



MINISTRY  
OF FINANCE

# **Expenditure and structural review of general government finances – Summary**

Economic Policy

Publications of the Ministry of Finance – 2023:22

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# Expenditure and structural review of general government finances – Summary

Ministry of Finance, Helsinki 2023

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## Expenditure and structural review of general government finances – Summary

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### Abstract

The structures of Finland's general government finances were created in a time of more favourable demographic and economic development, and the public sector's financing base can no longer support all of the public sector's tasks. The outlook review by officials at the Ministry of Finance published in December 2022 proposed that a number of measures are needed to improve general government finances by at least nine billion euros over the next two parliamentary terms.

This expenditure and structural review is intended to help identify the purposes for which public funds are currently being used. It is also intended to provide alternative measures that could improve general government finances.

The review examines general government finances as a whole based on the premise that core public sector functions must be secured at a sufficient level. In addition to direct adjustments of expenditures, the review examines structural changes and possibilities to increase income from fees and property.

This work has resulted in a wide selection of different, partially overlapping or alternative measures to improve general government finances. The presented measures are not intended to all be implemented as such, but to support public debate and political decision-making. The effects of adjustment will ultimately depend on what measures are implemented including also what tax measures are taken.

**Keywords** economic policy, public finances, central government finances, public expenditures

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## Julkisen talouden meno- ja rakennekartoitus – tiivistelmä

<b>Valtiovarainministeriön julkaisuja 2023:22</b>		<b>Teema</b>	Talouspolitiikka
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<b>Yhteisötekijä</b>	Valtiovarainministeriö, Budjettiosasto		
<b>Kieli</b>	Suomi	<b>Sivumäärä</b>	23

### Tiivistelmä

Suomen julkisen talouden rakenteet on luotu nykyistä suotuisamman väestö- ja talouskehityksen aikana, eikä julkisen sektorin rahoituspohja riitä enää ylläpitämään kaikkia julkisen sektorin tehtäviä. Valtiovarainministeriö esitti joulukuussa 2022 julkaistussa virkamiespuheenvuorossaan, että julkista taloutta tulisi vahvistaa eri keinoin vähintään 9 miljardilla eurolla kahden seuraavan vaalikauden aikana.

Meno- ja rakennekartoituksen tarkoituksena on auttaa hahmottamaan, mihin kohteisiin julkisia varoja tällä hetkellä käytetään. Lisäksi tavoitteena on tarjota vaihtoehtoisia toimia, joilla julkista taloutta olisi mahdollista vahvistaa.

Meno- ja rakennekartoituksessa tarkastellaan koko julkista taloutta, ja työssä on lähdetty siitä, että julkisen sektorin ydintoimintojen riittävä taso on turvattava. Nopeavaikutteisten menosopeutusten lisäksi on tarkasteltu rakenteellisia muutoksia sekä mahdollisuuksia maksu- ja omaisuustulojen lisäämiseen.

Työn lopputuloksena on laaja valikoima erilaisia, osin päällekkäisiä tai toisilleen vaihtoehtoisia keinoja julkisen talouden vahvistamiseksi. Kokonaisuutta ei ole tarkoitettu sellaisenaan toteutettavaksi, vaan tukemaan julkista keskustelua ja poliittista päätöksentekoa. Sopeuttamisen vaikutukset riippuvat lopulta toteutettavien toimien kokonaisuudesta, huomioiden myös verotoimet.

**Asiasanat** talouspolitiikka, julkinen talous, valtiontalous, julkiset menot

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## Kartläggning av utgifterna i och strukturen för den offentliga ekonomin – sammandrag

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### Referat

Strukturen för den offentliga ekonomin i Finland har skapats under en tid då befolkningsutvecklingen och den ekonomiska utvecklingen var gynnsammare än i nuläget. Den offentliga sektorns finansieringsbas räcker inte längre till för att upprätthålla alla sektorns uppgifter. Finansministeriet föreslog i sitt tjänstemannainlägg i december 2022 att den offentliga ekonomin bör stärkas på olika sätt med minst 9 miljarder euro under de två kommande valperioderna.

