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Spending Limits Handbook

Preparation and Adjustment of Spending
Limits for the Parliamentary Term 2020–2023
(Updated August 2021)

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<p>Abstract</p> <p>The purpose of this handbook is to give insight into the information base, openness and transparency of central government spending limits. The description of the system aims to offer a detailed picture of how the expenditure ceiling for 2020–2023 was set and how the spending limits are maintained in practice at the Ministry of Finance. A spending limits handbook was prepared for the first time for the parliamentary term 2012–2015, and this handbook is an updated description of the system for the parliamentary term 2020–2023.</p> <p>This handbook was updated in 2021 with the addition of information about the exceptions made for 2020–2023 in connection with the COVID-19 pandemic.</p>			
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Referat	<p>Syftet med denna handbok är att förtydliga och förbättra faktaunderlaget, transparensen och insynen i ramarna för statsfinanserna. I metodbeskrivningen går man in för att i detalj presentera hur valperiodens ram för 2020–2023 har fastställts samt hur ramnivån i praktiken upprätthålls vid finansministeriet. Ramhandboken har upprättats första gången för valperioden 2012–2015, och denna handbok är en uppdaterad metodbeskrivning för valperioden 2020–2023.</p> <p>Handboken har uppdaterats 2021, då en beskrivning av de undantag som hänför sig till coronavirussituationen 2020–2023 har lagts till.</p>		
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INTRODUCTION

The purpose of this handbook is to give insight into the information base, openness and transparency of central government spending limits. The description of the system aims to offer a detailed picture of how the expenditure ceiling for 2020–2023 was set and how the spending limits are maintained in practice at the Ministry of Finance. A spending limits handbook was prepared for the first time for the parliamentary term 2012–2015.

1 The spending limits system

The present spending limits system has been in place in central government since 2004. The spending rules have been honed and fine-tuned with every change of government. The spending limits system working groups have played a key role in this development work. The most recent report¹ was published in spring 2019.

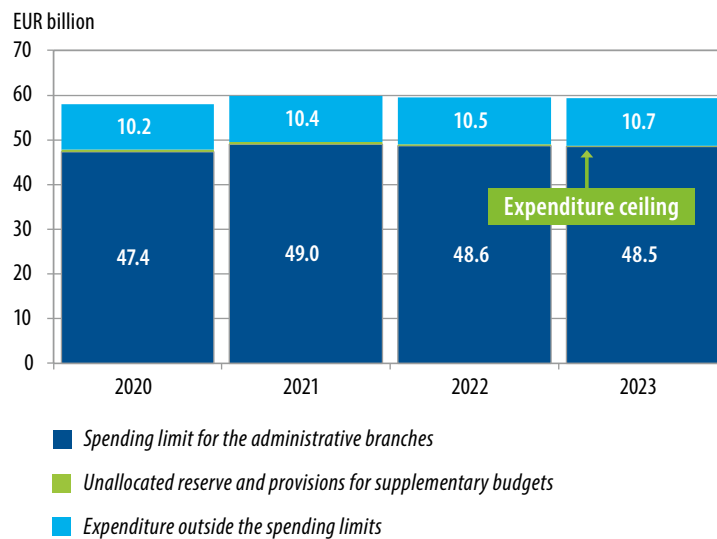
The spending limits system is a medium-term budgeting system used as a key fiscal policy instrument and an essential part of the Government's budget formulation process. The spending limits system is not a statutory instrument. Instead, the decisions (both on the rules and on the expenditure ceiling) are presented in the Government Programme and in the first spending limits decision of the parliamentary term. Since 2014, the annual spending limits decision in central government finances has been prepared as part of the General Government Fiscal Plan, which covers the whole of general government finances, including the parts relating to central government finances, local government finances, statutory earnings-related pension funds and other social security funds. This handbook therefore refers at times to the spending limits decision for 2020–2023 and at times to the General Government Fiscal Plan for 2020–2023. The central government spending limits system is based on ex ante examination, which means it limits the amount of expenditure budgeted. The spending limits system does not examine central government expenditure outturns.

The spending limits procedure sets a ceiling for approximately 80% of central government budget expenditure. Expenditure that varies according to the economic cycle and automatic fiscal stabilisers, such as unemployment security, social assistance, pay security and housing allowance expenditure, is not included in the central government spending limits. However, expenditure effects resulting from changes to the criteria for these items are included within the spending limits. The spending limits also exclude expenditure such as central government debt interest payments, value-added tax expenditure, financial investment expenditure and expenditure corresponding to technically transmitted payments by central government. The spending limits do not cover off-budget funds or other off-budget central government finances.

