be restructured into a nationwide single-tier organisation.

The revised EU Customs Code will be adopted in summer 2013. The new legislation is mainly designed to bolster EU competitiveness through the widespread use of electronic procedures that will facilitate the transport of goods and bring cost benefits to economic operators. This will require the introduction of new compatible information systems across the Member States.

Preparations are underway for the transfer on 1 January 2013 of a range of functions currently performed by the State Treasury to Keva (formerly the Local Government Pensions Institution): these include the registration of employment relationships, the collection and payment of pension contributions to the State Pension Fund, inspection and other activities related to pension contributions, the compilation of pension security statistics and the administration of benefits corresponding to group life insurance. At the same time personnel currently in charge of these tasks at the State Treasury will become Keva employees. During the planning period measures will be continued to reduce the Treasury's operating expenditure. To this end it is proposed that an annual appropriation of EUR 1–5 million be made available in 2013-2015 for the adjustment of the Treasury's net expenditure so as to bring it line with the spending limits by the end of the planning period.

The Finnish Government Shared Services Centre for Finance and HR has offices in six towns. With the rollout of the joint administrative and human resources management (Kieku) information system in central government agencies and public bodies it will be necessary, in the smallest offices at least, to

review the structure of their service networks. To curb the growth of costs and to ensure that the benefits sought through the new Services Centre concept are achieved during the 2013–2016 planning period, the Finnish Government Shared Services Centre for Finance and HR will streamline its service structure and network by closing down one or two offices.

The spending limits proposal for the Population Register Centre takes account of the reallocations of appropriations from other administrative branches following the decision to waive charges for standard information disclosures. This will swell the Population Register Centre's operating expenditure item by around EUR 3 million a year.

Projections for central government pension expenditure have been revised: new estimates for the number of new pensions, for instance, lower the projected annual expenditure in 2013–2015 by some EUR 129–255 million. At the same time higher price levels will increase spending limits expenditure by EUR 114–120 million.

Information system and other key development projects in different administrative branches will be supported from the state corporate governance productivity promotion item by a cumulative total of EUR 140 million by the end of the planning period.

Indexation will increase the level of central government transfers to local government by EUR 206 million in 2013. On the other hand they will be reduced by cuts to transfers for the provision of basic public services: in 2013 the cuts will amount to EUR 125 million, in 2014 to EUR 250 million and from 2015 onwards to EUR 500 million. Furthermore the impact of changes in earned incomes taxes on local government tax revenue are taken into account in the level of central government transfers. The basic public services provided by local government and the central government transfers made available for service provision are discussed separately under Chapter 5 (Basic Public Services Programme) below.

According to the Act on Local Authority Boundaries, assistance for municipal mergers and compensation for losses of central government transfers will be discontinued from 2014. The last government grants under the current law will be awarded for municipal amalgamations that are completed in 2013, and the last payments will be made in 2016.

Steps will be taken to explore the possibilities of reducing the obligations of local governments, promoting normative flexibility and easing the burden on local authorities in other ways. The aim is to redirect revenue from waste tax to local governments. The need to raise the lower limits for tax on real property will be assessed. The increased apportionment of corporate income tax revenue to local governments shall be continued in 2014–2015. Provision will be made for the allocation of restructuring subsidies to merging local authorities: the level of these subsidies and allocation rules will be decided in connection with drafting the act on restructuring local government. The question of financing will be settled in connection with the next spending limits decision.

It is projected that under the current financing system, payments to the European Union will increase annually by around 1.5% in real terms. According to the Commission's revised profile, Finland's payments have been revised downwards by EUR 8 million in 2013 and upwards by EUR 92 million in 2015, when the Finnish contribution will climb to just over EUR 2 billion.

Ministry of Education and Culture

During the spending limits period efforts will be continued to improve the quality of preschool and basic education, upper secondary education, morning and afternoon activities, and basic education in art. These goals will be pursued by reducing class sizes in basic education, increasing the availability of morning and afternoon activities, consolidating extracurricular activities and developing student welfare services. By 2015 additional funds of EUR 34.6 million will be allocated to these development priorities. Investment in improving the quality of basic education will remain at the same level in 2016.

Responsibility for the drafting, administration and supervision of early childhood education and day care legislation shall be transferred from the Ministry of Social Affairs and Health to the Ministry of Education and Culture. This is dealt with in more detail below under the section on the Ministry of Social Affairs and Health.

The rules for student enrolment in initial vocational training shall be revised so that students who have completed comprehensive school and who do not have a secondary level degree can be given priority in student admission. The revised rules are scheduled for implementation in 2013. Online information and admissions systems for vocational and upper secondary education shall be developed with a view to encouraging enrolment.

In line with current forecasts of educational needs, the number of new entrants in vocational training will be progressively reduced by 2,300 from 2014, and the number of places for new polytechnics students will be decreased by just over 2,000 in 2013. The network of education providers and educational institutions shall be adjusted according to regional demographic trends.

Appropriations for adult education will be decreased by a total of EUR 7.5 million from 2014. These cuts will be made to central government transfers for vocational further education and training not leading to qualifications and for vocational special education institutions.

The funding reforms concerning basic education, upper secondary education and vocational training will be aligned with the timetable of the central government transfers reform. Steps will be taken to ensure that the reform of polytechnics is progressing according to plan and that the targets set are achieved. Following the timetable of the central government transfers reform, an assessment will be made to determine the proper way of transferring funding responsibility for polytechnics from local governments to central government and changing the legal status of polytechnics as independent legal entities. Central government has made provisions to support these reforms through financial investment in polytechnics in 2015.

University of the Arts Helsinki, formed through the merger of Sibelius Academy, the Finnish Academy of Fine Arts, and Theatre Academy Helsinki, will start up in 2013. Funding needs for the new University will be met within the existing financing framework.

Financial aid to students will be tied to the cost-of-living index from 1 September 2014.

Provision is made for additional expenditure amounting to around EUR 1.3 million as a result of the 0.07 euro increase in the meal subsidy for higher education students. Furthermore, provision is made for additional expenditure on school transport subsidy for upper secondary and initial vocational training students resulting from higher ticket costs. The criteria for eligibility to school transport subsidy for upper secondary and vocational training students shall be clarified from 1 August 2013.

In the field of culture policy, the aim is to enhance welfare and well-being, to secure equitable access to library and other cultural services and to promote employment in the culture and creative sector. Steps are taken to restructure the management of the state's real estate assets of significant cultural heritage value to ensure that this architectural heritage is protected. The National Board of Antiquities allocation cuts are staggered over 2013–2014. The Institute for Russian and Eastern Europe will be established as a foundation from the beginning of 2013. In order to bridge the sustainability gap in public finances and to curb the growth of central government debt, cuts to central government transfers and aid to theatres, orchestras and museums will be continued after 2015. The same procedure has been followed with other savings measures included in the Government Programme.

It is estimated that revenue from betting and lotteries will increase annually by 1% over the planning period. The share of betting and lotteries revenue entered in the budget is allocated between the four beneficiaries (science, art, sports and youth work) according to an act providing specific apportionment rules. Revenue from betting and lotteries will also be used to finance the renovation of the Helsinki Olympic Stadium in a manner to be detailed in a Government Resolution.

A step increase is proposed for youth workshop activities and outreach youth work: under the proposal the appropriation would rise to EUR 19.0 million in 2013–2015 and to EUR 11.5 million in 2016. The reinforcement is intended to provide a solid operational foundation for youth work.

The administrative branch will undergo a major restructuring programme, which is intended to support and improve strategic management of the administrative branch, to streamline the structure, tasks and division of labour between offices, and to develop shared services. This restructuring exercise will bring expenditure savings of EUR 15 million. In the administrative branch under the Ministry of Education and Culture the central government transfers index and the university index will be frozen for savings reasons in 2013. However this does not apply to central government transfers to theatres, orchestras and museums: in these cases the costs of indexation in 2013 will be covered from betting and lotteries revenue.

Ministry of Agriculture and Forestry

Agriculture, rural development and fisheries will be supported in line with national objectives and EU agricultural and fisheries policies, with funding coming from both EU and national sources. The EU's common agricultural and fisheries policies and the EU's structural programmes in these fields will be reformed from 2014. Under the current spending limits no provision has been made for changes that might arise from these reforms. Preparations proceed from the assumption that overall national funding available will be determined by the current spending limits and that EU funding will be at the highest possible level. More clarity will be brought to the EU funding situation in 2013 as more details become known about EU legislative changes and the EU's financial framework for the new planning period.