Syftet med denna kartläggning är att ge en uppfattning om för vilka ändamål offentliga medel används för närvarande. Dessutom är syftet att lägga fram möjliga alternativa åtgärder för att stärka den offentliga ekonomin.

Utgifts- och strukturkartläggningen gäller hela den offentliga ekonomin. I arbetet har man utgått från att en tillräcklig nivå på den offentliga sektorns kärnfunktioner ska tryggas. Utöver utgiftsanpassningar med snabb verkan har man också granskat strukturella ändringar och möjligheter att öka avgiftsinkomsterna och kapitalinkomsterna.

Arbetet har resulterat i ett brett urval olika, överlappande eller alternativa sätt att stärka den offentliga ekonomin. Avsikten är inte att helheten ska genomföras som sådan, utan den ska stödja den offentliga debatten och det politiska beslutsfattandet. Vilken inverkan anpassningarna har beror på vilka åtgärder som slutligen vidtas, inklusive skatteåtgärder.

**Nyckelord** Finanspolitiken, ekonomisk politik, offentlig ekonomi, statsekonomi, offentliga utgifter

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# 1 General government finances must be improved significantly

- The structures of Finland’s general government finances were created at a time of more favourable demographic and economic development, and the public sector’s financing base can no longer support all of the public sector’s tasks.
- In an outlook review by officials published in December 2022, the Ministry of Finance proposed that a number of measures are required to improve general government finances by at least EUR 9 billion over the next two parliamentary terms.
- This expenditure and structural review is intended to help identify the purposes for which public funds are currently being used. A further objective is to offer alternative measures, presented in more detail than in the outlook review by officials, that could improve public finances.
- This work has resulted in a wide selection of different, partially overlapping or alternative measures to improve general government finances. All of the presented measures are not intended to be implemented as such, but to support public debate and political decision-making.
- As some of the measures are alternatives to one another and may have interlinking effects, it does not make sense to add up their total scale.
- The effects of adjustments will ultimately depend on what measures are implemented and on what tax measures are taken.
- Public expenditure and adjustment opportunities must be widely examined at the level of the public sector as a whole, even if there are some constraints related to measures directed outside central government finances.



## 2 Opportunities to improve general government finances must be widely examined

### 2.1 Public order and security, national defence and Foreign Service

- In 2021, public order and security, national defence and the Foreign Service accounted for approximately 5% of general government expenditure according to the national accounts (EUR 6.8 billion at the 2021 price level).
- Public order and security, national defence and the Foreign Service are core central government tasks, the adequate level of which must be ensured in all situations. In the past parliamentary term, the funding level of all these activities has been increased.
- Russia's invasion of Ukraine and the changed security situation have led to significant increases in the expenditure of the Defence Forces and border security. For this reason, the costs arising from NATO membership should primarily be covered within the existing spending limits with changes in focus.
- With regard to public order and security, national defence and the Foreign Service, the following savings opportunities, among others, have been identified (annual effect starting from 2027 at the latest):
  - A gradual reduction towards the average of OECD countries of the share of GNI accounted for by development cooperation appropriations: approx. EUR 200–300 million
  - Reforming the reception of refugees and asylum seekers and streamlining the residence permit procedure: approx. EUR 100 million
  - Reducing the index-based increases of the Defence Forces' operating expenditure and defence materiel procurement by, for example, 1–1.5 percentage points for a period of 3–4 years: approx. EUR 70–140 million
  - Boosting the efficiency of the premises networks of the Police, prisons, courts and Finland's foreign missions: approx. EUR 20–30 million (long term)
  - Reducing the number of special political advisers and reducing support for political activities: approx. EUR 10–15 million
  - Smaller individual savings opportunities in the thematic package total approximately EUR 10–15 million.