1 Ministry of Finance 33/2019.

The spending limits system is based on the real-term, binding overall spending rule spanning the full parliamentary term, to which only any required price- and cost-level adjustments and structural adjustments are made annually. Adjustments are possible throughout the budgetary process, but most are made when the spending limits decision is prepared and when the budget proposal is being formulated. The spending limits system also covers supplementary budgets, for which a certain proportion of the spending limits is reserved, known as the supplementary budget provision. In the annual spending limits decisions, the administrative branches are provided with spending frameworks, but only the overall framework for the parliamentary term, namely the expenditure ceiling, is binding. Reallocations may take place between administrative branches. Besides the supplementary budget provision, an unallocated reserve that can be allocated at a later date remains between the parliamentary term expenditure ceiling and the spending limits for the various administrative branches.

On-budget expenditure and Government term expenditure ceiling (spending limits decision of 9 October 2019)



The figure shows expenditure at 2020 prices. The parliamentary term expenditure ceiling consists of expenditure allocated to the administrative branches as well as the unallocated reserve (including the supplementary budget provision). The figure does not contain a provision for future-oriented investments made for 2021 and 2022, which amounts to EUR 840 for 2021 and EUR 850 million for 2022.

2 Programme of Prime Minister Sanna Marin's Government

The Programme of Prime Minister Antti Rinne's Government, entitled 'Inclusive and competent Finland – a socially and economically sustainable society', was submitted to Parliament in the form of a Government statement on 6 June 2019. The resignation of Prime Minister Rinne's Government was accepted on 10 December 2019 and, on the same occasion, Prime Minister Sanna Marin's Government was appointed. Prime Minister Marin's Government adopted the Programme of Prime Minister Rinne's Government as its Government Programme.

It was decided in the Government Programme that, in 2023, the level of central government expenditure included in the expenditure ceiling would be EUR 1.4 billion higher (at the 2020 price level) than the level set in the technical General Government Fiscal Plan of 4 April 2019, including an unallocated reserve of EUR 0.1 billion and a supplementary budget provision of EUR 0.1 billion. The expenditure ceiling for 2020–2022 takes into account a reserve of EUR 300 million per year for the purpose of supplementary budgets. If the level of expenditure falls below the spending limits even after supplementary budgets, the difference can be used the following year for one-off expenditure items without reference to the spending limits.

The Government Programme specifies, as usual, that the overall spending limits level will be revised to reflect changes in price levels and, where necessary, structural adjustments will be made. It states the general principle that the purpose of the spending limits in central government finances is to limit the total amount of expenditure to be met by taxpayers. When changes are made in the Budget that are neutral from this perspective, corresponding adjustments may be made in the spending limits of the parliamentary term. The spending limits system does not restrict the re-budgeting of expenditure, changes to the timing of expenditure items or refunds or compensation of revenue collected during the parliamentary term that has turned out to be unjustifiably high, or other similar items. If spending arising from an expenditure entity already underway

is technically transferred to the next parliamentary term, the expenditure ceiling is lowered correspondingly. The Government will not use tax concessions or tax subsidies to circumvent the spending limits.

A detail included in the Government Programme is that, if fighter aircraft acquisitions and the energy tax refund scheme give rise to less expenditure than was reserved within the spending limits, the difference will not be used to increase other expenditure.

A new element introduced by the Government Programme is a mechanism for dealing with an exceptional economic situation (the ‘exceptional situation mechanism’). According to the Government Programme, the aim of the mechanism is to ensure that economic policy can respond as needed to deal with the economic situation. For the purposes of the mechanism, the following constitute an exceptional situation:

- the global economy and especially the euro area experience a serious economic downturn and this pushes Finland’s economy into the same situation, or
- Finland’s economy experiences a serious economic downturn due to a temporary disturbance that is independent of the Government’s actions.

Under the exceptional situation mechanism, up to EUR 1 billion, but not more than EUR 500 million per year, could be allocated to one-off expenditure altogether in 2020–2022 without reference to the spending limits. Efforts have been made to define the conditions and principles for the introduction of the use of the mechanism as clearly as possible, and they have been set out in the spending limits rule and annex entries of the Government Programme.

3 Expenditure ceiling 2020–2023

The level of the expenditure ceiling builds on the Government Programme

The Government Programme outlines that, in 2023, the expenditure ceiling will be EUR 1.4 billion higher (at the 2020 price level) than the level set in the technical General Government Fiscal Plan of 4 April 2019. The higher ceiling includes an unallocated reserve for EUR 0.1 billion and a supplementary budget provision of EUR 0.1 billion. Annually EUR 300 million has been reserved for 2020–2022 for the purpose of supplementary budgets.

