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Report **on the implementation of the Local Finance Benchmarking** **(LFB) for local and central authorities in Finland**

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Under the joint project of the Council of Europe (CoE) and the EU “[Delivering Good Governance and Balanced Local Economy in Finland](#)”, CoE’s Center of Expertise for Good Governance facilitated the implementation of its tool - Local Finance Benchmarking (LFB) in Finland. The tool offers guidance on the practical application of two recommendations of the Council of Europe – CM/Rec(2004)1- [Recommendation of the Committee of Ministers to member states on financial and budgetary management at local and regional levels](#) and CM/Rec(2005)1 - [Recommendation of the Committee of Ministers to member states on the financial resources of local and regional authorities](#).

The implementation of the LFB tool was carried out throughout 2023, in cooperation with national project partners, by collecting analytical information from the central authorities and using a combination of supervised self-administration and *in situ* visits at the local level. The purpose of the exercise was twofold:

- To obtain data about the current state of financial resources available at the local level and local financial management in the Finnish municipalities, as a pilot evaluation to be used for the future components of the project, such as the planned Policy Advice on fiscal decentralisation and fiscal autonomy of the regional and local governments, and the fiscal impact of the reform, where a preliminary identification of problem areas in local finance would be very useful.
- To launch a process of communication and self-learning among local practitioners, based on comparisons across jurisdictions, after a substantial territorial administrative reform was implemented in Finland at the beginning of 2023.

The benchmarking of local financial resources and financial management practices, functions on a simple logic: in a decentralised system, local governments learn from each other and therefore comparing notes and sharing information lead to improving everyone’s performance. The LFB toolkit assesses the local financial resources and financial management practices by quantifying them with scores along a standardised set of criteria. The scores are then matched with those in other similar municipalities, indicating the areas of the best and lower performance in a particular municipality and helping to identify the directions for improvement.

The work notably included implementation of the two instruments of the LFB tool: the Local Finance Benchmarking for Local Authorities (LFB-L); and the Local Finance Benchmarking for Central Authorities (LFB-C), adapted by local and international experts to the Finnish institutional context.

The preparatory activities for rolling out the work were organised as follows:

- Two training workshops were prepared and delivered to explain the purpose, structure and other details of the two instruments to the local practitioners and experts, who must be familiar with the assessment system and previous experiences of LFB deployment in other European countries. They were held on 22 March and 15 May 2023, respectively, and took place online.
- A round of consultations took place by email between the international and national experts, in order to adapt the two instruments to the specific system of local finance in Finland. A number of iterations took place through which the LFB-L tool was discussed and simplified, to account for the fact that local taxation in Finland is

largely managed in a centralised manner, through a branch of the national government. As a result, the total number of items was reduced from 81 (47 related to financial resources and 34 related to financial management) first to 65, and then to 62. At the end of the process, the instrument was translated into Finnish for the use of local practitioners. A similar process was carried out regarding the LFB-C instrument, which is more detailed and ended up with a number of 116 items; no translation into Finnish was needed for this one.

- Another training workshop, with physical presence, was held in Jyväskylä (Central Finland) on 15 June 2023, with the participation of the representatives of local governments who opted to be included in the project, national and international experts and the project management team. All aspects of the future work were addressed, starting with the content of the instrument, the scoring system, the logistical details of implementation during the following months, as well as the broader context of the local government reform in Finland which makes the evaluation based on LFB a priority for the national authorities.

The LFB–L instrument

The LFB–L instrument used in Finland consisted of a self-administered questionnaire with 62 items on which scores and comments were requested: 33 of these items measured the level of resources (including institutional resources) available to municipalities in Finland, while the remaining 29 items measured the performance in deploying these resources.

Thirteen municipalities from two regions (Central Finland and Uusimaa) took part in the self-assessment, the largest having a population of over 145,000 and the smallest 692 inhabitants (see Annex III). Together, they illustrate well the diversity of situations and practices in the urban and rural local governments of the country. Three of these municipalities (Keuruu, Konnevesi and Vihti) were visited by the local and international experts on 7-8 August 2023 in a series of meetings arranged by the local partners in project, in order to monitor the implementation and offer advice to the municipality practitioners. At the same time, these meetings also represented a good opportunity for the experts to discuss and collect feedback from the stakeholders.