## 2.2 Education, skills, culture and sport

- In 2021, education, skills, culture and sport accounted for approximately 16% of general government expenditure according to the national accounts (EUR 22.6 billion at the 2021 price level).
- In the future, the reduction in the age cohorts of children and young people will significantly impact educational needs. The age cohorts in basic education have already started to decrease, and the size of age cohorts moving to the upper secondary level will decrease from the end of the 2020s. The age cohorts reaching university education age will begin to decline in the early 2030s.
- The allocation of funding for education can be made more efficient by reducing the number of qualifications completed of the same level. Starting places in higher education institutions could be better allocated than at present to those completing a first degree. The efficiency of vocational education and training could be improved by allocating a larger share of vocational education and training funding to those completing their first vocational qualification. In adult education, the focus could be mainly on completing supplementary studies or parts of qualifications instead of full qualifications. Public funding of education aimed at adults could be reduced and the contribution of those involved in education and other providers of private funding, such as employers or trade unions, increased.
- The financial position of the highly educated is, on average, better than that of the lowly educated, examined from an entire life cycle perspective. The support system for studies could take this into account better than at present and the loan-based nature of financial aid for higher education students could be increased. Students benefit from the higher incomes brought by higher education, so they could also bear a larger portion of education costs themselves. With moderate tuition fees, part of the costs of higher education would be borne directly by students, and higher education institutions would receive additional income to develop their activities.
- The efficiency of culture, sports and youth work funding can be enhanced by both structural and funding system reforms. Operational effectiveness can be increased by targeting discretionary government grants at high-impact, long-term projects and by moving away from small, individual discretionary government grants. Discretionary government grant funding must be targeted at projects that are socially relevant and sustainable from a public finances perspective.
- In terms of education, skills, culture and sport, the following key opportunities to improve general government finances have been identified:

- Support for the highly educated (student loan compensation, adult education and study grant): EUR 100–500 million (gradual long-term effect, of which EUR 100–300 million by 2027)
- Increasing the income of higher education institutions (general tuition fees, increasing the net fees for students from non-EU/EEA countries, increasing the maximum fees for open higher education): depending on the decisions of the higher education institutions, income could increase by tens or a few hundreds of millions of euros in the long term
- Vocational education and training: EUR 100–350 million (annual effect by 2027 at the latest)
  - Reducing public funding for those with a previous vocational or higher education qualification by, for example, a third: EUR 250 million
  - Returning some vocational qualifications back to two years: approx. EUR 100 million
- Expanding the fee base of early childhood education and increasing early childhood education fees: EUR 150–200 million
- Reducing the funding of liberal adult education: approx. EUR 50–90 million
- Gradual reduction of discretionary government grants distributed by the Ministry of Education and Culture: approx. EUR 200–400 million
- Smaller individual savings opportunities, a total of approximately EUR 50–70 million, targeting, for example, the compensation system for private copying, supplementary pensions for artists, journalists and athletes, and the meal subsidy for higher education students.

## 2.3 Health and social services, and finances of wellbeing services counties

- In 2021, health and social services (and rescue services) accounted for an estimated 21% of general government expenditure according to the national accounts (approximately EUR 29.7 billion at the 2021 price level). This figure also includes, with regard to expenditure transferred to the wellbeing services counties, the portion funded by customer fees and other income as well as a number of health and social services activities organised by parties other than the wellbeing services counties. In this context, however, the focus is only on the wellbeing services counties, and health insurance reimbursements are discussed in more detail in connection with social security benefits in section 2.4.
- In the next few years, the finances of the wellbeing services counties will be tightened by the wage settlements of the municipal sector and the wellbeing services counties as well as by early-stage additional costs arising from the

health and social services reform. A basic principle is that the wellbeing services counties must adjust their cost structure but, due to wage settlements and wage harmonisation, there may also be pressure in the coming years for ex-post adjustments that increase central government spending or even for additional financing needs of the counties.