The Government Programme does not contain a decision on an expenditure ceiling for 2020–2022 but, when setting the spending limits, the ceiling was inferred on the basis of decisions in accordance with Annex 1 (Summary of discretionary changes in permanent expenditure) and Annex 2 (One-off future-oriented investments) to the Government Programme. Some of the future-oriented investments (EUR 1.7 billion) are included in the expenditure ceiling as a spending limits provision. If some of this provision remains unused, the expenditure ceiling is lowered correspondingly. When setting the expenditure ceiling for 2020–2022, provisions were also made for unforeseen appropriation needs.

Compensation for reductions in tax revenue allocated to local authorities via the system of central government transfers following tax criteria changes of previous parliamentary terms has been brought within the spending limits, and only the current parliamentary term's compensation will be outside the spending limits. Consequently, a technical adjustment has been made to the expenditure ceiling for the parliamentary term.

Price- and cost-level adjustments and structural adjustments

In the spending limits decision of the technical General Government Fiscal Plan of April 2019, the 2020–2023 spending limits were set at the 2020 price and cost levels in respect of statutory and agreement-based indexed expenditure². In that context, price- and cost-level

² Some of the indexes were frozen as a savings measure during the parliamentary term 2016–2019. After the frozen years, the statutory index increases were taken into account normally already in the technical General Government Fiscal Plan of April 2019.

adjustments totalling EUR 460 million were made for 2020. Price- and cost-level estimates were further revised during summer 2019 and, as a result, the 2020 price adjustment was revised in the spending limits decision on 7 October 2019, lowering it by EUR 45 million.

In the changeover to the 2020 price level, no cost-level adjustments other than those to statutory and agreement-based price-adjustable spending limits expenditure were made. In conjunction with the price reviews of the annual spending limits decisions, a price adjustment will be made in the customary way to discretionary spending, too.

In addition, the expenditure ceiling level was adjusted in a manner reflecting structural changes that had occurred after the spring 2019 technical General Government Fiscal Plan with, for example, a downwards adjustment of EUR 251 million made in 2020.

Table 1. Expenditure ceiling for the parliamentary term 2020–2023 (at 2020 prices) based on the Government Programme, EUR million (spending limits decision of 9 October 2019)

	2020	2021	2022	2023
Spending limits decision 4 April 2019	44 853	46 417	46 582	46 716
Spending limits expenditure according to the Government Programme, total	2 058	2 884	2 518	1 400
- permanent additional increases in spending limits expenditure	1 078	1 375	1 318	1 370
- permanent reallocations in spending limits expenditure	-50	-50	-125	-100
- one-off future-oriented investments (spending limits expenditure)	730	419	175	
- provision for financing future-oriented investments		840	850	
- supplementary budget provision	300	300	300	100
Transfer to spending limits of previous parliamentary term's compensation for municipalities' tax revenue reductions	1 012	1 012	1 012	1 012
Other structural adjustments of expenditure ceiling	-251	-191	-293	-388
Price- and cost-level adjustments to expenditure ceiling	-45	-37	-38	-34
Provision for unanticipated expenditure needs in 2020–2022	150	244	135	
Parliamentary term expenditure ceiling (incl. supplementary budget provision)	47 778	50 329	49 915	48 706

The expenditure ceiling set in the first spending limits decision made during the parliamentary term 2020–2023 will remain unchanged throughout the parliamentary term, except for annual price-level adjustments and structural adjustments. The Government's first spending limits decision on 7 October 2019 was prepared in such a way that, besides the supplementary budget provision and the provision for future-oriented investments, an annual reserve of EUR 100–150 million remained unallocated to the administrative branches.

Table 2. Spending limits decision of 7 October 2019 (at 2020 prices), EUR million

	2020	2021	2022	2023
Parliamentary term expenditure ceiling	47 778	50 329	49 915	48 706
Administrative branch spending limits, total	47 378	49 039	48 615	48 462
Supplementary budget provision	300	300	300	100
Unallocated reserve	100	150	150	144
Provision for future-oriented investments		840	850	

Exceptions made for 2020–2023

The spending limits for the parliamentary term were set in the Government's first spending limits decision, made in October 2019. The coronavirus (COVID-19) outbreak in the early part of 2020 then led to a number of exceptions being made to the parliamentary term spending limits.