In addition, a data sheet was distributed to all participating municipalities, to collect information on the situation of the local budget and the number of employees in the local governments, before and after the watershed reform of the Welfare Services Counties (WSC) of 2023, which implied substantial reallocations of resources and staff. The process of collecting the LFB data sheets was finalised by mid-September 2023; the results are presented in Annex I. The international consultant remained in communication with the local experts and the projects partners (MoF, Regional Council) throughout the process.

The LFB–C instrument

Further to the workshop held on 15 June 2023 in Jyväskylä, the LFB-C instrument was implemented by the team of national experts mobilised by the Ministry of Finance. The relevant results became available in late August 2023.

Conclusions

The LFB-L instrument

1. As a note of caution, Finland differs from many other European countries due to its high degree of autonomy at the municipal level, which allows, and even encourages, diverse forms of organization in the local service provision, and offers more freedom to borrow and administer the local budget. This makes the data comparisons across municipalities more problematic than elsewhere. Moreover, the timing of the survey coincided with the biggest reform of the local government system in decades, which understandably generated uncertainty at the local level about the level of resources available after the change.
2. Based on data presented in Annex I, we can conclude that the scores are higher and more homogenous in the Resources category (A) than in Management (B): the average is 8.4 and the standard deviation across the category A is 1.7, see table below. To some extent this was to be expected because management practices differ more across the territory than the resources and frameworks provided by the national legislation in a country where at least the local tax collection and framework are relatively centralized. The higher dispersion of responses on B also indicates that there is scope for learning from each other's experience at the level of municipalities. This is consistent with what we found in other countries using the same type of instrument, for example Slovakia: there is more variability within a country in the local management practices than in the patterns of resource allocation, which in Europe tend to be quite well defined in the national regulations.

	Mean	Standard deviation
A. Resources	8.4	1.7
B. Management	7.9	1.9

3. On Resources (A), the highest scores (in general over 9.5) are reported on dimensions related to the manner in which budgets are voted, the transparency of the adoption of local budgets, the borrowing process and the accuracy of record keeping, as well as access to services by vulnerable groups. These high scores correspond to a low standard deviation across municipalities on the same items, meaning that they all tend to judge the situation in the same way, which shows that the respective issues are regarded more or less in the same way across the territory. Most non-responses come from one municipality (rural, mid-sized), so further analysis is needed to detect if particular local situations may introduce distortions in the scores. Again, it should be noted that many of these institutions and mechanisms are specified in the national regulatory framework, so that the scope for variations is narrower.
4. The lowest scores in category A are about the diversification of sources of loans and the repayment of loans from the operational surplus of municipalities. In these domains, the dispersion of results across municipalities is also highest, which shows that the concern of the government about the debt-carrying capacity of municipalities is justified. The situations differs from one place to another, and we only have in the sample a dozen municipalities from two regions of Finland. However, keeping in mind that the survey was carried out in the midst of a substantial reform of the local

government system, which cut away a sizable part of the local revenues, but not the debts, the financial position of municipalities is likely to be a general problem throughout the country requiring policy solutions, not a local issue to be addressed through individual budget management efforts only. This is one of the main conclusions of the exercise which should be further explored in the other components of the current project.

5. On Management (B), the highest scores are on openness of budget documents and the integrity of the reporting of budget executions, which is unsurprising and confirmed in the narrative comments provided by respondents. The lowest score and highest dispersion across municipalities is on the financial reserves for risk management, which confirms the finding in category A.
6. The top performers among the ten municipalities surveyed, separately on the two categories of items, are shown in the table below. Again, a note of caution is necessary here: the scores represent the subjective self-evaluation of the local practitioners, and not necessarily an objective evaluation of their financial position as it is reflected in the data available at the government level. For instance, the top scorer on Resources (A) is a municipality which underwent assessment under the legal procedure for municipalities in distress. Again, the timing of the LFB implementation may have played a role, with the rapid changes in local finance blurring the expectations of local actors and making forecasts on budgets very difficult.