- It will not be possible to reduce the funding of the wellbeing services counties unless the tasks or obligations of the counties are simultaneously reduced. Index savings could also jeopardise the adequacy of the funding of the wellbeing services counties.
- In order to ensure a sufficient level of personnel and the functioning of the services system, there is a need to consider the modest removal of new tasks and obligations provided in the past parliamentary term.
  - The repeal of the provision on the minimum staffing level of sheltered housing units (minimum staffing of 0.7 employees per client) would reduce the costs of the wellbeing services counties and the central government's funding requirement by an estimated EUR 240 million per year from 2024.
  - With regard to the maximum waiting time for access to care, it would be possible to return to the situation that preceded the change in the law, or the deadline for access to care could be eased in such a way that the cost impact would be halved. The repeal of the provisions would reduce the central government's costs at the 2023 level, in accordance with the Government's proposal, by approximately EUR 130 million from 2025.
- Customer fees for health and social services could be moderately increased, for example in specialised medical care. An increase could also be considered for the income-based fees charged mainly for long-term care of the elderly. With moderate increases, the fee income could be increased by, for example, EUR 50 million and central government funding for the wellbeing services counties would be correspondingly reduced.
- Central government steering of the wellbeing services counties should systematically and purposefully focus on curbing the increase in costs and on reforming activities. Measures by the counties to increase productivity are also necessary to safeguard the availability of personnel.
- The number of education and training places for doctors, nurses and psychologists, among others, could be permanently increased in order to improve the availability of personnel and curb wage pressures. Education and training of practical nurses and care assistants, on the other hand, should be reformed to improve its attractiveness. International recruitment should also be promoted.

## 2.4 Social security benefits

- In 2021, social security benefits accounted for approximately 35% of general government expenditure according to the national accounts (EUR 48.6 billion at the 2021 price level).
- Social security benefits make up a significant part of general government expenditure. It will be difficult to realise a significant expenditure adjustment without also involving social security benefits.
- The purpose of social security benefits is to safeguard a livelihood in case of social risks, among other things. The financial sustainability of general government finances places limitations, however, on the level and coverage of social security benefits.
- Some of the adjustment measures to social security would improve general government finances both by reducing general government expenditure directly and by increasing employment through improving incentives to work.
- A number of adjustment measures to social security benefits are targeted at benefits financed with social security contributions, which could enable a sustainable lowering of social security contributions. This would create room for increasing central government taxation without raising the total tax rate.
- There are income distribution effects associated with changes made to social security benefits. The income distribution effects depend on what measures are finally decided to be implemented. The effects of the selected measures should be widespread and not be unreasonable from the standpoint of any individual citizen or group of citizens.
- As some of the measures are alternatives to one another and may have interlinking effects, it does not make sense to add up their total scale.
- With regard to social security benefits, the following opportunities, among others, for strengthening general government finances have been identified:
  - Reform of the general housing allowance:
    - Transferring recipients of financial aid for students from general housing allowance to housing supplement: approx. EUR 200 million
    - Abolishing the earned income deduction: approx. EUR 120 million
    - Merging municipality groups into level III: approx. EUR 110 million
    - Increasing the basic deductible percentage from 42% to 50%: approx. EUR 55 million
    - Cuts in the general housing allowance are likely to have a limited negative impact on employment, stemming from a reduction in support for those in work.
  - Merging pensioners' housing allowance with general housing allowance: EUR 180 million

