



Rahandusministeerium

Local Governments financing

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Local Governments size

Inhabitants	Towns	Rural	Total
0-1 000	2	36	38
1001-1500	1	43	44
1 501-2 000	1	29	30
2 001-3 000	3	27	30
3 001-4 000	1	12	13
4 001-5 000	3	14	17
5 001-7 500	4	13	17
7 501-10 000	2	5	7
10 001-20 000	8	6	14
20 001 - 50 000	2	0	2
50 001-100 000	2	0	2
100 001-	1	0	1
Total	30	185	215

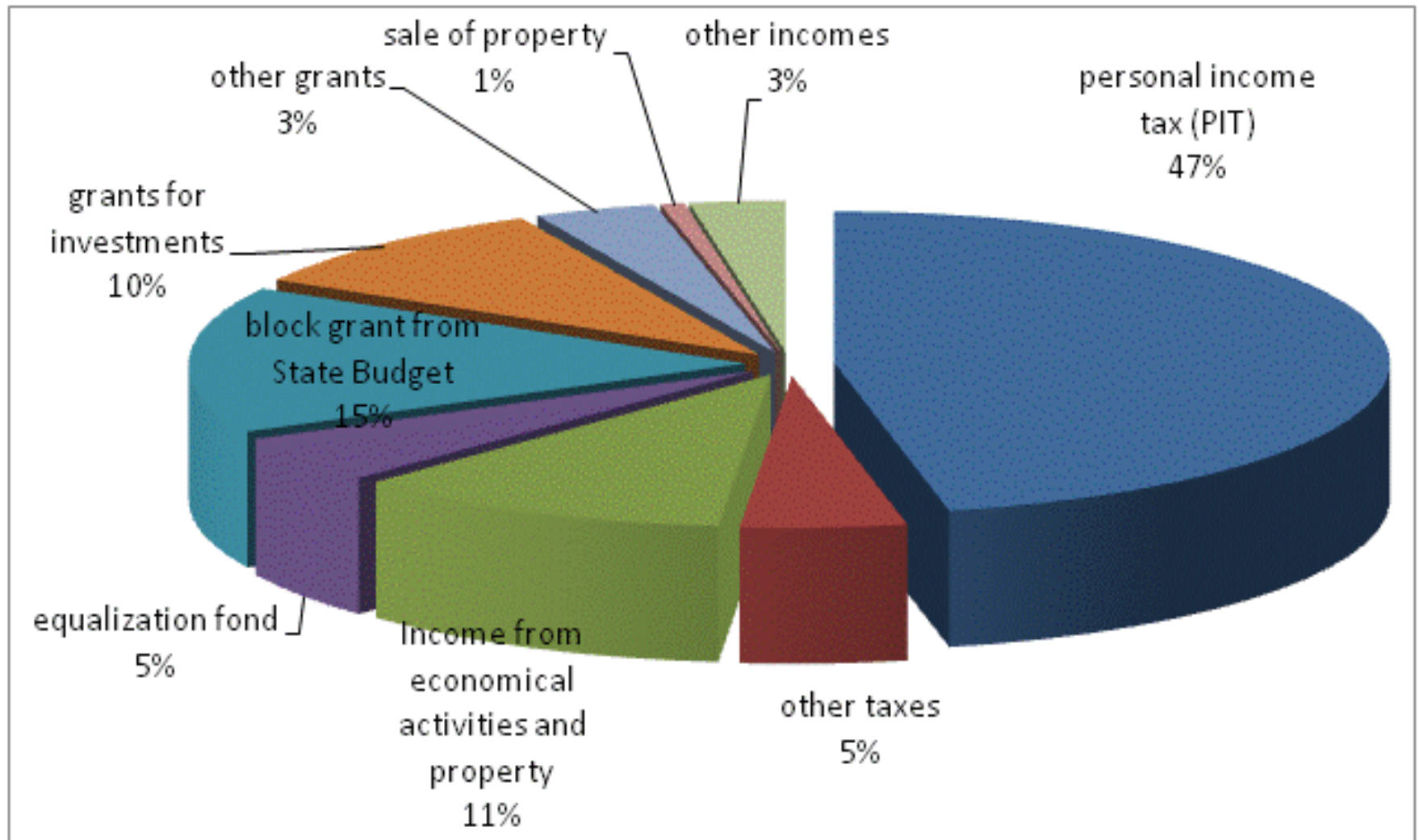


Macro indicators

Main Indicators	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP (billion EUR)	16,2	13,8	14,3	16,0	17,0	18,4	19,3	20,7	22,1	23,5	24,9
State budget revenues (million EUR)	5 424	5 498	5 534	5 872	7 457	7 594	7 881	8 303	8 549	9 124	9 644
CPI	10,4	-0,1	3,0	5,0	3,9	2,8	1,4	2,7	2,8	2,8	2,8
Local government indicators											
LG total revenue (million EUR)	1 454	1 292	1 270	1 324	1 420	1 489	1 501	1 553	1 610	1 671	1 736
Tax revenue (million EUR)	810	707	668	714	753	810	864	921	971	1 025	1 083
Total expenditures (million EUR)	1 518	1 358	1 249	1 295	1 422	1 562	1 538	1 588	1 646	1 756	1 771
Budget position (million EUR)	-63	-67	21	29	-2	-73	-37	-35	-36	-85	-35
Total debt (million EUR)	549	593	569	565	565	636	673	708	744	829	864
<i>Total revenue share in GDP</i>	<i>9,0%</i>	<i>9,4%</i>	<i>8,9%</i>	<i>8,3%</i>	<i>8,4%</i>	<i>8,1%</i>	<i>7,8%</i>	<i>7,5%</i>	<i>7,3%</i>	<i>7,1%</i>	<i>7,0%</i>