	A. Resources		B. Management
Kyyjärvi	9.88	Jämsä	9.43
Keuruu	9.61	Keuruu	8.90
Mäntsälä	9.41	Jyväskylä	8.83
Joutsa	9.36	Mäntsälä	8.73
Jyväskylä	9.03	Kyyjärvi	8.55
Viitasaari	8.89	Karstula	8.55
Konnevesi	8.39	Kerava	8.28
Jämsä	8.36	Konnevesi	8.21
Kerava	8.31	Joutsa	7.93
Karstula	8.15	Viitasaari	7.37
Vihti	7.24	Petäjävesi	7.21
Luhanka	6.88	Vihti	6.14
Petäjävesi	6.58	Luhanka	4.59

The LFB-C instrument

7. The LFB-C instrument indicates that, in the opinion of the national experts, the most problematic areas of local finance may be the following:

Item in LFB-C	Areas of specific interest
1.3	Enhance efficiency through fiscal incentives for revenue raising and cost savings
2.1	Revenue adequacy: local governments have adequate own source revenues (taxes, user charges)
2.3	Local taxes limit distortion, discrimination, inequalities
2.4	Local tax burden is related to benefits in a visible way
5.	National regulations might set limits on local borrowing, but restrictions should be fair and discussed with local authorities
3.	Borrowing is preferred in service areas, where loan is repaid by user charges
7.	Mechanisms are in place if local budgets are not adopted in time
8.	Central intervention is proportional and limited in the case of budget delays
4.	Standards for planning spending needs of essential local services
5.	Local budget resources should be designed within the framework of national economic policy
7.	Rules of financial recovery make local government officials responsible
8.	National authorities should intervene in the case of structural income deficit
4.	Central level monitoring and early warning system on local fiscal underperformance

This is a very broad range of issues and the prioritisation corresponds only partially with the ranking of priorities made by the local practitioners. There is also a large number of non-responses in the LFB-C. Therefore, the data generated by this instrument should represent at best a basis for discussion among national experts and a list of potential red flag areas to be detailed during the consultations for the preparation of the Policy advice report.

8. The developments in 2023 confirm the preliminary estimates made by the Government and the experts, that following the introduction of the Welfare Services Counties the local budgets decreased on average by about half. In some localities included in our sample, they may have decreased by more than half, especially in the larger municipalities. The same is true about the number of staff, since the health care and social assistance, which were transferred up at the County level, are labour-intensive sectors and so a large number of former municipal staff have changed their employer. The core staff of the municipality, which in principle should not have been affected by the reform, also decreased significantly in most communities; a discussion is worth

having to explain why this happened. However, direct comparisons among municipalities are difficult to make based just on LFB data, due to the different forms of organization of local service provision.

9. Comparing the scores on the Local and Central instruments, and taking into account the narrative comments made by the respondents, the financial vulnerability of the small local governments is one of the main concerns today, after the 2022-23 reforms. To some extent this applies to mid-sized municipalities too.
10. In connection with the previous point, there is an increasing need for assistance in small and medium-sized municipalities in the process of long-term budget planning. The task of budget planning – overviews, the budget proper, financial statements – is carried out well and in a transparent manner. However, as it was mentioned several times in the discussions with the local practitioners, many local governments do not have the capacity to understand the long-term trends behind the process, carry out impact assessments or risk analysis. Often the budget is prepared on historical basis, and there is little connection with the multi-annual strategies or other complex policy commitments. The Association of Municipalities is available to assist their members with data, analysis and forecast instruments, but even for absorbing these resources a certain level of local capacity is necessary; what is more, the rapid structural changes operated in 2022-23 complicate very much the picture. It is advisable that the national authorities understand well this problem and devise ways to assist municipalities more closely, for instance with guidance and forecasts which are tailored for each individual municipality, and not only for categories of municipalities as it is the case now. Promoting and further supporting inter-municipal cooperation can also help in this respect.
11. In general, there seems to be an agreement among stakeholders that, while the level of Resources (A) in local governments have become again a preoccupation, largely as a result of the recent upheaval of the system of local finance, in the long run it is the Management (B) which is decisive for the local performance in service provision and where marked improvements are possible. The communication of the budget to the general public also could be improved, in more user-friendly formats, for example including elements of cost benchmarking, online tax simulators or by simply making a zoom in and explaining better the areas of high interest for the community in a particular year; participatory budgeting could also be implemented more systematically.