- Reforming the employment condition of earnings-related unemployment security: EUR 250 million, of which the impact through the strengthening of employment is estimated at EUR 195 million.
- Abolishing age-related exception provisions of income security (incl. obligatory work): EUR 150–170 million, of which the impact through the strengthening of employment is estimated at EUR 45–50 million.
- Restoring the phasing of holiday compensation in unemployment security: approx. EUR 150 million, of which the impact through the strengthening of employment is estimated at EUR 100 million.
- Abolishing the child increments in unemployment: approx. EUR 300 million, of which the impact through the strengthening of employment is estimated at approx. EUR 230 million.
- Restoring the waiting period to the level before the activation model: approx. EUR 40 million, of which the impact through the strengthening of employment is estimated at approx. EUR 18 million.
- Other measures related to unemployment security, such as abolishing the exempt amount of unemployment benefit, discontinuing the job alternation leave system, and removing activity period supplements.
- Regulation of reference price for medicines to better encourage price competition: EUR 30–45 million
- Discontinuing reimbursements payable for private medical care: approx. EUR 100 million
- Simplifying the child benefit system by discontinuing the single parent and sibling supplements: approx. EUR 220 million
- Lowering the minimum amount of rehabilitation allowance for young people and the minimum amount of rehabilitation allowance payable during vocational rehabilitation: approx. EUR 20 million, net
- Tightening the conditions for granting vocational rehabilitation such that access to the Social Insurance Institution's (Kela) vocational rehabilitation is not possible without a diagnosis of illness or disability: approx. EUR 50 million
- Abolishing special provisions of disability pension related to older people: nearly EUR 80 million
- Abolishing the partial early old-age pension
- Abolishing completely or partially earnings-related pension accruals other than those based on earned income: approx. EUR 0.4–1.3 billion, net (the effect would be realised gradually by the 2090s)
- Gradual restriction to two years of the earnings-related pension system's surviving spouse pension (excl. families with children): approx. EUR 300 million, net (the effect would be realised gradually by the 2060s)
- Tightening the national pension reconciliation rules: approx. EUR 80–350 million, net
- Abolishing family leave compensation for employers and changing the grounds for granting parental allowance: approx. EUR 45–100 million, net

## 2.5 Agriculture and forestry, environment and nature conservation

- In 2021, agriculture and forestry, environment and nature conservation accounted for approximately 1.6% of general government expenditure according to the national accounts (EUR 2.2 billion at the 2021 price level).
- In agriculture, profitability has deteriorated in recent years, and the situation has been exacerbated by the acute cost crisis, made worse by the Russian's invasion of Ukraine. Agriculture, which is essential for security of supply, could be practised in a more centralised way than at present, further modernised operationally, actively utilising the opportunities of cross-sectoral entrepreneurship and, in particular, also actively taking into account the environmental and climate effects of production. Structural change in agriculture and related spending adjustments must be based on carefully considered and comprehensive policies on the goals and content of the national agricultural policy and food production.
- In recent years, appropriations allocated to combating biodiversity loss have been increased significantly, by up to 482% in one year. Biodiversity loss cannot be combatted with public funds alone, however; other steering means and measures as well as the participation of society as a whole are needed alongside it, including increased funding from private sources. The effectiveness of nature conservation appropriations must also be enhanced.
- With regard to agriculture and forestry, environment and nature conservation, the following savings opportunities, among others, have been identified, (annual effect from 2027 at the latest):
  - Reducing nationally funded aid for agriculture and horticulture, two alternative ways:
    - Reducing nationally funded aid for agriculture and horticulture (whole country): EUR 60–100 million, at the 2030 level EUR 160–200 million
    - Reducing/discontinuing Nordic aid: EUR 75–100 million, at the 2030 level EUR 160–300 million
  - Reducing the fully nationally funded portion of less favoured area support: EUR 70–150 million, at the 2030 level EUR 150–200 million
  - Reducing nature conservation funding: EUR 15–40 million
  - Smaller individual savings opportunities, a total of approximately EUR 10–20 million, mainly targeting a reduction of project activities and discretionary government grants