In March 2020 the Government, in cooperation with the President of the Republic, declared a state of emergency in Finland due to the coronavirus crisis. The Emergency Powers Act was also invoked. In this exceptional situation the Government, in connection with the first supplementary budget of 2020, declared that spending in 2020 would not be restricted by the spending limits on central government finances. Expenditure in 2020 included temporary and targeted measures for combating the pandemic's health-related and economic impacts, among other things. Following the first supplementary budget proposal, the 2020 expenditure ceiling was no longer monitored and adjusted.

In April 2020, the Government decided to start preparations for using the exceptional situation mechanism included in the spending limits rule. In May, the Ministerial Committee on Economic Policy supported the introduction of the mechanism for the Government. The exceptional situation mechanism is available during 2021 and 2022, allowing EUR 500 million per year to be allocated to one-off expenditure.

The coronavirus situation has continued to be serious since the expiry of the state of emergency and of the measures under the Emergency Powers Act, and so direct costs related to the virus, including expenditure on testing, raising testing capacity, tracing, quarantines, patient care, travel-related health security, and vaccination, are being covered as expenditure outside the spending limits in the period 2021–2023. It was provisionally decided, in connection with the 2021 budget proposal, that this exception would concern only 2021. In the spring 2021 decision on spending limits, the exception was extended to cover the years 2022 and 2023 as well.

In the spending limits decision of spring 2020, two business financing expenditure packages were, on an exceptional basis, excluded from the spending limits: an estimate of the loss compensation expenditure related to the raising of Finnvera Plc's domestic funding authorisations, and the impact of the increases in SME support authorisations (only the first and second supplementary budgets for 2020) on appropriations in subsequent years.

An additional spending limits provision was also introduced in the 2021 budget proposal, to be used for one-off expenditure needs arising from the pandemic that are obligatory for fiscal policy purposes. The provision, originally EUR 500 million, was increased by EUR 1,350 million to a total of EUR 1,850 million in the third supplementary budget proposal for 2021. EUR 650 million of this additional EUR 1,350 million is reserved for transfer to the National Export Guarantee Fund for the purpose of capitalising the export credit guarantee and special guarantee operations of Finnvera Plc and is not available for other expenditure. If there is less expenditure than was reserved within the spending limits, the difference will not be used to increase other expenditure.

Not least as a result of the pandemic, the overall picture of the Finnish economy and of the country's financial policy needs in spring 2021 diverged significantly from that of autumn 2019 when the spending limits for the parliamentary term were set. As part of the solutions determined in the spring 2021 mid-term policy review, the Government decided to raise the parliamentary term spending limits for 2022–2023. The spending limits were raised by EUR 900 million for 2022 and by EUR 500 million for 2023. As part of the package, expenditure of EUR 370 million under the spending limits will be reallocated permanently from 2023 onwards.

Table 3. Exceptions made for 2020–2023

	2020	2021	2022	2023
Expenditure not restricted by spending limits	x			
Exceptional situation mechanism in use*		x	x	
Restricted expenditure related to business financing is classified as being outside the spending limits		x	x	x
Health-security expenditure directly related to the pandemic is classified as being outside the spending limits		x	x	x
Spending limits provision for one-off and fiscally obligatory expenditure needs arising from the pandemic		x		
Increase in expenditure ceiling			x	x

*Exceptional situation mechanism already included in spending limits rule under the Government Programme.

Table 4. Adjustments made to parliamentary term spending limits after spending limits decision of 7 October 2019, EUR mill.*

	2020**	2021	2022	2023
Spending limits decision of 7 October 2019	47 778	50 329	49 915	48 706
Structural adjustments	45			
Amendment of 2020 budget proposal	47 822			
Price- and cost-level adjustments		558	551	539
Structural adjustments		17	4	10
Spending limits decision of 16 April 2020		50 903	50 471	49 254
Price- and cost-level adjustments		110		
Structural adjustments		962		
of which: exceptional situation mechanism		500		
of which: spending limits provision for one-off and fiscally obligatory expenditure needs arising from the pandemic		500		
2021 budget proposal		51 975		
Price- and cost-level adjustments			806	793
Structural adjustments			67	14 463
of which: exceptional situation mechanism			500	
of which: technical amendments related to reform of health and social services				13 963
Increase in expenditure ceiling			900	500
Spending limits decision of 12 May 2021			52 243	65 011
Price- and cost-level adjustments		-28		
Structural adjustments		1 334		
of which: spending limits provision for one-off and fiscally obligatory expenditure needs arising from the pandemic		1 350		
Third supplementary budget proposal for 2021		53 281		

*Table presents only the most relevant stages. For the 2021 expenditure ceiling, for example, adjustments have also been made in the amendment to the budget proposal and in the first and second supplementary budget proposals. These adjustments are included in the same lines as the adjustments for the third supplementary budget proposal.