Follow up activities:

The LFB is not just an analytic tool but also a device meant to stimulate reflection and self-learning among practitioners. In preparation for the next activities of the project, the national experts and local government representatives involved are invited to consider the data included in Annex I and the preliminary conclusions 1-8 presented above. The scores and preliminary conclusions will also be taken into consideration in the following step, when preparing the Policy Advice on fiscal decentralisation and fiscal autonomy of the regional and local governments, and the fiscal impact of the reform.

In addition, within the framework of the existing project but also subsequently, the beneficiary may want to consider a list of follow-up activities such as:

- A debate between representatives of municipalities from the Region of Central Finland as to why on some issues (risk management, effective management of capital investment projects, cost saving strategies at the local level, economic activities in which municipalities may be involved) there is such a diversity of views. In other words, what is the reason why the municipalities from the same region evaluate some aspects of local resources and management very differently? Such debates could be included on the agenda of the regular meetings of municipalities from the region.
- Based on the experience already acquired by the national experts and the Association of Municipalities, and given the fact that the instrument is already adapted for Finland, organise a second round of LFB-L assessments at the local level by including as many as possible of the remaining 12 municipalities of the Region of Central Finland.

A process of differentiation between the Finnish municipalities has been taking place recently, and this was one of the concerns of the national authorities even before the establishment of the Welfare Services Counties; after the reform, the trend is even more marked. To improve its capacity to monitor a diversity of local situations, the central government needs to define a set of benchmarking indicators for the sensitive areas revealed by the LFB-L and LFB-C exercise and flagged out in this report. The monitoring of municipal financial distress by the central government is well developed in Finland; however, this is not matched by an equally sophisticated set of non-financial indicators. Therefore, the national stakeholders may want to consider creating a separate analytic tool with two components:

- A subset of financial indicators selected from among those which best illustrate the major changes occurred as a result of the Welfare Services Counties reform; the selection can be done from the existing financial databases;
- The most relevant non-financial indicators to be integrated with the first subset, in order to allow relevant comparisons of unit costs and their evolution before / after the recent changes. Such indicators will have to be built based on data collected from other sources or even generated by questioning the municipalities directly.

Only a comparison of unit costs on the relevant dimensions of change would offer a full view of the effects of the reform and allow a conclusion whether the intended increase in the efficiency and quality of services was achieved.

In addition:

- The local stakeholders may want to consider if Regional Councils could also incorporate this activity on a regular basis, as a form of support for their planning responsibilities: develop their own capacity to carry out performance monitoring and benchmarking across the municipalities on their territory, in a more detailed manner than the central government could do it. The geographical heterogeneity of Finland and the diversity of local arrangements in municipal service provision make the Regional Councils a better level for a granular monitoring of performance,

before data are integrated at the national level. The Region of Central Finland could be the pilot region for this new system.

- Institutionalised channels of dialogue between the regions, municipalities and the newly created Welfare Services Counties will be needed in the future. This is all the more so, since, with the exception of Uusimaa area, there is perfect territorial overlapping between WSCs and the regions. A good start may be to collect feedback from the WSCs, which have been already functioning for one year, on the transformations that took place in the Finnish system of local governance: what are their main concerns and difficulties today, in light of the experience acquired, how do they see their cooperation with the municipalities and Regional Councils in the future, and what is their opinion on the list of problems identified by the municipalities in the previous consultations, including with the LFB-L instrument.