## 2.6 Business, transport, and housing and construction

- In 2021, business, transport, and housing and construction accounted for approximately 9% of general government expenditure according to the national accounts (EUR 13.2 billion at the 2021 price level).
- The Act on the central government funding of research and development activities in 2024–2030, which entered into force at the beginning of 2023, will result in significant spending pressure on central government funding of research and development activities.
- Transport funding has been at a higher level than previously in the past parliamentary term, and this should be critically reviewed in future years.
- The number of grants for housing and construction has increased significantly. The need for grants and state guarantees should be critically reviewed and targeted at the most effective projects.
- With regard to business, transport, housing and construction, the following savings opportunities, among others, have been identified:
  - Merging the state-owned companies engaged in venture capital investment activity into one entity and abolishing the permanent budget funding allocated to them as well as transferring the shareholdings on the companies' balance sheets back to the Prime Minister's Office: EUR 20 million expenditure saving and a EUR 50–80 million increase in dividend income.
  - Reducing the ownership limits of the state's company holdings by company group (e.g. for listed companies and the largest companies of strategic interest up to a maximum of 33.4%).
  - Balance sheet analyses of special-purpose vehicles and non-budget funds, and thereby, in all administrative branches, a more robust dividend, return of capital and revenue recognition policy, within whose framework all additional financing needs arising in state-owned companies would be funded in the future.
  - Allocating aid to shipping companies only to shipping-related work: approx. EUR 30 million or, alternatively, the complete abolition of aid EUR 90 million.
  - Delaying new road, rail and waterway projects:
    - The phased reduction of the so-called project provision for new transport projects in 2024–2027: in total EUR 100–300 million.
    - Suspending planning of major rail projects and dissolution of project companies, a one-off saving of approx. EUR 230 million for general government finances as a whole. In addition, significant public costs, estimated at approx. EUR 12 billion, arising from the construction and maintenance of the projects would be avoided.



- Reducing the funding earmarked for basic transport infrastructure maintenance from the current level by the amount of the increase allocated to reducing the repair debt (if, in addition to delaying development projects, there is still a need to reduce transport funding): EUR 300 million
- Cutting public transport subsidies and climate-based investment subsidies: approx. EUR 30 million
- Abolishing guarantees granted from the National Housing Fund for projects in which there is no means testing: credit guarantee loans EUR 285 million per year, state guarantees of owner-occupied housing loans, total EUR 2.7 billion in the longer term.
- Discontinuing the construction of state-subsidised right-of-occupancy homes would reduce guarantee liabilities and reduce credit loss risk.
- Reassessing investment grants for special groups and allocating the grants to groups most in need as well as reviewing the wellbeing services counties' service network aid and removing student housing from scope of investment grants: approx. EUR 20 million
- Reducing the funding of the Finnish Broadcasting Company Yle by 20% (may be implemented, for example, by means of an index freeze lasting two parliamentary terms): EUR 120 million
- Smaller individual savings totalling approximately EUR 50–60 million, targeting, for example, the termination of regional transport subsidies and support for business development projects, the reassessment of the funding level of energy subsidies, Finnvera Plc funding and the reduction of discretionary government grants.

### 3 Agencies' operating expenditure can be impacted by improving productivity

- The level of central government operating expenditure could be adjusted by centralising, on a one-off basis, part of the carry-over of operating expenditure items in administrative branch investment and development items, from which productivity-improving investments would be funded in the next parliamentary term.
- The achievement of productivity benefits would be ensured by reducing the level of central government operating expenditure by, for example, around 3%, i.e. approximately EUR 210 million, from 2027. Targeting could be done by emphasising the differences between the administrative branches, taking into account opportunities to increase income from chargeable activities, for example.
- Agencies and institutions could adjust their activities to the new funding level often by different means such as by reducing tasks (through legislative changes, if necessary), making more efficient use of premises, reducing the purchase of services, increasing income from chargeable activities, reducing travel or contracting their service network (see also section 2.1).
- The number of central government personnel increased by 5,000 between 2017 and 2021. Approximately 11,500 of the personnel employed by central government in 2021 are expected to retire by 2027. In addition, purchases of services, in particular, have increased in recent years and the most significant part of purchases of services consists of ICT costs.
- Improving the space efficiency of central government premises by 45% at the same time as a quarter of central government personnel would be working in shared-use facilities by 2030 would enable the reduction of premises in current use. This could generate several hundred million euros in one-off sales income over the coming years by, among other things, developing a policy for the sale of central government properties.
- In order to curb the anticipated increase in operating expenditure, a procedure could be introduced whereby appropriation increases would not be made if the carry-over of operational expenditure items of an item or administrative branch exceeds a certain percentage of the budgeted appropriation.
- The growth of ICT costs could be curbed by changing the funding model of projects in such a way that it would be easier to suspend projects. The role of cost-benefit analysis should also be strengthened and the architecture and interoperability of information systems improved. This could be done with more centralised steering.