In line with the spending limits decision for the current electoral term, the level of national support made available for agriculture and horticulture reflects the restrictions imposed on the possible uses of appropriations following the European Commission's decisions regarding national aid. The current spending limits decision additionally includes the provision that the remaining EUR 11 million of the total of EUR 22 million of EU crisis aid granted for agriculture in 2010 shall be covered from national appropriations for agriculture and horticulture in 2013. Furthermore the decision on national aid for agriculture and horticulture takes account of the savings of EUR 25 million in 2013 and EUR 40 million in 2014–2016 as based on the Government Programme. Not just agricultural aid but other subsidies (compensation for crop losses, agri-environment aid, farmer's early retirement aid) are affected by savings under the Government Programme. Taken together, these savings amount to around EUR 20–30 million a year. In addition agricultural aid for farmers will be reduced by EUR 31 million in 2015 and by EUR 28 million in 2016. The system of early retirement aid for farmers will be progressively scaled down, with savings in 2016 amounting to EUR 12 million. The terms and conditions regarding type of early retirement will be reviewed in 2013, and from 2014 the age limits for retirement on grounds of inter-generational transfer will be raised.

The Government Programme says that adequate funding will be made available for structural support for agriculture. The functioning, structure and position of the Agriculture and Forestry Development Fund will be assessed in 2012. The spending limits do not include transfers to this fund. Interest subsidies for rural businesses will be progressively reduced: savings in 2016 will reach EUR 12 million.

Savings specified in the Government Programme for the administrative branch under the Ministry of Agriculture and Forestry include savings in financial support for water supply. However savings scheduled for 2014–2015 have been scaled back from the previous spending limits decision by allocating an additional EUR 5 million to support measures under the sewerage programme in view of the pending deadline of the waste water decree in sparsely populated areas. The 2016 appropriation will be just one-half of the amount earmarked for the current year, effectively limiting opportunities to support waterways and water supply projects.

Efforts to bolster competitiveness and profitability in forest-based businesses will be continued through new initiatives under the National Forest Programme. In line with the savings targets set out in the Government Programme, central government aid for forest management and regeneration

measures in private forests will be reduced annually by EUR 10 million; aid for the promotion of small-diameter energy wood will be reduced by EUR 9 million; and aid for the promotion of forest nature management will be reduced by EUR 5 million. By the end of the planning period savings of EUR 3 million will be effected in forest management and regeneration in private forests; savings of EUR 1 million in forest nature management; and savings of EUR 1 million through the Finnish Forestry Centre. As the amount of funding available declines, aid systems must be comprehensively reassessed with respect to both the targets of support, eligibility for support and the actual level of support provided.

The organisation of the National Land Survey of Finland will be slimmed down by adopting a single-tier structure. This will help to increase process efficiency throughout the agency and improve productivity, amounting to estimated annual savings of EUR 3 million from 2015.

Savings will also be made on aid for cadastral survey proceedings and joint research and evaluation projects within the administrative branch.

Ministry of Transport and Communications

Overall appropriations will increase significantly in 2013–2015, by more than EUR 500 million per annum from the previous spending limits decision. This is mainly attributable to the restructuring of funding for public service broadcasting through the state budget, and to a lesser extent to the increase in outside funding in transport projects and changes in price and cost levels.

During the forthcoming planning period the administrative branch will see a major restructuring with the introduction of a new system for the funding of public service broadcasting. The Government's aim in this reform is to ensure the continued and sustainable development and independence of public service broadcasting in the longer term. This is dealt with in more detail under Chapter 2 (Spending limits for central government finances in 2013–2016).

In connection with the 2013–2016 spending limits decision the Government has identified 20 new transport projects that will be started up during the budget planning period. The combined overall budget for these projects comes to EUR 1.065 billion. In addition the Government took the decision to implement the E18 Hamina–Vaalimaa motorway project on a PPP basis, with investment costs coming to EUR 240 million. Minor reallocations will be made from the previous spending limits decision: these include the decision to postpone the third stage of the Savonlinna centre project and to provide extended funding for planning of the City Rail Loop (Pisara) in 2013–2015 as a joint project between central government and the City of Helsinki. Launched under the 2012 budget, this planning project will require total funding of EUR 40 million. In 2013, as in 2012, the necessary funds would be released from basic transport infrastructure maintenance and over the subsequent two years from project reserves set aside for transport infrastructure development. Savings measures in the administrative branch include a scaling back of investment volume by EUR 16 million in 2014 and by a further EUR 33 million from 2015. Funding for basic transport infrastructure will be trimmed by EUR 11 million in 2014 and by EUR 22 million from 2015. Furthermore central government grants for the maintenance and improvement of private roads will be cut by EUR 3 million from 2014.

The Government also passed a resolution on the building of the City Rail Loop, the second stage of the Riihimäki–Pasila rail line, a dual rail track between Imatra and Luumäki and on improvements to the rail line from Imatra to the Russian border. These projects and the related expenditure will materialise after the current planning period. Under the current spending limits central government funding for transport infrastructure investment in 2016 will come to EUR 370 million.

Central government will also contribute to the building costs of the Western Metro Extension, a joint undertaking between the cities of Espoo and Helsinki: at 2013 prices that contribution will be around EUR 230 million. The plan is that some three-quarters of this discretionary government transfer will be paid out over the budget planning period one year in arrears as the project progresses.

The second major savings item singled out for the administrative branch under the Ministry of Transport and Communications in the October 2011 spending limits decision, the EUR 20 million reduction of shipping subsidies, will be postponed until 2015.

Ministry of Employment and the Economy

With the exception of a few technical changes and adjustments due to the 2012 budget, the appropriations for the planning period in the administrative branch under the Ministry of Employment and the Economy are largely in line with the previous spending limits decision made by the Government on 5 October 2011.

The aim of industrial and innovation policy is to increase the number of innovative, fast-growth companies with a strong international orientation. The first supplementary budget proposal for 2012 includes authority to grant loans of EUR one billion for the financing of exports. It is estimated that EUR 400 million of these loans will be withdrawn in 2013 and EUR 500 million in 2014, which has been taken into account in the spending limits decision.

In the field of employment and entrepreneurship policy, following the priorities specified in the Government Programme, appropriations will be allocated to promoting growth and employment, and particularly to creating jobs for the long-term unemployed and young people. To bring forward and to boost activation measures, employment appropriations will be increased during the budget planning period by some EUR 15–45 million a year. Accordingly annual allocations for the social integration of immigrants and for increasing the employment rate among immigrants will be increased by EUR 5–20 million.

The National Board of Patents and Registration's Board of Appeal will be discontinued, with a reduction of 6 FTEs.

In the field of energy policy, efforts will be focused on achieving EU targets for the reduction of greenhouse gas emissions and increasing the use of renewable energy sources. Energy subsidy authority is EUR 45 million a year over the planning period. In addition, investment in renewable energy is subsidised by earmarking a separate EUR 20 million appropriation for an offshore wind power demonstration project in 2015. In addition the level of energy subsidy takes account of changes in the timing of expenditures in 2013–2016. Compared to the previous spending limits decision the level of production refunds for renewable energy is EUR 20.2 million higher in 2014, EUR 38.5 million higher in 2015 and EUR 6.8 million higher in 2016.

Under the main title of expenditure for the Ministry of Employment and the Economy, expenditure savings amount to EUR 31.7 million in 2013; EUR 59.9 million in 2014; EUR 78.6 million in 2015; and EUR 78 million in 2016.

Ministry of Social Affairs and Health

The level of appropriations over the planning period is affected by various cyclical factors, including changes in the unemployment rate, statutory indexations and demographic factors.

In order to improve the position of people relying on basic income security, basic unemployment allowance and labour market support were increased by EUR 100 from the beginning of 2012. At the same time the basic component of social assistance was increased by 6% and the basic component of social assistance for single parents by 10%. Income limits for eligibility to housing allowance were raised accordingly by 100 euros. Over the planning period these improvements to basic security will drive up central government expenditure by around EUR 327 million a year.

The housing allowance system will be upgraded from the beginning 2015 in line with the previous spending limits decision. This will increase expenditure on general housing allowance by a total of EUR 60 million a year. At the same time annual central government expenditure on social assistance will fall by EUR 26 million. In connection with these reforms pensioned families with children will no

longer be eligible to receive housing allowance for pensioners, but general housing allowance: this will reduce expenditure on housing allowance for pensioners by EUR 7.9 million a year. The net effect on central government expenditure comes to around EUR 26 million.

In line with the previous spending limits decision reimbursement expenditure on prescription-only medicines under statutory health insurance will be reduced and the patient co-payment contribution to travel expenses will be raised from 1 January 2013. More detailed savings plans will be drawn up during 2012. These reforms will reduce central government expenditure by EUR 133 million a year.

Continued efforts are made to improve services for war veterans and support their independent living at home. Appropriations for the rehabilitation of frontline veterans will be increased by EUR 4 million, which will be allocated half and half to rehabilitation and support for independent living. In addition the veteran increase will be raised from around EUR 50 to EUR 100 a month as of 1 January 2013, at a cost of EUR 2.2 million to central government in 2013.