Annex I. Results: LFB-L and LFB-C instruments

LFB-L / A

A. Resources		average	st dev	min	max	miss val
I. General principles of local fiscal policy	1.1. Local revenue policies should be approved by elected bodies (R1)	9.5	0.9	7	10	
	1.2. Impact assessment of local revenue policies should be made public (R3)	7.6	1.5	5	10	
	1.3. The mix of local revenues from income and property of business enterprises and persons/residents should be balanced	9.0	1.1	7	10	1
	1.4. Effective tax rate increases imposed on business enterprise are no higher than on private individuals	8.0	2.9	0	10	3
	2.1. Budgetary and financial discussions should be made at open meetings (R2)	8.5	1.9	3	10	
	2.2. Local government associations should be involved in drafting local tax regulations (R5)	7.9	2.4	3	10	1
	3.1 Decisions on revenues should be made parallel to expenditure (R.4.) STATUTORY	8.3	1.4	6	10	1
	4.1 Managerial efficiency should be improved by IT in (R6): Information processing	8.6	1.0	7	10	
	5.1. Training in various forms are offered to the local staff (R7)	8.6	1.3	6	10	
	5.2. Systems should be set up to enhance professionalism in financial and fiscal matters (R8)	8.5	1.0	7	10	
II Municipal taxation	5.3. Systems should be set up to enhance ethics of staff in financial and fiscal matters (R8)	8.9	1.7	4	10	
	6.2. Local taxes should produce high yield (R9)	8.3	1.2	6	10	1
	6.3. Real value of property tax yields should be preserved by effective administration and regular rises in tax rates	8.4	1.3	7	10	1
	6.5. Changes in level of local taxation should be adjusted to variation in local preferences and objectives (R11, R13)	7.9	1.8	5	10	1
	6.6. Changes in local tax framework should be made in a timely manner (R14) COMMENT: Does this have too much weight?	8.2	2.0	4	10	1
	7.2. Local taxes should be based on stable tax base (R20)	7.8	2.2	3	10	1
	8.1. Local tax policy should be designed in an open, transparent way (R10)	7.8	2.4	3	10	1
	8.2. Information and explanation on local taxes and tax regulations should be made public (R15, R17)	7.9	1.7	5	10	1
	8.3. Public information on utilisation of local tax revenues should be comprehensive, understandable (R16)	8.3	1.4	6	10	1
	III. Fees, charges and miscellaneous revenue	11.1. User charges should not exceed service costs (no profit on paper) (R26)	8.5	1.7	4	10
11.2. Charges should not reduce demand for services excessively (R27)		8.2	2.0	3	10	
11.3. Choice between charges or local taxes should be made explicit (R28)		8.6	1.4	6	10	
11.4. Access to essential services by disadvantaged groups should be preserved (R29)		9.2	1.1	7	10	
11.5. Exceptional revenues should finance capital revenues (R31)		8.3	2.2	3	10	
IV. Financing the capital budget	12.1. Local capital investments are managed effectively	9.2	1.2	6	10	
	12.2. Capital expenditures are funded by diverse sources of local revenues	6.9	3.2	0	10	
	12.3. Debt service costs are covered by estimated surplus of revenue over operational costs	7.5	3.1	0	10	
	12.4. Short term loans finance cash flow deficits within the fiscal year	9.0	1.4	6	10	
	12.5. Borrowing complies with limits imposed by the national legislation	9.6	0.7	8	10	1
V. Local property	13.1. Local governments keep records of their own assets and liabilities.	9.7	0.6	8	10	
	13.2. Organisational forms and rules of asset management are transparent	8.8	1.6	5	10	
	13.3 Local governments keep control of strategic property	9.0	1.3	7	10	1
	13.4. Regulations on municipal companies ensure their long term financial stability	8.1	2.2	2	10	