## 4 Index-linked expenditure forms a significant entity

- Index-linked public expenditure refers to expenditure that is automatically increased each year in line with the increase in costs. Index-linked expenditure includes, among other things, pensions and other social security benefits, funding of the wellbeing services counties, central government transfers to the municipalities, funding of higher education and other education, defence expenditure and Yle funding.
- Nearly EUR 52 billion of central government expenditure in 2023 is index-linked, which is nearly two-thirds of the state budget. When earnings-related pensions, for example, are included, index-linked expenditure in general government finances as a whole is an estimated EUR 80 billion euros in 2023.
- Savings in index-linked expenditure can be found in roughly three different ways or through a combination thereof:
  - 1. by breaking the index linkages
  - 2. by changing the index increases to be permanently partial
  - 3. by reducing index increases for a set period.
- Part of the index-linked expenditure is such that, in practice, its reduction would simultaneously require a reduction in tasks and obligations on the part of the entities that receive funding (wellbeing services counties and providers of education). Therefore, for these entities, index savings cannot be considered to be the primary means of adjustment, rather the measures presented in sections 2.2 and 2.3. In addition, extensive index savings directed at education could have the impact of reducing economic growth, particularly in the longer term. The Constitution also sets certain constraints for implementing index savings.
- It would be possible to obtain savings from index-linked expenditure in the following ways:
  - Reducing index increases of benefits linked to the earnings-related pension index, the national pension index and consumer prices (excl. social assistance) by 1 percentage point per year for a period of four years (permanent 4% decrease in benefit levels): approx. EUR 1.5 billion, net
    - Most of the effect (approx. EUR 800 million) would come through the reduction of the earnings-related pension index. The impact on other benefits would be approx. EUR 300 million and the resulting employment growth effect nearly EUR 200 million. In addition, the effect of the slower growth of the pension income allowance in taxation would be approx. EUR 200–300 million.

- In addition to social assistance, it would also be possible to exclude from the measures the guaranteed pension and/or some minimum daily allowances.
- Linking the index increases of earnings-related pensions, as with many other social security benefits, completely to consumer prices (and to the index of wage and salary earnings, if the increase in consumer prices exceeds the increase in earnings): a saving that increases by approx. EUR 40 million net per year, the total annual net effect increasing in the long term to approx. EUR 500–600 million.
- As an alternative to the changes to the national pension reconciliation rules presented in section 2.4, halting national pension index increases permanently or for a set period (the measure would not apply to the guaranteed pension or other benefits linked to the national pension index, in which case pension security would be based even more strongly on earnings-related pensions and the minimum level on the guaranteed pension): a saving that increases by approx. EUR 40 million net per year, the total annual net effect increasing over two parliamentary terms to approx. EUR 230 million.
  - The measure would also freeze the pensioner deduction in taxation, which without further decision would increase the taxation of pensioners by an additional approx. EUR 130 million per year (over two parliamentary terms the effect would be approx. EUR 1 billion).
- As an alternative to the measures concerning the study grant presented in section 2.2, removing the indexation of the study grant: a saving that increases by approx. EUR 10 million per year, the total annual effect increasing over two parliamentary terms to approx. EUR 70 million.
- As presented in section 2.6, freezing the index increases of Yle funding for two parliamentary terms (permanent 20% decrease in level of Yle funding level): approx. EUR 120 million
- As presented in section 2.1, reducing the index increases of the Defence Forces' operating expenditure and defence materiel procurement by, for example, 1–1.5 percentage points for a period of 3–4 years: approx. EUR 70–140 million

## 5 Effectiveness of discretionary government grants can be improved

- Discretionary government grants amounting to nearly EUR 4 billion (around 7% of the state budget) are granted annually.
- The effectiveness of the funding should be critically reviewed. In addition to reviewing the effectiveness of discretionary government grants, it is necessary to assess to what extent it is appropriate to allocate scarce general government resources to discretionary activities.
- Discretionary government grants in their current form are not necessarily an appropriate means of solving significant and wide-ranging social problems.
- It would be possible to adjust discretionary government grant expenditure by targeting total funding with a phased reduction of approximately EUR 500–700 million.