<i>Tax revenues share in GDP</i>	<i>5,0%</i>	<i>5,1%</i>	<i>4,7%</i>	<i>4,5%</i>	<i>4,4%</i>	<i>4,4%</i>	<i>4,5%</i>	<i>4,5%</i>	<i>4,4%</i>	<i>4,4%</i>	<i>4,4%</i>
<i>LG revenues in public sector</i>	<i>21,1%</i>	<i>19,0%</i>	<i>18,7%</i>	<i>18,4%</i>	<i>18,1%</i>	<i>18,5%</i>	<i>18,2%</i>	<i>17,9%</i>	<i>18,1%</i>	<i>17,7%</i>	<i>15,3%</i>
<i>Budget position share in GDP</i>	<i>-0,4%</i>	<i>-0,5%</i>	<i>0,1%</i>	<i>0,2%</i>	<i>0,0%</i>	<i>-0,4%</i>	<i>-0,2%</i>	<i>-0,2%</i>	<i>-0,2%</i>	<i>-0,4%</i>	<i>-0,1%</i>
<i>Total debt in GDP</i>	<i>3,4%</i>	<i>4,3%</i>	<i>4,0%</i>	<i>3,5%</i>	<i>3,3%</i>	<i>3,4%</i>	<i>3,5%</i>	<i>3,4%</i>	<i>3,4%</i>	<i>3,5%</i>	<i>3,5%</i>
<i>Annual increase of revenues</i>	<i>12,9%</i>	<i>-11,2%</i>	<i>-1,7%</i>	<i>4,2%</i>	<i>7,3%</i>	<i>4,9%</i>	<i>0,8%</i>	<i>3,5%</i>	<i>3,7%</i>	<i>3,8%</i>	<i>3,9%</i>



Local Government revenues



Local Government financing

- ✓ PIT 11,6% from tax payers total wage and tax exemptions are not applied on LG share;
- ✓ Land tax and LG decides the rate between 0,1 – 2,5%;
- ✓ Local taxes (6 items incl parking fee, advertisement tax);
- ✓ 25% from natural resource fee;
- ✓ User charges (kindergartens, fees of leisure/sport activities, public transport fees);
- ✓ Any kind of revenue from municipal property (rent);
- ✓ Block grant and equalization fund;
- ✓ Earmarked grants;
- ✓ Investment grants (EU funds).