LFB-L / B

B. Management		average	st dev	min	max	miss val
I. Sound budgeting and fiscal planning	1.1. Overall financial framework of multi-year budget (R.45)	7.5	1.4	4	9	
	1.2. Multi-annual budget plans (R.45)	7.5	2.1	3	10	
	1.3. Budget strategy debate (R.73.)	7.8	1.8	3	10	
	2.1. Technical capacity in budget preparation procedure. (R. 46., 57., 58.)	8.0	2.2	2	10	
	2.3. Analytical sheets make the budget transparent (R. 47.)	7.7	2.2	2	10	
	2.4. Explanations of performance (R.54)	7.3	1.9	2	10	
	2.6. Financial reserves for risk management (R. 63., 64., 65., 67., 68., 69.)	6.7	2.3	1	9	
	3.1. Involvement of elected bodies (R. 49., R.74)	7.8	1.8	3	10	
	3.3. Separate debate and adoption of complex, major investment projects or other significant	8.1	1.5	5	10	
	3.4. Outsiders' contribution helps accountability (R. 55.)	7.8	1.7	4	10	
3.5. The timeframe of budget debate by elected bodies	8.3	1.4	6	10		
3.6. Openness of budget documents (R.52, R. 56.)	9.2	0.8	8	10		
4.1. Cost saving strategies are adopted and sustained	8.2	2.4	1	10		
4.2. Cutbacks in payroll expenses should limit redundancies	8.5	1.0	7	10		
4.3. Support to non-governmental organisations providing community services to	8.4	0.9	7	10		
4.4. Cooperation with other local authorities (R.70)	7.7	1.8	4	10		
4.5. Adjoining authorities share administrative and professional resources	7.9	1.5	5	10		
II. Special rules of budget adjustments and implementation	5.1. Regular evaluation keeps track of budget implementation (R.76., 77.)	8.6	2.1	2	10	
	5.2. Local framework of supervision, monitoring and reporting system set up to	9.2	1.1	7	10	
	5.4. Budget adjustment during the year is limited. (R. 78)	8.7	1.3	7	10	
	5.5. Relations between the local government and its subsidiary organisations are regulated	8.3	2.1	4	10	
	5.6. Local government service contracts cover asset management and social issues	8.1	1.8	4	10	1
	5.7. Local service management should be made efficient	6.8	2.2	2	9	
	5.8. Local government financial operations are made transparent	7.4	3.0	1	10	
	III. Special control, supervision on activities	6.1. Framework and role of internal audit (R.82., R 84.)	7.5	2.8	1	10
6.2. Special consideration have to guarantee PPP projects (R.72.)		7.0	3.0	2	10	2
6.3. Prudent commercial links. (R.60)		6.8	3.0	0	10	
6.5. Criteria of usage external consultants.		8.2	1.6	5	10	
6.6. Procedure of situation in financial difficulties (R85., 86., 87.)		7.6	2.1	2	10	2

LFB-C

A. RESOURCES		average	min	max	
I. General principles of financial resources	1.1 Ensure vertical fiscal balance: secure revenues according to responsibilities and	8.0	8	8	
	1.2 Support horizontal fiscal equity	7.3	7	8	
	1.3 Enhance efficiency through fiscal incentives for revenue raising and cost savings	6.0	3	8	
	2.1 Revenue adequacy: local governments have adequate own source revenues (taxes, user	6.3	4	8	
	2.2 Revenue autonomy: local governments have autonomy in disposing of their own source	8.7	8	9	
	2.3 Fiscal equivalence: locally decided expenditures are financed by own revenues (R5)	9.0	9	9	
	2.4 Tax-benefit principle: citizens and businesses as beneficiaries, pay charges, taxes for local	5.0	3	7	
	2.5 Not services, but eligible users are subsidised (R7)	7.5	6	9	
	3.1 Scope of local tax autonomy	8.5	8	9	
	4.1 Tax sharing: related to local tax effort (derivation basis)	8.5	8	9	
	5.1 Equalisation grants (R10): Compensation for financially weak local authorities (difference	7.5	7	8	
	II. Financing local government services	1.1 Central guidance through service standard setting	7.0	5	9
		1.2 Local taxes should produce high yield (R9)	6.5	6	7
1.3 Specified service related criteria in general grant design and allocation		7.0	7	7	
2.1 Full funding for local services, which are administered under central control		7.0	7	7	
2.2 Central contribution to locally controlled delegated services, programmes (connectivity		7.0	7	7	
III. Local taxation		1.1 Sufficient own resources to fund a significant proportion of local responsibilities, set by law	7.5	7	8
	1.2 Local taxation is regulated by laws	7.0	6	8	
	1.3 Local taxes should encourage accountability through wide local scope of manoeuvre	6.5	5	8	
	2.1 Local taxes are levied on resident individuals, property, businesses (R24)	8.0	8	8	
	2.2 Local taxes are levied according to taxpayers' ability to pay (R25)	8.5	8	9	
	2.3 Local taxes limit distortion, discrimination, inequalities	5.5	4	7	
	2.4 Local tax burden is related to benefits in a visible way (R26)	5.5	3	8	
	3.1 Tax yield is comparable to collection and inspection costs (R28, R33)	8.5	8	9	
	3.2 Central support to local tax administration (R31, 34)	8.5	8	9	
	3.3 Timely transfer of centrally collected local taxes, regular payments (R35)	7.0	6	8	
	3.4 Single common litigation procedure (R36)	8.5	8	9	
IV. National policies towards local taxes	1.1 Minimum impact on municipality's economic growth and structure	9.0	9	9	
	1.2 Prevent migration (demographic distortion)	8.5	8	9	
	1.3 Not causing further problems for the poor (social distortion)	9.5	9	10	
	1.5 Restrictions for economic policy reasons	9.0	8	10	
	1.6. Restrictions are to be;	8.0	8	8	
	1.7. local taxes are reasonably stable and foreseeable	9.0	8	10	
	2.1 Local tax policy design procedures are set by law	8.5	8	9	
	2.2 At national level: publication of information, national debates, consultation	8.5	8	9	
	2.3 At local level: public meetings, public votes, publication of key documents	8.0	8	8	