Central government compensation to health care units will be increased to cover costs arising from doctor and dentist training; in 2013 the increase will amount to EUR 0.9 million and in subsequent years to EUR 1.1 million. The increase will be allocated to the North Savo Hospital district for costs arising from practical dentistry training. Dentistry training started at the University of Eastern Finland in 2010.

Responsibility for the drafting, administration and supervision of early childhood education and day care legislation shall be transferred from the Ministry of Social Affairs and Health to the Ministry of Education and Culture. This will involve the transfer of two FTEs from the administrative branch under the Ministry of Social Affairs and Education to the administrative branch under the Ministry of Education and Culture. There will be closer collaboration between early education and social and health care services.

Spousal income will no longer be considered as part of means testing for labour market support. This will contribute to reduce employment disincentives as well as family poverty. The cost effects to central government amount to EUR 31.9 million in 2013; EUR 31.4 million in 2014; EUR 28.1 million in 2015; and EUR 28.3 million in 2016.

A trial will be conducted in 2013–2015 whereby local governments will take over primary responsibility for the activation of the long-term unemployed. This trial will involve an employment bonus scheme under which the individual who is employed after an extended period out of work will continue to receive labour market support for a one-month period. In addition the housing allowance review period will be extended on a trial basis to six months. The annual cost effect of these trials to central government will come to EUR 8.3 million. In addition incentives to participate in activation measures will be increased by defining increments paid for active periods as preference income in social assistance, which will increase central government transfers for basic income support by EUR 3.0 million a year.

Annual appropriations for the Social Security Appeal Board are proposed at just over EUR 4.5 million for the spending limits period, an increase of EUR 0.77 million over the previous spending limits decision. Based on earlier decisions on legislative amendments and revised procedures, the aim is to achieve a reduction in the number of appeals filed and in this way to keep appeals processing times within reasonable limits.

The Finnish Medicines Agency (FIMEA) will be relocated to Kuopio by 2018. Because of the revised schedule the needs for appropriations will be focused on the 2015–2018 period.

Annual appropriations to cover the operating expenses of the National Institute for Health and Welfare will be increased by EUR 0.63 million over the planning period. This has to do with the transfer of funding responsibility for the Mass Screening Registry, a unit of the Finnish Cancer Registry, to central government.

An appropriation of EUR 23.7 million is proposed for the Helicopter Medical Emergency Service in 2013. A revision to the central government funding formula for the emergency service means that after a transitional period the necessary funds will be made available through central government transfers

to local government. However over the planning period a specified government transfer will be allocated to FinnHEMS, the helicopter operations management unit.

Discretionary government transfers for social and health care development projects will be progressively scaled down over the planning period, with annual cuts amounting to EUR 5 million from 2015.

Basic public services provided by local government and related central government transfers are addressed in a separate chapter (5. Basic Public Services Programme).

Based on strong revenue trends from the Finnish Slot Machine Association's (RAY) gaming operations, it is proposed that EUR 301 million be made available in 2013 for RAY grants to organisations and foundations. It is estimated that in 2013, the Treasury will allocate a total of EUR 98.3 million of RAY gaming revenues to war veterans and a further EUR 10 million to other universal items.

The sum total of expenditure savings adopted in the Government's spending limits discussions for the Ministry of Social Affairs and Health main title of expenditure through to the end of the planning period comes to around EUR 137 million (at 2013 cost levels). The savings will be implemented without disrupting the livelihood of the most disadvantaged groups. Furthermore in the event of VAT rate hikes, index adjustments to certain benefits will be made mid-year in order to protect the purchasing power of low income groups.

The single biggest savings measure is the decision to freeze child benefits in 2013–2015, which will save central government around EUR 40 million at 2013 cost levels. Government transfers to cover the costs of farmer replacement services will be reduced by EUR 5 million, and central government contributions to costs arising from the Farmers' Pensions Act and the Self-Employed Persons' Pensions Act will be cut by EUR 20 million. Cuts to expenses reimbursed from medical care insurance will reduce annual central government expenditure by EUR 20 million.

Implementation of the labour market confederations' agreement on working careers will reduce central government transfers for earnings-related unemployment allowance by an estimated EUR 10 million from 2015. Central government funding for university level research at health care units will be reduced by a total of EUR 5 million to the end of the budget planning period.

Savings amounting to EUR 2.5 million per annum will be implemented in the operating expenditure of the offices and agencies under the administrative branch (National Institute for Health and Welfare, Finnish Institute of Occupational Health) as well as in government transfers to centres of excellence on social welfare.

Revenue from the Finnish Slot Machine Association (RAY) will be transferred to universal items as follows: in 2013 EUR 10 million, in 2014 EUR 20 million and from 2015 EUR 30 million. As a result of positive revenue trends from gaming operations and the declining amount of appropriations allocated to war veterans, it is not thought that the transfer of revenue to universal items will affect the amount of aid going to organisations and foundations over the planning period. However if RAY revenues do not develop as projected, aid payments to organisations and foundations will be reduced.

Ministry of the Environment

As far as the environment is concerned, key areas of focus during the planning period will be to engage actively in negotiations aimed at an international climate convention and in multilateral cooperation aimed at improving the state of the Baltic Sea, as well as to invest in measures designed to ensure environmental diversity and sustainability. In the built environment increasing focus will be given to the energy efficiency of building construction and land use and to securing the social and regional balance and stability of the housing market. Another priority is to ensure an adequate supply of land for residential development in major growth centres.

In 2013–2015 appropriations will be allocated in line with the Government Programme to finance green economy projects. Furthermore funds will be made available for the continuation of the Forest

Biodiversity Programme for Southern Finland, implementation of earlier protection programmes and the protection of marshlands. Appropriations for the protection of the Baltic Sea and National Board of Forestry (Metsähallitus) natural heritage services will remain unchanged through to 2016. Implementation of the water management programme will be continued, and adequate provision will be made to ensure effective oil spill recovery services.

The housing policy action plan will be pursued on a broad front, working closely with local governments and aligning any measures that impact central government finances with the Government Programme's balancing targets. Housing policy support will be focused on improving the housing conditions of special needs groups and subsidising the production of rental housing in growth areas. During the planning period cost savings of EUR 15 million will be made from reduced allocations to renovation and energy grants. Grants are no longer awarded for the installation of heating systems based on renewable energy. The impact and allocation of renovation and energy grants will be reassessed. The national Damp and Mould Action Plan will be continued in 2013 in line with the timetable set for the programme. The housing and building construction e-services project (SADe) will proceed to the stage of implementation.

3.2. Cross-sectoral projects

Under the social guarantee scheme for young people, every young person aged under 25 and every recent graduate aged under 30 will be offered a job, on-the-job training, a student place, or a period in a workshop or rehabilitation within three months of being made redundant. The cross-sectoral social guarantee scheme will take full effect from 2013. During the budget planning period half of the annual EUR 60 million increase will be allocated to the administrative branch under the Ministry of Employment and the Economy and the other half under the Ministry of Education and Culture. It is proposed that continued funding be made available in 2016. However provisions should be made for adjusting the volume and allocation of funding once the first results of the scheme have been evaluated. As part of the social guarantee scheme a new mechanism is under preparation to guarantee a student place for every comprehensive school leaver. One of the key criteria in the numerical and regional allocation of student places is that the training guarantee requirements are met. As a result of timing adjustments made to the additional funding allocated to the vocational training component of the social guarantee scheme for young people, funding in 2015 will be increased by EUR 8 million, which will be offset by reductions in 2013–2014.

In addition to the social guarantee scheme for young people, it is proposed that EUR 27 million be allocated in 2013 to the administrative branch under the Ministry of Education and Culture in order to tap into the reserves of young people who have no secondary education. Each year, some 5,000 comprehensive school leavers have failed to secure a place in secondary level education leading to qualifications. Scheduled for 2013–2016, the programme will aim to provide young people aged under 30 and with no more than comprehensive schooling the opportunity to complete vocational qualifications. The programme will increase the volume of training in preparation of competence-based qualifications and apprenticeship training.

In line with priorities identified in the Government Programme, an additional appropriation of EUR 20 million has been allocated for combating the shadow economy in 2012–2015. During this period the target is to increase tax revenue by EUR 300 million. In the administrative branch under the Ministry of Justice, the resources of courts of law, public prosecutors and the National Administrative Office for Enforcement will be dedicated to combating the shadow economy. In the administrative branch under the Ministry of Finance, a data transfer/questionnaire interface application will be developed for use by the shadow economy intelligence unit, which will allow the relevant authorities to submit an electronic request for information to the Tax Administration. Other administrative branches involved in the shadow economy programme include the Ministry of the Interior, the

Ministry of Transport and Communications, the Ministry of Employment and the Economy and the Ministry of Social Affairs and Health.

The breakdown of the expenditure savings of EUR 110 million under the public administration ICT reform between different administrative branches will be decided in connection with the 2013 budget and the 2014–2017 spending limits decision. Savings in 2013 will come to EUR 30 million, in 2014 to EUR 70 million, and in 2015 to EUR 110 million.