## 6 Competition in public procurement could be increased

- In 2021, the total value of public procurement was approximately EUR 47 billion, of which EUR 31 billion was procured from competitive markets. Zero, one or two offers were received in more than half of competitive tenders in 2010–2017.
- According to a separate report, the largest cost savings in public procurement could be achieved by amending the Act on Public Procurement so that competitive tenders that receive one offer should be tendered again, and the use of in-house companies in procurement would be limited. According to the report, these measures could curb the increase in the cost level and generate savings of EUR 270–490 million at the level of general government finances as a whole.
- The Act on Public Procurement could be amended such that the failure to make contract award notices and contract amendment notices would be sanctioned, and the splitting of large procurements into parts would be mandatory. In this way, according to the report, cost savings of up to EUR 70 million could be achieved at the level of general government finances as a whole.
- In addition, increasing procurement transparency and reporting obligations could increase the budget discipline of procurement units. Use of joint procurement units could also be developed.
- The legislative amendments would aim to reduce the amount of money spent by procurement units on purchases, which would eventually lead to a decrease in the appropriation level.

## 7 Good budgeting practices support the efficient use of public funds

- Under the Constitution, Parliament decides on the state budget for each fiscal year in turn. Estimates of annual revenue and appropriations for annual expenditure are included in the budget. There are, however, numerous exceptions to this annuality principle, such as deferrable appropriations and the authorisation procedure. In recent years, these budgeting flexibilities have been increasingly used in a way that runs counter to the annuality principle and leads to an inefficient use of public funds.
- In budgeting situations, solutions must be evaluated more strictly from the perspective of the constitutional annuality principle, instead of fully utilising the flexibility opportunities provided by statutes.
- Instead of multi-year projects and acquisitions being budgeted as deferrable appropriation “lump sums”, budgeting should be phased into sub-entities. Planning finance, for example, should be budgeted separately from the funding of the final acquisition, and the funding of grant projects should be phased. In that case, a condition for further funding could be the achievement of certain targets and/or stages. This would increase the effectiveness of spending and make it easier to suspend projects if the situation so requires.
- Appropriation decisions must only be based on a justified need, taking into account existing funding as well as the needs for the budget year in question, also taking budget outcome data into account more robustly than before.
- Proposals that are made on a fast schedule and bypass careful official preparation should not be admitted for consideration in budget processes. In particular, sufficient time should be reserved for making impact assessments of proposed changes to legislation, and the impact assessments should be of high quality.
- In the proceedings of the Finance Committee, there should be a stronger requirement that assessments of financial and behavioural effects included in legislative proposals are carefully prepared and that sufficient budget funding has been allocated to the proposal. The regulation on the Finance Committee should be amended such that the responses to the bills under consideration by Parliament should in the future be processed by the Finance Committee. In addition, the sector ministry (the cause of the additional cost) should also be made responsible more often to cover the additional appropriations needed in problem situations from the existing resources of its own administrative branch.

- To fulfil the principle of completeness of the budget, the justifiability of non-budget fund financing must be assessed from the perspective of constitutional requirements.
- Taking everything stated above into account, the Ministry of Finance proposes that the Government Programme would already state that: “The annuality principle is respected in the preparation of the budget proposal. In principle, the objective is to phase multi-year projects into sub-entities, the realisation of whose targets and phases can be monitored and, if necessary, withdrawn from further funding. Proposals regarding the allocation of financial resources are discussed and funding decided on as a whole in the preparation of general government fiscal plan and the budget proposal, such that all needs are examined at the same time. The proposals of the ministries are submitted to the budget processes in good time. Particular attention is paid to the quality of the impact assessments of the proposals, especially with regard to more extensive legislative changes and reforms that give rise to significant behavioural effects. Legislative proposals whose impact assessments or budget financing are deficient are not submitted to Parliament. Budget decisions are based only on a justified need and, with regard to increases in appropriations, the possibility of allocating existing resources is primarily examined.”





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