VI. Fiscal equalisation	1.1 Factors of inequality are separately taken into account:	8.0	8	8
	1.2. Similar tax efforts should result similar level of services (R37)	4.0	4	4
		4.0	4	4
		2.0	2	2
	2.1. Political decisions for economic stability and sustainable regional development (R40)	8.0	8	8
	3.1. degree of equalisation in revenue capacity and spending needs is clear and foreseeable	9.0	9	9
	3.2. equalisation schemes are based on standardised (not actual) levels of revenues and	8.0	8	8
	3.3. vertical equalisation (grants) should be indexed to growth of aggregate national budget	8.0	8	8
	3.4. redistribution of local tax revenues (pooling for horizontal equalisation) is regulated by law	7.0	7	7
	3.5. regularly assessing the impact of equalisation systems (R47)	7.0	7	7
	4.1. information on equalisation schemes are disseminated and explained	8.0	8	8
	4.2. eligibility criteria for equalisation in revenue capacity and spending needs are laid down by	10.0	10	10
	5.1 Objectivity of spending needs is guaranteed through criteria not controlled by local	9.0	9	9
	5.2 Formula based assessment of spending needs should be comprehensive, stable, detailed,	8.0	8	8
	5.3 Equalisation grant allocation criteria create local incentives (R49)	8.0	8	8
	5.4 Local discretion over grants for equalisation of spending needs (R48)	8.0	8	8
	6.1. equalisation grant should reinforce local revenue base, measured against national	8.0	8	8
	6.2. actual fiscal pressure is not an appropriate indicator of fiscal capacity(R57)	7.0	7	7
	6.3. overall financial capacity should be taken into account (comprehensiveness (R53),	7.0	7	7
	6.4. equalisation should create incentives (R54, R55)	7.0	7	7
	6.5. revenue equalisation grants should be unconditional (R52)	9.0	9	9
	7.1. grants should be regulated by laws (R58)	10.0	10	10
	7.2. general grants are the preferred forms of intergovernmental transfers (R59)	9.0	9	9
	7.3 Stability is needed in calculating total amount of local grants (R61, R62)	8.0	8	8
	7.4 Amount of grants should be known by local governments in advance (R62)	9.0	9	9
	7.5 Local governments should not be able to influence the amount of general grants received	9.0	9	9
	7.6 Various factors should be taken into account for calculating the total amount of general grants	9.0	9	9
	7.7 Gradual changes in grant policy should allow local adaptation to new conditions (R63)	9.0	9	9
	8.1 Objectives of specific grants should be limited to (R65):	7.0	7	7
	8.2 Allocation of specific grants should be (R66)	8.0	8	8
	8.3 Conditional specific grants should be allocated by criteria, which measure local	6.0	6	6
VII. Fees and charges	1. Fees, charges should make considerable contribution to local revenues (R68)	6.0	4	8
	2. fees and charges should not limit access to services (R68, R70, R71)	8.5	8	9
	3. Local autonomy in designing charging policy (R69)	7.5	7	8
VIII. Borrowing	1. loans should be used for financing capital expenditures (R73)	8.7	8	9
	2. current expenditure should not be financed through loans, except for managing short term	8.7	8	9
	3. borrowing is preferred in service areas, where loan is repaid by user charges (R73)	4.7	2	8
	4. Central authorities should not guarantee local loans (R76)	6.7	3	9
	5. national regulations might set limits on local borrowing, but restrictions should be fair and	3.7	0	8