The direct net effect of Government measures associated with the framework agreement signed by labour market confederations in a bid to secure the competitiveness of the Finnish economy and to strengthen employment growth will average EUR 340 million per annum over the planning period. On the other hand these measures will reduce tax revenue by just under EUR 190 million a year. Revenue changes are examined in more detail below (4. Revenue estimates and balance in central government finances). Measures that contribute to increasing appropriations average around EUR 160 million a year. In the administrative branch under the Ministry of Finance the bringing forward of increased tax refunds to energy-intensive industries to 2012 will increase the overall level of appropriations by EUR 120 million from 2013. Furthermore local governments will be compensated for the reductions in earned income tax revenue, estimated at EUR 36 million per annum. The EUR 20 million decrease in the tax refund paid to agriculture will be put back to 2015 and 2016. Implementation of the framework agreement in the administrative branch under the Ministry of Social Affairs and Health will drive up central government expenditure by some EUR 200 million in 2013 and by around EUR 40 million in the other years during the spending limits period. Central government will continue to contribute to financing lay-off allowances in 2013. Adjusted unemployment benefit qualifying conditions regarding layoff and working hours restrictions were revised, and amendments to the Act on Job Alternation Leave were suspended in 2012. From the beginning of 2013 the sequencing of holiday compensation will be discontinued in unemployment daily allowance, and paternity leave will be extended by two weeks. In addition to the measures already decided, a review will be conducted in connection with the 2013 budget to assess the measures outlined in the training and welfare in the workplace reports as well as the R&D reports, and to determine their possible impacts on central government finances.

The Finnish Border Guard, Finnish Customs, the Finnish Transport Agency and Senate Properties have together drawn up a project plan for the development of the border crossing point in Imatra. The plan comprises the development of both roads and buildings, and would imply an increase in the capacity of the crossing point to four million passengers. Implementation needs are based on controlled and flexible reviews of current and foreseeable volumes of cross-border traffic. The project will also improve readiness at the border crossing point in Imatra for a possible visa-free regime between the EU and Russia. The additional costs arising from the development of the border crossing point are included in the spending limits on condition that the remainder of the necessary funding is received through the European Neighbourhood and Partnership Instrument (ENPI). The total costs for Finnish Customs and the National Border Guard come to EUR 4.7 million, of which ENPI funding would cover 80% and central government the remaining 20%. The funding burden would be shared by the administrative branches under the Ministry of Finance, the Ministry of the Interior and the Ministry of Transport and Communications.

3.3. Efficiency and productivity programme

The central government productivity programme has been replaced with a new efficiency and productivity programme, in which the aim is by internal measures to bridge the sustainability gap and to address the changes taking place in the labour market. The targets set for increased efficiency will remain unchanged in terms of their overall economic impact. Apart from productivity and efficiency, special focus will be given to the availability, quality and impact of services. The programme places particular weight on improving staff skills, increasing staff influence over their job, introducing measures designed to support working capacity, and on the role of management and supervision in

promoting an efficient and productive operation. The programme includes specific measures related to core operations analyses and the development of human capital and productivity designed to generate proposals and reforms concerning processes, practices and structures.

3.4. Facilities efficiency in public administration

The management of central government facilities, efforts to improve the efficiency of facilities use and the budgeting of facilities costs are based upon a harmonised facilities management information service. The information service has started up in 2011, and the aim is to roll out the service during the spring of 2012. The facilities efficiency target set for office-type space in the central government facilities strategy is 25 m²/person. Corresponding targets will also be specified for other types of facilities. To ensure that these targets are met, central government will draw upon the expertise of Senate Properties, the shared use of facilities between administrative branches and the exchange of facilities.

The expenditure savings target specified in the Government Programme for improved facilities efficiency in public administration is EUR 10 million by 2015. In the spending limits decision these savings are achieved through individual projects.

3.5. Joint information system projects

An annual appropriation of EUR 80 million is allocated in the spending limits to the administrative branch under the Ministry of Finance for purposes for key information system and information management projects as well as other productivity projects. This reserve is earmarked for key information system projects, including the department of public prosecutions and general courts of law ERP and document management systems, the Criminal Sanctions Agency's development and client data system, the joint public authorities' field information system, the Tax Administration's OTS software project and the financial and personnel administration data processing system. In addition funding has been made available for smaller productivity programmes, including the Police Department's online licence services, the digitisation of Local Register Offices' family sheets, public authorities' information service interface, and the Agency for Rural Affairs e-administration project and water supply information. A total of some EUR 140 has been set aside for these projects over the planning period. In addition provision has been made for an additional EUR 180 million for new information and productivity projects starting up during the planning period. Proposed projects will only be incorporated in annual budgets on condition that the project plans are sufficiently detailed with respect to project feasibility as well as costs arising and costs saved, and that the Ministry of Finance expresses a favourable opinion on significant information system projects as required by the Act on Information Management Governance in Public Administration (634/2011). The Ministry of Finance signs an agreement of cooperation on productivity enhancing projects with each relevant ministry.

3.6. Finnish guarantee commitments in relation to the euro area crisis

The European Financial Stability Facility (EFSF) is tasked with raising funds from the international financial markets for the provision of financial assistance to euro area member states. To this end the EFSF can issue bonds or other debt instruments and make credit arrangements. The issuance of debt instruments is based on an approved fund raising programme guaranteed by euro area governments. The fund raising programme makes no specification of the maturity of the bonds issued; that will be determined during the course of the programme in connection with bond issues based on the current market situation and EFSF fund raising needs. Following the approval of the new Greek funding

programme the current amount of capital available to the EFSF is EUR 241 billion. The current EFSF fund raising programme covers the financial assistance required by Greece, Ireland and Portugal.

In March 2012 the Finnish government has committed to give guarantees to the EFSF's EUR 241 billion fund raising programme. Finland's share of the total amount of capital raised by the EFSF is 1.9248%, which is the equivalent of approx. EUR 4.64 billion. Given the increase in the over-guarantee percentage to +65%, the total value of Finland's guarantees for EFSF capital in March 2012 came to around EUR 7.65 billion. In addition to the capital raised under the EFSF programme, Finnish guarantees also cover interests and other expenses. Based on the latest EFSF estimate of an average 5-year maturity and an average interest rate of 2.5%, which exceeds the EFSF 5-year interest rate in March 2012 by 0.5–0.6 percentage points, Finnish guarantees for interests come to EUR 960 million, bringing the sum total of guarantees for the whole EFSF fund raising programme to around EUR 8.61 billion. Finland's guarantees for the EUR 2.2 billion Greek loan package include a separate collateral agreement between the two countries which covers a significant part of the related credit risk.

The European Stability Mechanism (ESM) is scheduled to start up on 1 July 2012. The ESM has a lending capacity of EUR 500 billion. It has the status of an international financial institution with an authorised capital stock of EUR 700 billion, of which called up capital accounts for EUR 80 billion and guarantee capital for EUR 620 billion. Finland's share of called up capital is approx. EUR 11.44 billion, which will be paid in one instalment when the ESM starts operating. Finland's share of the guarantee capital is EUR 11.14 billion. The decision to increase the ESM's capital is taken on a unanimous basis by euro area member states.

4. Revenue estimates and central government balance

Actual on-budget revenue is expected to increase over the spending limits period by an average of 4.4% per year. Tax revenue growth is expected to be slightly higher than this at 4.9%. 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 2016 on-budget revenues (excluding borrowing) are expected to reach EUR 53.8 billion.

The on-budget revenue estimates for central government are based on medium-term economic projections for the Finnish economy, as updated in April 2012. As well as taking account of the latest decisions made, the revenue estimates also incorporate the tax policy positions outlined in the Government Programme, most of which have been put into effect in the 2012 budget, the tax implications of the framework agreement signed by the labour market confederations in November 2011, and the YLE tax that is scheduled for introduction in 2013.

It is projected that economic growth will slow in the medium term, above all as a result of falling labour input, which will also limit growth of tax bases. GDP growth is forecast to reach 1.8% over the spending limits period. Compared to forecasts in autumn 2011, the outlook for 2012 and 2013 in particular has deteriorated. On the other hand the growth projections for 2014 and 2015 are slightly better.

In connection with the framework agreement adopted by the labour market confederations in November 2011, the Government decided on support measures aimed at fostering economic growth and strengthening household purchasing power, domestic demand and business competitiveness. Taxes on earned income were eased to offset the increase in employees' earnings-related pension contribution, which is estimated to reduce central government tax revenue by around EUR 80 million a year. The decision was made to lower the corporate tax rate by 0.5 percentage points more than agreed in the Government Programme and the budget. The losses caused to other corporate tax revenue recipients from the lowered tax rate will be offset by increasing their share of corporate tax revenue and by lowering central government's share accordingly. The measures adopted in connection with the framework agreement will reduce estimated central government revenue from corporate tax by a total of over EUR 100 million a year.

