

Conclusions and recommendations of the National Audit Office

Effectiveness of the assessment procedure in balancing local government finances and safeguarding services

The purpose of the audit was to examine whether the assessment procedure of municipalities has succeeded in identifying and addressing problems in local government finances, ensuring balanced local government finances in the medium term and safeguarding the availability of the statutory basic public services in municipalities. According to the audit findings, the financial key figures of municipalities have improved after the assessment procedure.

The municipalities have been largely satisfied with the work of the assessment team. According to the interviews conducted, the assessment procedure has been considered to contribute to the measures taken to balance the finances of the municipalities. In the plans to balance the finances, the measures with the greatest estimated financial impacts have been the sales of assets, increases in tax revenue, group measures and measures targeted at health and social services. However, it was not possible in the audit to assess the situation of municipalities that had ended up in municipal mergers, and there is little information available on the impacts of municipal mergers.

The assessment procedure is an effective way to examine and intervene in the financial situation of a municipality if the municipality has no credible economic capacity to cope with its expenditure or accumulated deficits. However, the majority of the municipalities involved in the assessment procedure have not been in this kind of situation, as the plan to balance the finances has enabled the municipality to leave the procedure.

The criteria of the assessment procedure have been developed in the right direction

The assessment procedure of municipalities has been effective since 2007. During this time, the criteria for initiating the procedure have changed three times. The changes made in the criteria for the assessment procedure have been in the right direction. As a result of the switch to group-level criteria in 2020, it is no longer as easy as before to avoid fulfilment of the criteria by measures that are irrelevant to the municipality's finances. It may also have become more difficult to avoid fulfilment of the criteria by one-off measures, as municipalities seem to fulfil the latest criteria in more consecutive years than the previous ones. The limits of the criteria should be reviewed regularly. It should be ensured that it is not possible to avoid fulfilment of the criteria by measures that undermine local government finances in the longer term.

The finances of the municipalities that have been involved in the assessment procedure will continue to be monitored mainly if the criteria are fulfilled again after the end of the procedure. The implementation of the measures set out in the plan to balance the finances may take a few years, during which time the criteria will continue to be fulfilled. The monitoring will then focus specifically on whether the municipality has taken measures and the direction in which the municipality's finances in general are developing. If the criteria continue to be fulfilled, the Ministry of Finance may, after careful consideration, initiate a new assessment procedure or launch an investigation into municipal boundary redetermination.

The municipalities monitor and strive to avoid the fulfilment of the criteria of the assessment procedure. The assessment procedure thus steers municipalities towards exceeding the key figures used as the criteria. This may also have a steering effect on the balance of their finances. However, the measures taken to avoid the procedure are not always appropriate in view of the municipality's finances. The impact of the procedure steering municipalities towards balanced finances has been directed at a very small number of municipalities with limited economic flexibility. The assessment procedure has thus only played a minor role in the steering of local government finances or as a fiscal policy instrument. Local government finances are influenced by many factors, and in some cases, even an individual factor may have a major impact on the fulfilment of the criteria. Despite the autonomous status of municipalities, central government decisions can also have a significant impact on municipalities in a difficult financial position.

The services perspective should be given more consideration in the assessment procedure

The purpose of the assessment procedure is to examine the municipality's capacity to provide the statutory services for its residents and to take measures to safeguard the conditions for service provision. However, the procedure focuses on financial management, and the services perspective is not taken into account systematically at the different stages of the assessment procedure. The status of statutory services in the municipalities selected for the assessment procedure is not assessed before the assessment procedure is initiated or after it has finished. On the other hand, there is currently no sufficiently comprehensive information base available to support such assessment.

The assessment procedure has been directed at a very small number of municipalities. On the basis of various reports, however, there are shortcomings and challenges in the provision of statutory services in many municipalities. The assessment procedure is not an effective way to safeguard the availability of basic public services in municipalities in general, because it is directed at such a small number of municipalities. In addition, the assessment procedure may, in practice, weaken the existing services in a municipality both when the plan to balance the finances is followed and after a municipal merger.

The services perspective should be given more consideration in the assessment procedure. The assessment of service provision plays a greater role in the assessment procedure of wellbeing services counties than in that of municipalities. In addition to financial key figures, the assessment procedure of wellbeing services counties assesses the capacity of the counties to provide health and social services.

The decisions related to the assessment procedure should be more transparent

The assessment procedure has been developed as part of other reforms of the local government structure and finances, but its role in the implementation of the objectives of the reforms has not been considered significant. The assessment procedure has been directed at a small number of small municipalities, and therefore it has not had any significant impacts on the local government finances and structure. However, the assessment procedure seems to have become more important as a local government steering instrument. If municipalities that are larger in terms of population and finances end up in the procedure, the procedure may become subject to greater expectations as a steering instrument of local government finances and structure.

The consideration related to the initiation of the assessment procedure in different municipalities has not been documented in a clear and consistent manner. The information presented on the assessment procedure in the Programme for Local Government Finances in the autumn should be harmonised, for example, by disclosing the criteria that have been fulfilled in each municipality during the year in question and by presenting detailed justifications for initiating or not initiating the procedure. Transparent and public communication on the grounds for decisions related to the assessment procedure would increase confidence in the procedure and its consistent use in different municipalities.

The financial and services situation in municipalities has changed radically after the wellbeing services counties started operating, and it will undergo further changes when the TE services reform enters into force in 2025. These historically significant changes have not been taken into consideration separately in the assessment procedure, and municipalities have hardly had an opportunity or time to adapt their finances and services to the new situation. The central government can support municipalities by various discretionary grants, and it also has the obligation to ensure that municipalities have the capacity to manage their expenditure in accordance with the financing principle. It would be important to disclose more transparently how and in what kinds of situations different discretionary grants have been available to the municipalities involved in the assessment procedure.

Recommendations of the National Audit Office

Based on the audit, the National Audit Office recommends that the Ministry of Finance should

1. report consistently and with justifications, for example in the Programme for Local Government Finances, on the fulfilment of the criteria of the assessment procedure and on the initiation or non-initiation of the procedure
2. develop the information base available on services and consider and report on the services situation in the municipalities more systematically and comprehensively during the work of the assessment team.