B. FINANCIAL MANAGEMENT				
I. Budget preparation and approval framework	1. Law should establish the main rules of budget procedures, approval and budget	8.3	8	9
	2. Prohibition of delegating the local budget approval rights to other than elected bodies	9.0	8	10
	3. Autonomy in local budget adoption and setting the operational rules (R.6.)	8.0	7	9
	4. Standards for planning spending needs of essential local services (R.19.)	6.3	4	8
	5. Local budget resources should be designed within the framework of national economic	5.0	4	6
	6. Regular evaluation of publicly available cost estimation, revenue calculation and grant	6.5	6	7
	7. Mechanisms are in place if local budgets are not adopted in time (R31)	3.5	1	6
	8. Central intervention is proportional and limited in the case of budget delays (R31)	3.0	1	5
	9. Local autonomy to allocate carried over credit and debit balances (unspent funds) (R.7)	7.5	6	9
II. Budget constraints	1. Restrictions should be implemented within the set financial management framework, should not	8.0	8	8
	2. General (applied to all) or specific restrictive measures should aim to ensure macro economic	4.0	4	4
	3. limitations should be based on objective, transparent and verifiable criteria set by law and	9.0	9	9
	4. The limitations should be proportionate to the desired aim and be free of any punitive nature.	6.0	6	6
	6. Mechanisms for regular dialogue and consultation over budgetary limitation are in	1.0	1	1
	7. Impact of budget limitations are regularly checked to assess whether they are necessary	9.0	9	9
	III. Assessment and management of financial risks	1. Monitoring and warning mechanisms are in place for assessing financial risk (R20)	8.0	8
2. Established procedures for monitoring financial situation of localities (R36)		8.0	8	8
3. Publicly available information for assessing the financial status of a local government (R36)		8.7	8	9
4. financing techniques for hiding local government debt are prohibited (R.22)		10.0	10	10
5. Speculative investment by local and regional authorities should be prohibited (R.21)		7.0	5	9
6. Investment in equity market should be managed professionally (R.21)		7.0	5	9
7. assets of mandatory municipal services cannot be used as collateral for borrowing or as debt		8.3	7	9
IV. Recovery of local authorities in financial difficulties	1. current expenditure is primarily financed by current revenues and non-earmarked reserves (R	9.0	8	10
	2. Procedures for local management of short-term financial crisis (insolvency) (R37)	5.0	5	5
	3. Clear intervention rules for managing financial difficulties (R38)	9.5	9	10
	4. National funds are allocated for managing emergency situations (R41)	4.0	0	8
	5. Financial assistance is proportional to local government's wealth and economic potential	0.0	0	0
	6. Grants for financial recovery should be preceded by a dialogue and recovery plan (R42)	7.0	5	9
	7. Rules of financial recovery make local government officials responsible (R39)	4.0	0	8
	8. National authorities should intervene in the case of structural income deficit (R40)	6.5	3	10
V. Means of local government control	1. External supervision is regulated by law (R 28, R29)	8.0	7	9
	2. legal supervision with independent appealing options (R28)	3.5	0	7
	3. Reasonable time is allowed by law if prior approval is needed by supervisory authority	8.0	8	8
	4. Central level monitoring and early warning system on local fiscal underperformance (R.32.)	6.0	2	10
	5. centrally supported local fiscal database for benchmarking purposes is in place (R33)	8.0	6	10
VI. Responsibility of elected representatives and staff	1. Local responsibility for the quality and accuracy of the financial information and	9.0	9	9
	2. Rules on personal accountability for discretionary local fiscal decisions (R26)	8.5	8	9
	3. Guaranteed forms and resources for professional training of appointed and elected	7.0	6	8

Annex III. Municipalities included in the implementation of the LFB-L

	Population	Region
1 Kerava	37,676	Uusimaa
2 Mäntsälä	20,912	Uusimaa
3 Vihti	28,913	Uusimaa
4 Joutsa	4,171	Central Finland
5 Jyväskylä	145,887	Central Finland
6 Jämsä	19,347	Central Finland
7 Karstula	3,665	Central Finland
8 Keuruu	9,250	Central Finland
9 Konnevesi	2,521	Central Finland
10 Kyyjärvi	1,196	Central Finland
11 Luhanka	692	Central Finland
12 Petäjävesi	3,651	Central Finland
13 Viitasaari	5,951	Central Finland