A public service broadcasting tax (YLE tax) will be introduced in 2013. This YLE tax will be levied in connection with income taxation and has been taken into account in estimates for both tax revenue from earned income as well as in estimates of corporate tax revenue. YLE tax revenue is estimated to average EUR 500 million a year over the planning period, with households accounting for around EUR 480 million and businesses for some EUR 20 million.

Compared to the estimate given in connection with the autumn 2011 spending limits decision, it is estimated that new tax policy adjustment measures will increase central government tax revenue in 2015 by a net total of around EUR 1.2 billion. The most significant changes will be seen in VAT revenue and earned income and investment income taxes. There will also be changes in corporate taxation, inheritance and gift taxes and in capital transfer tax as well as in tax on insurance premiums.

Revenue from taxes on earned income and investment income is expected to increase by almost 9% in 2013 and by an average of 6½% over the spending limits period. Excluding the effect of the new YLE tax, the average increase would come to around 5% a year. Earned income is expected to grow on average by 3½% and investment income on average by 4½% a year. In line with the Government's new adjustment decisions this calculation assumes that tax bases will not be adjusted in 2013 and 2014 according to inflation or rising earnings levels. For 2015, tax bases will be revised according to the projected index of wage and salary earnings, and for 2016 according to the consumer price index. In addition both the basic deduction and earned income deduction will be increased. A temporary solidarity tax will be introduced in 2013–2015 for wage and salary earnings in excess of EUR 100,000, adding a new category to the central government income tax scale. Taxes on high pension incomes will be increased to bring them in line with earned income taxes. Structural changes will be made to way in which the mileage allowance is calculated. In addition a private investor's tax incentive and an increased presumed acquisition cost for private investment in unlisted growth companies will be introduced on a temporary basis. In all it is estimated that the changes made in the spending limits decision will increase central government revenue from earned income and investment income by around EUR 600 million in 2015.

The 1.5 percentage point reduction in the corporate tax rate in 2012 will decrease tax receipts by over EUR 300 million a year. From 2013, it is projected that revenue from corporate tax will increase on average by around 4% a year. Temporary corporate tax relief will reduce the overall level of revenue in 2013. In 2014–2016 tax receipts are expected to grow at the same rate as the national accounts operating surplus. However it is expected that central government corporate income tax receipts will increase faster than this, by an average of 6% a year. This is due to the expiry of the temporary increase in the apportionment of corporate income tax to municipalities and parishes. A new decision was made to extend the increased apportionment for municipalities and parishes in 2014–2015. In addition the decision was made to introduce a temporary R&D incentive whereby businesses receive compensation from the corporate income tax to cover R&D salary costs. Increased depreciation rights will be applied to productive investment. The effects of these tax decisions to other tax revenue recipients will be offset by changes to corporate income tax revenue apportionments. The Government's new decisions will reduce central government revenue from corporate income tax by a total of around EUR 480 million in 2015.

A new tax band will be introduced on a temporary basis in 2013–2015 for inheritances and gifts of over EUR 1 million. It is estimated that this will increase overall tax receipts by some EUR 20 million a year. In addition the EUR 8,500 tax relief on insurance gifts will be removed.

All VAT rates will be raised by one percentage point in 2013, which is estimated to increase tax revenue by around EUR 900 million a year over the spending limits period. It is estimated that VAT revenue will increase on average by around 5% over the spending limits period. From 2014 tax revenue growth will follow the estimated rise in household consumption expenditure. The tax rate on insurance premiums will also be raised in line with the VAT rate to 24%, which is estimated to increase revenue annually by some EUR 30 million. The capital transfer tax rates for shares in housing corporations and real estate property will be raised from 1.6% to 2% in 2016. In addition the debts of

real estates will be added to the tax base for capital transfer tax. It is estimated that these measures will increase revenue from capital transfer tax by around EUR 80 million a year.

Excise duty revenue will increase on average by just over 1% a year. The tax on transport fuels will be raised in two stages as set out in the Government Programme, with the first increase put into effect in 2012. The second stage increase is scheduled for 2014, when it is projected that tax revenue will increase by EUR 125 million. The waste tax and tax on peat will be increased in 2013. Revenue from car tax is expected to increase with growth of household consumption expenditure from 2013 onward, averaging just under 1% a year over the spending limits period. The Government is planning to introduce a bank tax in 2013 and a windfall tax in 2014, which are expected to increase tax revenue by a total of EUR 340 million a year. By contrast the increase in tax revenue that is anticipated from efforts to combat the shadow economy is not incorporated in the forecast because the specific measures to be applied are still under preparation.

As regards other on-budget revenue, dividend revenue is expected to come in at EUR 800 million a year. In addition, with respect to proceeds from share sales, the Government will apply the technical assumption inherited from previous years according to which proceeds from the sale of state-owned shares will generate on-budget revenue totalling EUR 400 million per year, accruing either directly or as Solidium capital refunds. The estimate of central government interest income is lower than anticipated in the autumn 2011 spending limits decision. This is due to the lowered estimate for interest earned on central government savings as a result of a marked decrease in underlying interest rate assumptions and a smaller than projected savings reserve. Revenue estimates are also affected by changes in repayment schedules of loans granted to other governments, which depresses interest revenue estimates as well as estimated amortisations during the spending limits period.

Tax benefits on all voluntary pension contributions (including those paid by the employer) will only be available on condition that the pension is paid out from the upper retirement age limit (68 yrs). This does not apply retrospectively to existing agreements.

It is assumed that central government debt will climb to EUR 94 billion in 2013. Because of decisions that will have the effect of increasing tax revenue and reducing expenditures, the central government debt to GDP ratio will slow and turn into a slight downward trend in 2016. Central government debt in 2016 will stand at about EUR 105 billion, or about 45% of GDP.

The projections are that central government finances, on a national accounts basis, will remain in deficit throughout the spending limits period. In 2013 it is estimated that the deficit will stand at 2½% of GDP, improving from this level by around one percentage point during the planning period.

5. Basic Public Services Programme

The annual margin of municipalities and joint municipal authorities dropped to around EUR 2.6 billion in 2011. The decline in the operating margin was greater than the growth of tax revenue and central government transfers. The main reason for the weaker than anticipated trends lay in faster than anticipated growth of expenditure. Operating expenditure accelerated to 4.5%. Tax revenue and central government transfers increased by a total of 3.5%.

The outlook for local government finances is set to tighten in 2012 and in 2013–2016 with the slowdown of revenue growth. At the same time, population ageing is placing an ever greater burden on local government finances. With revenue performance continuing to falter, rigorous spending discipline will be crucial to maintaining the stability of municipal and joint municipal authority operational finances. It is particularly important to contain the growth of wage expenditure and to put measures in place that will help boost productivity. As local government finances become tighter, there is a threat that debt levels will continue to rise sharply in the municipal sector.

It is estimated that municipalities' and joint municipal authorities' operating expenditure will continue to rise by an annual average of 4.1% over the spending limits period. Personnel numbers are expected to remain at the same level as in 2011 at 459,000, and the higher level of service needs

arising from population ageing will be met through contracted services. The calculations indicate a much lower rate of operating expenditure growth than the actual growth rates recorded in recent years. The slowdown of expenditure growth requires that municipalities take active measures to curb the growth of their wage bills.

The development of personnel expenditure in the local government sector follows the development of earnings levels and social security contributions. A two-year collective agreement was reached for the local government sector in November 2011. This agreement is expected to push up earnings in the sector by 3.2% in 2012 and by a further 2.3% in 2013. For 2014 the projections are based on a technical assumption of a 2.8% wage increase, rising subsequently to 3.3% a year, slightly less than the projected increase in overall earnings levels.

It is anticipated that purchases will increase nominally by 6.5% in 2012–2016. The increased demand for services following from the changing age structure is realised in the projected trends in development through purchases.

Local government operating revenue is expected to increase in line with the growth of operating expenditure.

Benefits and allowances paid out by local governments are expected to increase by around 2% in 2012. Social assistance expenditure is driven by the increase in the basic amount of social assistance, but on the other hand reduced by a higher level of basic income security and higher income limits for eligibility to housing allowance. In net terms these reforms will increase social assistance expenditure. It is projected that the reform of the housing allowance system towards the end of the spending limits period will reduce the needs for social assistance and thereby total social assistance expenditure. Unemployment is expected to fall over the spending limits period, which will also drive down social assistance expenditure.

It is projected that gross investment by municipalities and joint municipal authorities will remain at EUR 4.2 billion over the next few years ahead. There is considerable upward pressure on investment in the local government sector, mainly because of renovation needs, major infrastructure investments in population growth centres and ongoing restructuring programmes. If revenue and operating expenditure trends continue as forecast, the projected investment level will significantly drive up debt levels in the municipal sector.

The average municipal income tax rate increased by almost 0.1 percentage points in 2012, edging up to 19.25%. Average real-estate tax rates also increased slightly.