**The 2020 expenditure ceiling was no longer monitored in the supplementary budgets, as 2020 expenditure was not restricted by the spending limits.

Table 5. Parliamentary term spending limits, EUR mill.

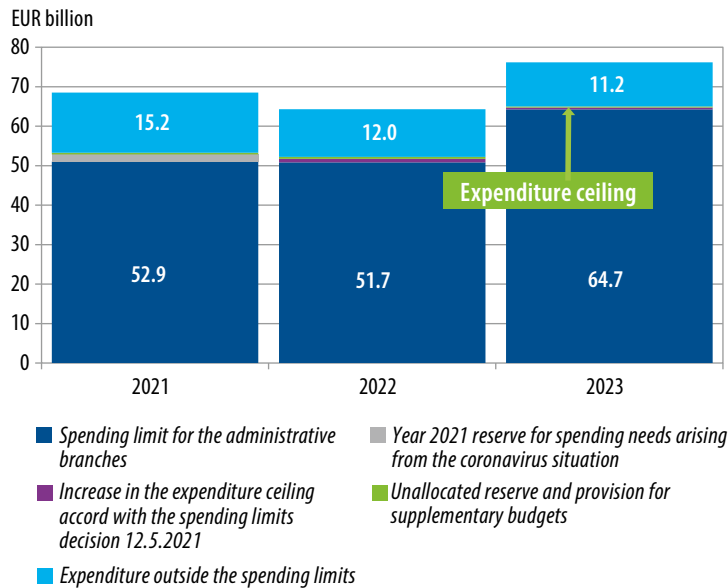
	2021	2022	2023
Parliamentary term spending limits	53 281*	52 243*	65 011
Spending limits for all administrative branches, total	52 871	51 727	64 743
Supplementary budget provision		300	100
Unallocated reserve	90	216	168
Spending limits provision for one-off and fiscally obligatory expenditure needs arising from the pandemic	320		

*Incl. EUR 500 mill. for one-off expenditure under exceptional situation mechanism

Figures for 2021 are at 2021 prices and accord with the third supplementary budget proposal for 2021.

Figures for 2022–2023 are at 2022 prices and accord with the spending limits decision of 12 May 2021.

On-budget expenditure and Government term expenditure ceiling in 2021-2023



Figures for 2021 are at 2021 prices and accord with the third supplementary budget proposal for 2021.

Figures for 2022–2023 are at 2022 prices and accord with the spending limits decision of 12 May 2021.

The parliamentary term spending limits consist of expenditure allocated to the administrative branches as well as the reserves.

4 Annual price- and cost-level adjustments

The spending limits system is based on the real-term expenditure ceiling set for the duration of the parliamentary term. The ceiling is expressed at the prices of the budget year following the decision-making year. For example, the April 2019 spending limits decision for 2020–2023 was prepared with respect to all four years at the price level of 2020.

The four-year expenditure ceiling is always raised to the following year's price and cost levels in conjunction with the annual decision on spending limits. The various ministries deliver their basic computations and spending limits proposals to the Ministry of Finance based on the current year's price and cost levels, which means that the proposals submitted in January 2019, for example, were given at 2019 prices. The spending limits were then translated to the price level of 2020 by the Budget Department of the Ministry of Finance during the administrative procedure in January–February. The price- and cost-level adjustments are based on the independent economic forecast made by the Economics Department of the Ministry of Finance and on the estimates provided in the forecast for the annual movements of the various indexes. The forecast made by the Economics Department in December was used in January–February.

The price- and cost-level adjustments are revised in collaboration with the ministries in March once the Economics Department has prepared its March economic forecast.

Price adjustments are also reviewed in the late summer when the budget proposal is being formulated. At this point, the adjustments are revised if and where the new economic forecast released by the Economics Department deviates from the March forecast. Further price adjustments are also possible in connection with the amendment to the budget proposal in the late autumn if the National Pension Index (KEL) or the Earnings-related Pension Index (TyEL) confirmed for the following year differs from the summer forecast. Agreement-based price- and cost-level adjustments can be made, if necessary, in supplementary budgets.

The purpose of price- and cost-level adjustments is to update the expenditure ceiling so that it is at the same price level as the budget proposal prepared in the year in question, setting for it an expenditure ceiling. Like the spending limits system as a whole, adjustments are based mainly on ex ante examination. Price- and cost-level adjustments are performed using the available forecast data relating to various indexes. The ex ante cost-level adjustment of the Defence Forces, however, is revised ex post, based on actual index movements. The confirmed National Pension and Earnings-related Pension Indexes are based on the price development of the past period and are therefore not adjusted ex post.