During the spending limits period it is predicted the tax revenue will increase on average by 3.7% a year. Municipal income tax revenue is projected to grow by an annual average of 4.2%. For 2015 it is assumed that earned income tax bases will be adjusted in keeping with the Government Programme so that rising earnings levels and inflation will not cause an increased tax burden on earned incomes. In 2013–2014 these adjustments to tax bases on earned income will not be made, which is estimated to increase municipal income tax revenue by some EUR 200 million at 2014 levels as compared to the October 2011 Basic Public Service Programme. A new method for calculating the mileage allowance will also increase municipal income tax revenue. On the other hand that revenue will be dented by the Government's decision to raise the earned income deduction and basic deduction. It is estimated that these changes in tax criteria will increase local government tax revenue by a net total of around EUR 110 million in 2013 and by some EUR 230 million in 2014. The assumption of revenue loss compensation included in central government transfers to local government will be lowered in line with the net tax base changes, which will therefore have no effect on overall local government revenue. The 5 percentage point increase in the apportionment of corporate income tax to local government will be continued in 2014–2015, which will increase local government corporate tax receipts by some EUR 270 million at 2014 levels when compared to the October 2011 estimate in the Basic Public Services Programme. Furthermore the aim is to redirect revenue from the waste tax to local governments. A review will be conducted to determine the need to raise the lower limits of real estate tax.

Tax bases on earned income were adjusted from the beginning of 2012. These changes had both upward and downward effects on tax revenue. Taxes on lowest income earners were eased by raising the maximum amount of basic deduction. Tax rates on earned income were lowered by raising the earned income deduction. Furthermore the tax bases were adjusted to reflect inflation, and so to maintain consumer purchasing power. In connection with the framework agreement the decision was made to ease taxes on earned income with a view to offsetting part of the increase in employees' earnings-related pension contribution. On the other hand the reduced interest deduction on housing loans and lower domestic help credit will contribute to increase tax revenue. In net terms the combined effect of these measures on local government tax revenue is estimated at EUR 299 million in 2012. These losses in local government tax revenue will be offset in full through the central government transfer system.

Assuming that the trends outlined above materialise as projected, local government finances will tighten appreciably over the next few years. The annual margin in local government finances will not be enough to cover depreciation in any year over the spending limits period. Judged on this criterion, local government finances would no longer be in balance. There is considerable upward pressure on local government expenditure, and it is expected that investment will remain at a high level. Therefore the annual margin is projected to remain clearly lower than net investment throughout the spending limits period. Debt levels are consequently set to continue to rise, and pressures to raise municipal income tax rates will increase considerably. In order that the stability of local government finances can be secured and that the necessary investment can be put in place without constantly taking out more debt, it is necessary that operating expenditure growth remains within the limits of revenue performance. Population ageing is going to put central and local government finances under increasing pressure, which further underlines the need for increased productivity in the provision of basic public services.

In 2013, central government transfers to local government will total EUR 10.6 billion. The main part of this consists of imputed central government transfers, including equalisation items. Central government transfers in the administrative branch under the Ministry of Finance come to around EUR 8.6 billion and in the administrative branch under the Ministry of Education and Culture to around EUR 1.0 billion.

Index adjustment will increase central government transfers for basic public services provision by EUR 206 million in 2013. The level of central government transfers will be affected downwards by the revision of the transfers percentage rate as indicated in the Government Programme: from 2012 the effect of this revision will come to EUR 631 million a year. In addition central government transfers will be affected by the savings measures introduced by the Government, which amount to EUR 125 million in 2013, EUR 250 million in 2014 and EUR 500 million from 2015. Furthermore, estimates for central government transfers take account of the increases based on the earlier decision to offset local government tax revenue losses, as well as the decreases of some EUR 110 million in 2013 and around EUR 230 million from 2014, the equivalent to the effect on municipal income tax revenue of the non-revision of tax bases on earned income in 2013–2014. As part of the Government's savings programme the central government transfers index will be frozen in the administrative branch under the Ministry of Education and Culture for 2013. However this does not apply to central government transfers to theatres, orchestras and museums, in the cases of which the costs of indexation in 2013 will be covered from betting and lotteries revenue.

As a result of the changing age structure and population numbers, it is estimated that social and health care expenditure will increase by an imputed EUR 269 million in 2013 and by EUR 1,181 million over the spending limits period. Expenditure on basic education will decrease by an imputed EUR 39 million in 2013 and by EUR 51 million over the spending limits period.

Central government transfers for the provision of municipal basic public services will be increased by EUR 125 million at 2015 levels for the development of social welfare and health services. The level specified in the Government Programme has been revised downwards by EUR 20 million as part

of the Government's savings programme. From 2013 appropriations will be allocated among others for the development of old people's services, services for people with disabilities, foster care, child welfare, student care, home services for families with children and for the development of the service structure and primary health care. The development of services for older people and other social and health care will be allocated EUR 22.5 million in 2013; EUR 44.5 million in 2014; and EUR 110.5 million in 2015. Appropriations for the improvement of student care will amount to EUR 13 million in 2014–2015. In 2013 EUR 0.5 million and in 2014–2015 EUR 1.5 million will be made available for implementation of legislation concerning the right to self-determination.

An appropriation of EUR 23.7 million is proposed for the Helicopter Medical Emergency Service in 2013. The central government funding formula for emergency service will be revised, which means that after a transitional period the necessary funds will be made available through central government transfers to local government. However over the spending limits period a specified government transfer will be allocated to FinnHEMS, the helicopter operations management unit.

In addition to the savings set out in the Government Programme, discretionary government transfers for social and health care development projects in the local government sector will be progressively scaled down over the planning period, with annual cuts amounting to EUR 5 million from 2015. Central government funding for university level research at health care units will be reduced by a total of EUR 5 million a year.

In the event of VAT rate hikes, index adjustments to certain benefits will be made mid-year in order to protect the purchasing power of low income groups. For this reason it is estimated that social assistance expenditure will increase by EUR 9 million in 2013, half of which will be covered by the central government. Incentives for the long-term unemployed to participate in activation measures will be increased by defining increments paid for active periods as preference income in social assistance, which will increase expenditure by EUR 6 million a year, half of which will be covered by the central government.

Public services expenditure savings agreed by the Government for the administrative branch under the Ministry of Education and Culture will mainly be implemented during 2013–2015. Savings in upper secondary school education will rise to EUR 37 million at 2015 levels; in initial vocational training to EUR 49 million at 2015 levels; in further vocational training to EUR 15.5 million at 2014 levels; and in apprenticeship training to EUR 31 million and in polytechnics to EUR 51 million, which will be implemented by 2015.

During the spending limits period EUR 9 million will be transferred annually from the central government transfers for basic public services provision to the funding of central government and local government joint information system (SADe) projects.

The social guarantee scheme for young people will be implemented in 2013–2016. In the administrative branch under the Ministry of Education and Culture, annual funds of EUR 30 million will be made available for this programme. Furthermore an increase of around EUR 4 million will increase will be made available for local government employment support. It is thought that the social guarantee scheme for young people will need to be complemented by separate fixed-term measures designed to tap into the reserves of young people who have no secondary education. The aim is to provide young people aged under 30 and with no more than comprehensive schooling the opportunity to complete vocational qualifications. To this end EUR 27 million will be made available in 2013 and EUR 52 million a year in 2014–2016.

In a bid to reduce long-term unemployment, a trial pilot programme running until the end of the Government's term will transfer primary responsibility for employment management to the municipality or municipalities jointly no later than after 12 months of continuous unemployment. In 2013–2015 a total of EUR 20 million will be allocated annually to this trial. Furthermore, in order to increase and bring forward activation measures, employment appropriations have been increased compared to the spending limits decision for the electoral term.

Responsibility for the drafting, administration and supervision of early childhood education and day care legislation 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 Government is committed to undertake a local government reform aimed at creating a thriving municipal structure based on economically robust municipalities. The reform will create a service structure in which the power and the responsibility to organise and finance services are allocated to a single authority with a sufficiently large population and skills base. The existing framework act will be replaced with a new structural act, which is scheduled for introduction at the beginning of 2013. Decisions concerning the new municipal structure should be made by the end of 2014. Provision will be made for the allocation of restructuring subsidies to merging local authorities: the level of these subsidies and allocation rules will be decided in connection with drafting the act on restructuring local government. The question of financing will be settled in connection with the next spending limits decision.

The local government sector will continue to assume responsibility for the provision and financing of social and health care services. In order to ensure the availability of high quality social and health care services and adequate funding, it is important that there are robust enough municipalities with the necessary resources to manage these tasks.

Instead of a single strong municipality with the resources to organise and finance social and health care services, it is possible in exceptional cases to allow local authorities to join forces to form social and health care regions with a large enough population base and the capacity to provide and finance social and health care services. Implementation of the social and health care services reform will be reviewed as part of the local government and services reform.

Legislation governing the local government reform will adopt new instruments designed to facilitate the reorganisation of municipalities. The reform will take into consideration the diverse nature of different areas, such as the distinctive characteristics of growth centres, sparsely populated areas, long distances, vast stretches of archipelago, and language-related conditions. The service structures in remote areas beyond 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 local government reform will lay the foundation for a comprehensive overhaul of the Local Government Act. This overhaul will consider the new structures in local administration and its changing environment from the point of view of the internal control of local government finances, local government 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.

The system of central government transfers will also be overhauled as part of the local government reform. The system will be simplified and clarified, and incentives within the system will be improved. The new central government transfer system is scheduled for introduction in 2015.

The measurement of the productivity of municipalities and joint municipal authorities involves certain problems, and productivity statistics do not take account of the quality and effectiveness of service delivery. The quality of services provided by local authorities has remained high among others in the case of general education, library, health and early childhood education services. Moreover, with the exception of primary health care services, where there are occasional problems with availability, service access and availability are good. Raising the productivity of welfare services is one of the key factors in resolving the sustainability problem in general government finances. In order to ensure adequate funding and personnel resources for local government, it is essential that, as long as there is a shortage of labour, information technology is put to the best possible use in developing

service structures and processes as part of the local government reform. This will contribute to ensure a reduced relative need for personnel in the future.

Minister of Health and Social Services Maria Guzenina-Richardson

Ministerial Adviser Juha Majanen

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APPENDIX 1 Structural changes and cost and price level adjustments to spending limits

Structural changes

Due to amendments proposed to the 2012 budget proposal and structural changes made to the current spending limits, the level of spending limits for 2013 will be about EUR 38 million lower than the limits specified in the October 2011 decision. Structural changes will also lower spending limits for 2014 and 2015. Many of the adjustments lowering the level of spending limits are due to changes made to unemployment security items that fall outside the spending limits, although under the spending limits rule these are covered by the spending limits. This can be overcome technically by revising the overall level of spending limits rather than distinguishing between unemployment security items that fall under and outside the spending limits.

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

Budgetary structural changes compared with the spending limits decision of 5 October 2011, EUR million

Item	Matter	2012	2013	2014	2015
21.10.74	SLD 2013–16: Delay in renovation of Parliament buildings		-6.5		6.5
28.91.41	SLD 2013–16: Net expenditure impact of development of energy tax refund mechanism and changes to the energy tax refund mechanism in agriculture, taking account of the timing changes decided under the framework agreement		120.0		-20.0
29.40.50	ABP 2012: Adjustment of universities VAT compensation based on 2010 final accounts data	-19.9	-19.9	-19.9	-19.9
29.40.52	ABP 2012: Adjustment of compensation for withdrawal of university pharmacies' tax-free status based on 2010 final accounts data	-1.0	-1.0	-1.0	-1.0
31.10.77	SLD 2013–16: City of Turku contribution (50%) to the construction of Suikkilantie and City of Tampere contribution (67%) to bypass development (corresponding revenue under item 12.31.10)			10.0	63.0
31.10.77	SLD 2013–16: Expenditure corresponding to EU TEN revenue (revenue under item 12.31.10)		3.4	2.0	
31.10.78	SLD 2013–16: City of Helsinki contribution (17%) to planning for the City Rail Loop (corresponding revenue under item 12.31.10)		2.0	2.0	1.9
33.10.54	SLD 2013–16: Technical adjustment to eliminate need to split the item because of the trial extension of housing allowance review period		-1.0	-1.0	-1.0
33.20.50, 33.20.51, 33.20.52	SLD 2013–16: Technical adjustment to eliminate need to split items because of the discontinuation of the sequencing of lay-off compensation		-20.0	-20.0	-20.0
33.20.50, 33.20.51, 33.20.52	ABP 2012: Step increase in basic income support (revision of technical adjustment based on new cost estimate)	-58.0	-63.0	-63.0	-63.0
33.20.52	SL 2013–16: Technical adjustment to eliminate need to split the item because of changes to means testing rules for labour market support		-31.9	-31.4	-28.1

33.20.52	SLD 2013–16: Technical adjustment to eliminate need to split the item because of employment bonus trials for the long-term unemployed		-7.3	-7.3	-7.3
33.20.50	ABP 2012: Revision of adjusted unemployment benefit qualifying conditions regarding lay-off and working hours restrictions	-10.0	-10.0	-10.0	-10.0
33.60.35	SLD 2013–16: Technical adjustment to eliminate need to split the item because of the definition of increments paid for active periods as preference income in social assistance		-3.0	-3.0	-3.0
Several	SLD 2013–16: Technical adjustment to eliminate need to split items due to the bringing forward of index adjustments of certain benefits.			-6.3	
Structural changes in total			-35.1	-38.2	-148.9
				-101.9	

Adjustments to price and cost level

The central government spending limits for 2013–2016 are expressed in 2013 cost and price levels. Some of the expenditure items under the spending limits, such as development aid expenditure and national contributions corresponding to EU Structural Fund contributions, are included in the spending limits at current prices, in which case they include an estimate of how rising price levels over the spending limits period will impact the appropriation. In other respects the spending limits expenditure will be revised annually according to the estimated rise in cost and price levels. The parliamentary term spending limits are adjusted to the following year's price level in connection with each spending limits decision, and the price and cost level adjustment made is brought in line with the latest forecast data in connection with drafting the budget proposal.

The magnitude of the price adjustment varies annually depending on the development of price and cost levels. The price and cost level adjustments for 2013 presented in the following Table are based on the Ministry of Finance April 2012 price trend forecasts (see Appendix 2). The price adjustment for 2013 will be revised in connection with drafting the 2013 budget proposal. The price adjustments shown in the Table take account of the Government decision on temporary indexation suspension in 2013.

The price and cost level adjustments compared with the spending limits decision of 5 October 2011 come to around EUR 984 million for 2013, taking account of the EUR –6.5 million adjustment made to the National Pensions Index in connection with the amendment to the 2012 budget proposal; the effect of the indexation suspensions in 2013 (approx. EUR 146 million); and the bringing forward of certain benefit indexations to mid-2013. An early increase of EUR 26 million is made to the 2013 spending limits, which will be taken into account in connection with the 2014–2017 spending limits decision as a factor lowering the statutory price adjustment for 2014.

The adjustments take account of both statutory and contractual price adjustments, which are made to both the spending limits level and appropriations, as well as price adjustments to other spending limits expenditure, which are made to the overall level of spending limits and on a discretionary basis to appropriations.

Adjustments to 2013 price and cost level compared with the 5 October 2011 spending limits decision, 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 index adjustment	Contractual price adjustment	Other cost adjustments
15-17 Pensions	Employee Pension Index (TyEL)	114.3		
18-19 Defence materiel acquisitions	Predictive increase 1.5 % ¹		40.5	
01-14 Wages and social security contributions	Agreement increases		164.1	
Transport infrastructure expenditure	Building Cost Index (RKI)			40.5
01-14, 20-28 Other operating expenses and consumption	Consumer Price Index (KHI)			32.0
30-39 Imputed central government aid to municipalities and joint municipal authorities	Index of Central Government (VOS)	206.3 ²		
30-39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government (VOS)			23.9
40-49 Central government aid to trade and industry	Consumer Price Index (KHI)			74.1
50-59 Central government aid to households and non-profit organisations indexed on a statutory basis	National Pension Index (KEL)	29.1 ³		
50-59 Non-indexed central government aid to households	National Pension Index (KEL)			38.8
50 Central government funding for universities	University Index	0.0 ⁴		
50-59 Other central government aid to households and non-profit organisations	Consumer Price Index (KHI)			18.7
60 Transfers to off-budget central government funds	Consumer Price Index (KHI)			0.9
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)	93.0		
60 Central government transfer for expenditure arising from the Sickness Insurance Act	KEL / Consumer Price Index (KHI)	3.7		29.3
61-65 Central government funding contributions corresponding to EU Structural Fund contributions and other domestic transfers	Included in programme spending limits			
66-68 Transfers abroad	At current prices			
69 Transfers to the EU	EU's GDP Price Index and Consumer Price Index (KHI)	35.0		

70-79 Real investments	Building Cost Index (RKI)			3.8
90-99 Other expenditure	Consumer Price Index (KHI)			1.0
Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)			9.0
Bringing forward statutory price adjustments for certain benefits and allowances to mid-2013	National Pension Index (KEL)		26.0	
Total in 2013		507.4	204.6	272.0

¹⁾ A predictive 1.5% price and cost level adjustment will be made to appropriation levels (excluding personnel expenses) for Defence Forces operating expenditure and defence materiel acquisitions. 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 materiel acquisitions.

²⁾ Takes account of the decision to freeze indexations in the administrative branch under the Ministry of Education and Culture (effect approx. EUR –61.2 million).

³⁾ Takes account of the decision to freeze indexations of child allowances in 2013–2015 (effect in 2013 approx. EUR –39.8 million).