A price adjustment to the expenditure ceiling is done by taking into account all expenditure belonging to the spending limits and the indexes that reflect them best. The items covered by the price- and cost-level adjustment procedure and the indexes used for adjustment are presented in further detail in Appendix 1. Price adjustment consists of three elements:

1. Statutory index adjustments

- This group includes index adjustments for expenditure such as the following: central government transfers to local government, statutory index-linked benefits, pensions, central government funding to universities and universities of applied sciences.
- Index adjustment is made to both the overall expenditure ceiling and to the individual items.
- During the parliamentary term 2016–2019, the annual adjustment varied between EUR 4 and EUR 121 million (some of the indexes were frozen).
- The calculation of adjustments uses, as precisely as possible, those indexes to which the expenditure in question is statutorily linked: the National Pension, Earnings-related Pension, Consumer Price and University Indexes as well as the Vocational Education and Training Index.

2. Agreement- or decision-based price adjustments

- This group includes price adjustments for the following expenditure: central government pay settlements, and index adjustments to material procurement and operating expenditure of the Defence Forces.
- Price adjustment is made to both the overall expenditure ceiling and to the individual items.
- In the parliamentary term 2016–2019, the annual price adjustment varied between EUR -8 million and EUR 110 million.

- Expenditure of the Defence Forces covered by the increase is raised ex ante by 1.5%, and the increase is revised ex post (see Appendix 1).
 - Price adjustments relating to central government payroll expenditure vary from one year to the next according to the outcome of collective agreement negotiations as the spending limits level is adjusted according to the actual pay settlement, not index projections.
3. Price adjustments of other expenditure belonging to the spending limits
- This group includes all other spending limits expenditure (rents, transfers, real investments, etc.).
 - Price adjustment is made to the overall expenditure ceiling but not to the relevant items, allowing room for manoeuvre within the ceiling (or reducing it if the price adjustment proves to be negative) and permitting discretionary allocation.
 - In the period 2016–2019, the annual price adjustment varied between EUR 90 and EUR 220 million.
 - Price adjustment of other spending limits expenditure is done in a weighted manner according to the expenditure structure determined at the beginning of the parliamentary term (the weighting for the 2020–2023 period is based on expenditure classification by the type of economic activity as presented in the spending limits decision for 2020–2023).

Statutory and agreement-based price adjustments are always made to the expenditure ceiling level of the parliamentary term in the same amount as budgeted for the items. This means that expenditure growth arising from a change in price or cost level is, in these cases, automatically taken into account when scaling the overall spending limits level.

Price adjustment of the third group (i.e. other spending limits expenditure) is based on the expenditure structure of the first spending limits decision of the parliamentary term and classified by type of economic activity and on the basis of the projection of the index that best reflects the price development of each expenditure item. Price adjustments are made to the overall expenditure ceiling only.

5 Structural adjustments

Under the Government Programme, it is possible to make structural adjustments to the overall expenditure ceiling. In practice, this means that the expenditure ceiling for the whole parliamentary term or that for one given year is raised or lowered. But why and when is this typically done?

According to the Government Programme, the spending limits system carries no restrictions on the re-budgeting of expenditure or on changes to the timing of expenditure items. If, for example, it is decided that the renovation of a vessel scheduled for 2022–2023 is brought forward to 2020–2021, the expenditure ceiling for 2022–2023 is lowered by an equivalent amount and the level for 2020–2021 is raised correspondingly. Or, if an information technology investment funded by means of a three-year deferrable appropriation from 2020 is postponed and the remaining appropriation sum must be deleted and re-budgeted in 2022, then the expenditure ceiling for 2022 is raised by an equivalent amount. These are examples of structural adjustments. Structural adjustments are also made, for example, when the budgeting principle of some item is changed from a net basis to a gross basis or vice versa.

As a rule, expenditure outside the spending limits is budgeted for items which are entirely outside the spending limits. However, there are also cases where individual expenditure budgeted for an item belonging to the spending limits should, based on rules governing spending limits, actually be excluded from the spending limits. In such cases, the expenditure ceiling and room for manoeuvre can be maintained at the correct level by making a structural adjustment to the level of the ceiling. For instance, pass-through funding for joint development aid projects is budgeted under the ordinary development aid item (24.30.66) in the spending limits, but at the same time an equivalent structural adjustment is made to the expenditure ceiling, so that this technical pass-through item does not constrain the ceiling. The same principle also applies, for example, to transport investments partly funded by local government: the overall expenditure ceiling is raised by a sum equivalent to the amount of local government funding budgeted under the

revenue item, and an appropriation of the same magnitude is budgeted in the spending limits item for transport projects.