⁴⁾ Takes account of decision to freeze indexations of central government funding for universities (effect approx. EUR –44.7 million)

APPENDIX 2 Macroeconomic forecasts and assumptions for 2011–2016

	2011	2012	2013	2014	2015	2016
GDP , change in volume	2.9	0.8	1.5	2.1	1.9	1.7
GDP , change in price	3.6	2.8	2.5	2.3	2.1	2.1
GNI , value, EUR million	193 671	200 540	208 540	217 720	226 490	235 390
Consumer Price Index , change %	3.4	2.8	2.6	2.1	2.0	2.0
Index of Wage and Salary Earnings , change %	2.7	3.3	2.6	3.0	3.5	3.5
Building Cost Index , change %	3.3	2.6	2.5	2.6	3.0	3.0
Basic Price Index of Domestic Supply , change %	6.4	1.8	2.5	3.0	2.0	2.0
Unemployment rate , %	7.8	8.0	7.9	7.7	7.4	7.3
Wage bill , change %	4.8	2.6	2.6	3.5	3.6	3.4
Employee Pension Index (TyEL)	2 323	2 407	2 473	2 540	2 599	2 658
National Pension Index (KEL)	1 508	1 565	1 607	1 652	1 689	1 722
Index of Central Government Transfers to Local Government:						
Change in cost level, forecast	2.6	3.1	2.3	2.7	3.0	2.9
Change in cost level, budget proposal	1.6	3.7	2.7	2.7	3.0	2.9
— includes index adjustment	-1	+0.6	+0.4			
Actual change in cost level	3.0					
University Index	3.4	3.0	2.6	2.8	3.0	3.0
Unemployment insurance contributions						
— employer, average	2.32	2.32	2.32	2.32	2.32	2.32
— employee	0.60	0.60	0.60	0.60	0.60	0.60
Employee pension contributions (TyEL)						
— employer	22.0	22.7	23.1	23.5	23.9	24.3
— employee aged 53 yrs and under	17.10	17.35	17.55	17.75	17.95	18.15
— employee over 53 yrs	4.70	5.15	5.35	5.55	5.75	5.95
— wage coefficient	6.00	6.50	6.80	7.05	7.30	7.55
	1.253	1.291	1.327	1.360	1.397	1.439
Health insurance contributions for the insured						
— employees' daily allowance contribution	0.82	0.82	0.82	0.85	0.84	0.84
— wage earners' and entrepreneurs' medical care contribution	1.19	1.22	1.27	1.35	1.29	1.31
— pensioners' medical care contribution	1.36	1.39	1.44	1.52	1.46	1.48

Central government employer contributions	21.9	21.6	21.5	21.4	21.2	21.0
— health insurance contribution	2.12	2.12	2.12	2.15	2.14	2.14
— pension contribution (under Central Government Employees' Pensions Act)	19.77	19.48	19.41	19.24	19.03	18.81
Local government employer contributions	29.5	29.5	29.5	29.5	29.4	29.2
— health insurance contribution	2.12	2.12	2.12	2.15	2.14	2.14
— other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7
— unemployment insurance contribution	3.05	3.05	3.06	3.06	3.07	3.07
— pension contribution (under Local Government Employees' Pensions Act)	23.6	23.6	23.6	23.6	23.5	23.3

APPENDIX 3 Ministry of Finance estimate of ordinary on-budget revenue in 2012–2016 and on-budget balance in 2012–2016

Ministry of Finance estimate of ordinary on-budget revenue in 2012–2016, EUR billion

	2012	2013	2014	2015	2016	2012–2016 average annual change, %
	B+SB					
Total tax revenue	38.2	40.8	42.6	44.2	46.3	4.9
— taxes on earned and capital income	7.7	8.4	9.0	9.4	9.9	6.5
— corporate income tax	3.6	3.4	3.6	3.9	4.5	6.3
— value added tax	15.8	17.3	17.9	18.6	19.4	5.1
— excise duties	6.7	6.8	7.0	7.1	7.1	1.1
— other tax revenue	4.4	4.9	5.2	5.4	5.5	5.6
Miscellaneous revenue	4.9	4.9	5.0	5.0	5.2	1.8
Interest income, income from share sales and profit entered as income	1.9	1.8	1.8	1.8	1.9	-0.4
— Dividend income and proceeds from sales of shares	1.4	1.2	1.2	1.2	1.2	-3.8
Total revenue¹	45.3	47.7	49.8	51.4	53.8	4.4

¹⁾ Including repayment of loans granted by central government.

Ministry of Finance estimate of ordinary on-budget balance in 2012–2016, EUR billion, at current prices

	2012	2013	2014	2015	2016
On-budget revenue estimate, total ¹	45.3	47.7	49.8	51.4	53.8
Total expenditure (at current prices)	52.7	54.2	54.8	55.3	56.4
On-budget balance	-7.5	-6.5	-5.0	-3.8	-2.6
Central government debt-to-GDP ratio, %	44	45	46	46	45

¹⁾ Including repayment of loans granted by central government.

APPENDIX 4 Local government finances (municipalities and joint municipal authorities): development and outlook in 2011–2016, based on municipal accounts, EUR billion (at current prices)

Local government finances (municipalities and joint municipal authorities): development and outlook in 2011–2016, based on municipal accounts, EUR billion (at current prices)

	2011	2012	2013	2014	2015	2016
Profit/loss itemisation						
1. Operating margin	-24.18	-25.21	-26.14	-27.22	-28.38	-29.59
2. Tax receipts	19.07	19.49	20.10	21.05	21.96	22.57
3. Central government transfers, operational finances	7.68	8.09	8.21	8.38	8.67	8.88
4. Financial income and expenses, net	0.07	0.23	0.18	0.07	-0.04	-0.09
5. Annual margin (=1.+2.+3.+4.)	2.64	2.60	2.35	2.28	2.21	1.77
6. Depreciation and amortisation	-2.20	-2.30	-2.40	-2.51	-2.62	-2.74
7. Extraordinary items, net	0.13	0.17	0.17	0.17	0.17	0.17
8. Profit for the financial period	0.57	0.48	0.12	-0.06	-0.24	-0.80
Financing						
9. Annual margin	2.64	2.60	2.35	2.28	2.21	1.77
10. Extraordinary items	0.13	0.17	0.17	0.17	0.17	0.17
11. Current income adjustments	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45
12. Current income, net (=9.+10.+11.)	2.36	2.32	2.07	2.00	1.93	1.49
13. Investment in fixed assets	-4.14	-4.20	-4.20	-4.20	-4.20	-4.20
14. Financial contributions and sales gains	0.82	1.00	1.00	1.00	1.00	1.00
15. Investment, net (=13.+14.)	-3.32	-3.20	-3.20	-3.20	-3.20	-3.20
16. Financial balance (=12.+15.)	-0.95	-0.88	-1.13	-1.20	-1.27	-1.71
17. Outstanding loans ¹	12.61	13.56	14.76	16.06	17.41	19.21
18. Cash	4.70	4.67	4.65	4.64	4.62	4.61
19. Net debt (=17.–18.)	7.91	8.88	10.01	11.41	12.79	14.60

¹⁾ Outstanding loans are determined according to the development of the financial balance. For instance when the municipal tax rate increases (other factors being equal), the financial balance improves and the growth of outstanding loans slows.

APPENDIX 5 Central government transfers to local government within the basic public services budget analysis

Central government transfers and grants to local government within basic public services budget analysis, EUR million (budget planning period 2013–2016 at 2013 price levels)

	2011 ¹	2012 ¹	2013	2014	2015	2016
Imputed transfers including equalisation items within the system of central government transfers to local government						
Ministry of Finance	8 134	8 469	8 621	8 572	8 587	8 610
Ministry of Education and Culture ²	1 010	1 016	1 007	1 014	989	985
— of which unit pricing for joint municipal authorities ³	1 435	1 492	1 479	1 490	1 452	1 447
Total	9 144	9 485	9 628	9 586	9 576	9 595
Other government aid included in basic public services budget						
Ministry of Finance	115	44	49	19	16	16
Ministry of Education and Culture	226	244	228	227	235	235
Ministry of Employment and the Economy	143	178	200	199	196	175
Ministry of Social Affairs and Health	536	563	537	528	494	485
Total	1 020	1 029	1 013	972	941	911
Other government aid included in basic public services budget analysis, total	10 164	10 514	10 641	10 558	10 516	10 506

¹⁾ Budgeted (budget and supplementary budgets)

²⁾ Includes upper secondary education, vocational training, polytechnics and other small central government transfers.

³⁾ Unit price funding for joint municipal authorities is greater than the central government transfers received by local governments because most of the tasks remaining with the administrative branch under the Ministry of Education are maintained by a body other than a municipality. Therefore the per capita funding contribution for municipalities will be greater than the central government transfers received by them ('maintainer system').