There are also other situations in which structural adjustments are made in the spirit of the spending rule. When preparing budgets and annual decisions on spending limits, sometimes situations arise where it is not entirely clear whether an expenditure item belongs within or outside the spending limits. In such cases, the spending rule principles specified in the Government Programme are used as a guideline, and reports produced by the spending limits system working groups provide interpretative assistance where necessary. The spending rules do not, however, always give unambiguous guidelines for the interpretation of discretionary situations. The Government Programme guideline “the purpose of the spending rule is to limit the taxpayer’s contribution to the total amount of expenditure” serves as a guiding principle in discretionary situations.

FINANCIAL INVESTMENT EXPENDITURE

Financial investment expenditure consists of loans and other financial investments (item codes 80–89), generally comprises one-off items and involves the acquisition of central government assets or the conversion of central government assets into a different category. While the spending limits system in its present form has been in use, financial investments have, as a general rule, been specified as expenditure outside the spending limits.

Interpretation has at times been difficult as regards which financial investment expenditure is, in line with the spirit of the spending rule, outside the spending limits and which should be classified as belonging to them. As a general rule, expenditure budgeted under financial investment items is genuine financial investment. The approach concerning loans, for example, is that they will be paid back to central government with interest. In some cases, however, a financial investment has exceptionally been included in the spending limits when, at that point, it has been regarded as representing final expenditure for central government. This was the case in 2015–2017 concerning some capitalisations to Terrafame Group Ltd. In addition, in the 2020 Budget an appropriation of the share acquisitions item (31.01.88) of the Ministry of Transport and Communications was re-recognised as belonging to the spending limits. The item concerned would be used for financing planning costs of new railway connections via project companies.

A financial investment may be classified as expenditure belonging to the spending limits if it is at that point regarded as constituting final expenditure. This may, for example, mean that a capitalisation is used for a purpose resembling ordinary budget expenditure, without any returns expected to result for central government from this in the form of profit distribution or return of capital.

6 Monitoring and reporting

Price- and cost-level adjustments as well as structural adjustments in the expenditure ceiling for the parliamentary term are nearly always made in connection with the budget formulation process. The adjustments made are itemised and reported in the general strategy and outlook part of the budget proposal. In that context, a general overview is provided of the expenditure ceiling, the expenditure included in the spending limits and the available unallocated reserve resources.

In addition, an appendix to the General Government Fiscal Plan always gives a summary of all structural changes that have taken place since the previous General Government Fiscal Plan. Also described in detail are the price- and cost-level adjustments at the following year's prices. Also appended to the General Government Fiscal Plan are the economic forecasts of the Economic Department of the Ministry of Finance on which the most recent price- and cost-level adjustments are based.

During the parliamentary term 2020–2023, particular attention will be paid to the clarity of reporting concerning structural changes. The aim is to spell out structural changes more clearly than before, avoiding any unnecessary abridgment. Efforts will be made to avoid structural adjustments entailing the netting out of appropriations of items or, if this takes place, the entry must specify clearly which items and appropriations the netting out covers. In addition, if a previous structural adjustment is specified further in a subsequent budget process, clear reference is always made to the previous structural adjustment as well as to the budget proposal or spending limits under which the structural adjustment was originally made.

Appendix 1 Indexes used in the price- and cost-level adjustment of spending limits expenditure

Spending limits expenditure subject to statutory index adjustments:		
28.50.15	Pensions	Earnings-related Pension Index (TyEL)
28.50.16	Supplementary pensions and other pension expenditure	Earnings-related Pension Index (TyEL)
28.90.30	Central government transfer to local government for arranging basic public services	Index of Central Government Transfers to Local Government (VOS)
29.10.xx, 29.80.xx, 29.90.xx	Central government transfers under the Ministry of Education and Culture, multiple items	Index of Central Government Transfers to Local Government (VOS)
29.01.51	Grants for church and religious activities (grant to the Orthodox Church of Finland)	Consumer Price Index (KHI)
29.01.52	Central government funding for social duties of the Evangelical Lutheran Church of Finland	Consumer Price Index (KHI)
29.20.30	Central government transfer and discretionary government transfer for vocational education and training	Vocational Education and Training Index
29.40.50	Central government funding for universities	University Index
29.40.55	Central government funding for universities of applied sciences	University Index
29.70.55	Study grant and housing supplement (study grant)	National Pension Index (KEL)
30.10.42	Early-retirement support and pensions	Earnings-related Pension Index (TyEL)/National Pension Index (KEL)
33.10.50	Family benefits (child maintenance allowance)	Consumer Price Index (KHI)
33.10.53	Conscript's allowance	National Pension Index (KEL)
33.20.55	Central government transfers to the Employment Fund	National Pension Index (KEL)
33.30.60	Central government contribution to expenditure arising from the Health Insurance Act (e.g. minimum daily allowances)	National Pension Index (KEL)
33.40.50	Central government contribution to expenditure of the Seafarers' Pension Fund	Earnings-related Pension Index (TyEL) ³
33.40.51	Central government contribution to expenditure arising from the Farmers' Pensions Act	Earnings-related Pension Index (TyEL) ²
33.40.52	Central government contribution to expenditure arising from the Self-Employed Persons' Pensions Act	Earnings-related Pension Index (TyEL)
33.40.53	Central government compensation for pension accruing during child care and studies	Earnings-related Pension Index (TyEL)

³ There are certain items under the administrative branch of the Ministry of Social Affairs and Health where the computation of index adjustments is complex due to reasons including that the central government contribution is determined on the basis of the difference between revenue and expenditure dependent on different indexes. The index selected for use is the one that reflects price development as well as possible.

33.40.54	Central government contribution to expenditure arising from accident insurance for farmers	Earnings-related Pension Index (TyEL)
33.40.60	Central government contribution to expenditure arising from the National Pensions Act	National Pension Index (KEL)
33.50.50	Front-veteran's supplements	National Pension Index (KEL)
33.50.51	Compensation for military injuries	Consumer Price Index (KHI) ²

Compared with the period 2016–2019, the list of statutory index-adjustable spending limits expenditure has changed to some extent. As stated in the Government Programme, study grants will be index-linked as of 1 August 2020. The index linking of the appropriation for vocational education and training has been included in legislation since 2018 but, because some of the index increases were frozen in 2016–2019, it is effective for the first time with regard to the 2020 appropriation. The index adjustment of item 28.92.69 (Contributions to the European Union) was abandoned in conjunction with the technical General Government Fiscal Plan of spring 2019. The item's appropriation already contains a price component, so no separate index adjustment is required. The contents and titles of items of the Ministry of Social Affairs and Health in particular have changed in some cases. Item 31.20.60 (Transfer to State Television and Radio Fund) was transferred to expenditure outside the spending limits during the previous parliamentary term in accordance with a proposal by a parliamentary working group.

Spending limits expenditure with price adjustments based on an agreement or a decision:		
27.10.01	Defence Forces operating expenses (excl. personnel expenditure)	notional 1.5% (adjusted on the basis of Consumer Price Index outturn)
27.10.18	Defence materiel procurement	notional 1.5%, adjusted on the basis of subindex C28 of the Producer Price Index (Manufacture of machinery and equipment n.e.c), with the exception of index expenditure of Squadron 2020 project, which will be adjusted ex post to reflect the outturns of indexes specified in the contracts)
27.10.19	Procurement of multi-role fighters	notional 1.5 %, adjusted ex post to reflect the outturns of indexes specified in the contracts (time of commencement of price adjustments of the item still open)
27.30.20	Military crisis management equipment and administrative expenditure	notional 1.5% (adjusted on the basis of Consumer Price Index outturn)
	Pay settlements and employer's social security contributions	based on outturn (change budgeted to items)

Price adjustments in other spending limits expenditure:		
Item code	Classification according to type of economic activity	Index
01–14, 20–28	Other operating and consumption expenditure (excl. pensions, payroll expenditure, index-linked expenditure of the Defence Forces, expenditure for basic transport infrastructure)	Consumer Price Index (KHI)
	Transport network expenditure (31.10.20, 31.10.76, 31.10.77, 31.10.78, 31.10.79)	Building Cost Index (RKI)
30–39	Other government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)
40–49	Government aid to business and industry	Consumer Price Index (KHI)
50–59	Non-indexed transfers to households	National Pension Index (KEL)
50–59	Other government aid to households and non-profit-making organisations	Consumer Price Index (KHI)
60	Transfers to off-budget central government funds	Consumer Price Index (KHI)
60	Central government contribution to expenditure arising from the Health Insurance Act	National Pension Index (KEL)
61–65	Central government funding contribution for EU subsidies, other domestic transfers	incl. in programme spending limits
66–69	Transfers to EU and abroad	spending limit at current prices
70–79	Real investments (excl. transport network)	Building Cost Index (RKI)
90–99	Other expenditure	Consumer Price Index (KHI)
	Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)

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