Local Government financing

Equalization fund

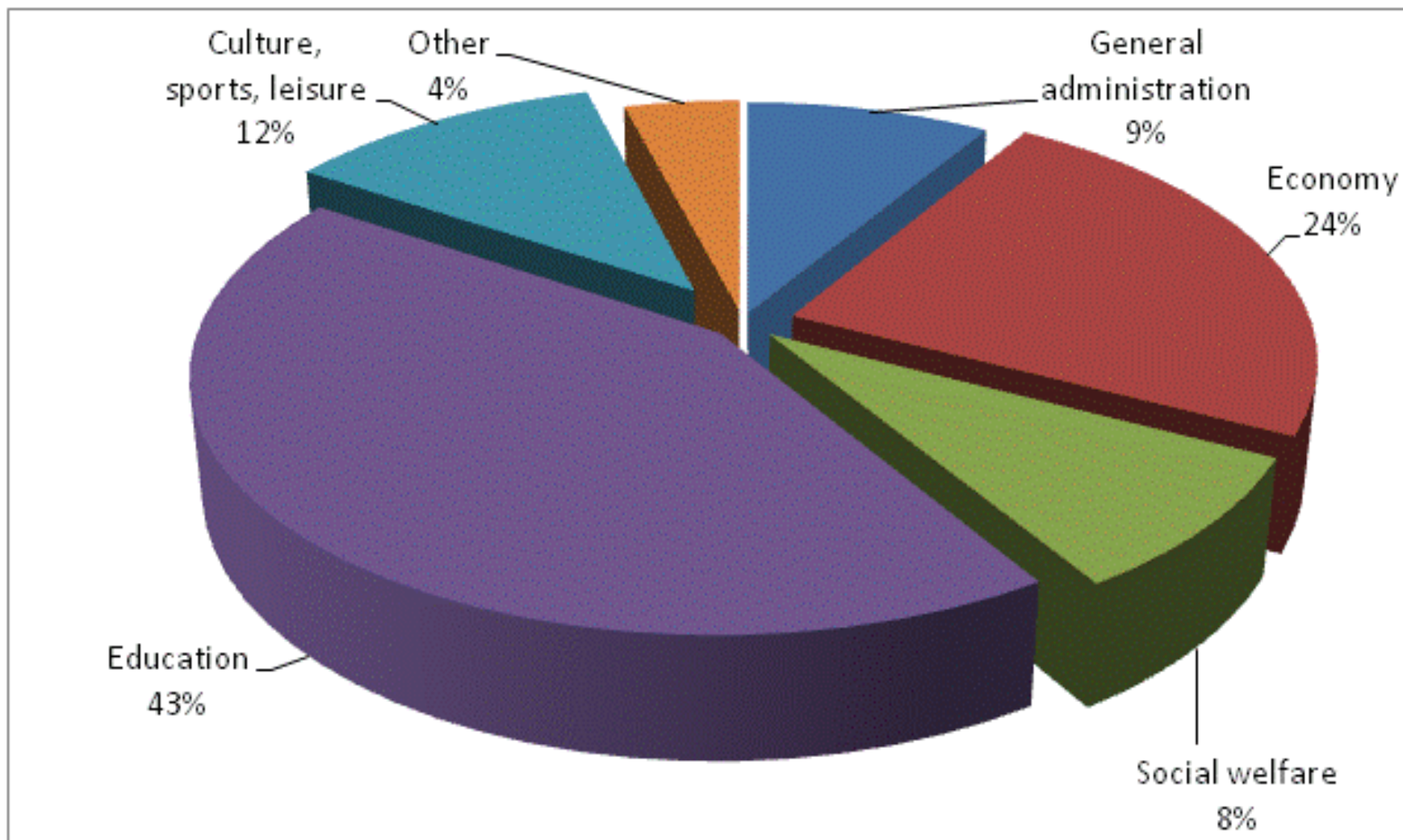
- ✓ If the local governments calculated average costs will exceed the calculated average income from taxation then 90% of the difference will be covered. Calculated average costs are calculated taking into account the local governments demographic and infrastructure figures.

Block grant

- ✓ General education grant (teacher's salaries; text-books, work-books; school-lunch). New formula to distribute these funds is implemented in 2008. This new formula takes into account the schools funding need, keeping the school network efficient at the same time.
- ✓ Living allowance
- ✓ Small island grant
- ✓ Grant for municipal roads
- ✓ Grant for state functions given to local governments



Local Government expenditures



Local Government budgeting

- ✓ LG should have development plan and budget strategy at least for four years;
- ✓ Development plan and budget strategy should be annually updated each year in the end of october.
- ✓ LG-s compose budgets on the basis of development plans and 4 years budget plan (financial plan);
- ✓ LG-s are free to adopt their budgets on year bases and can add information regarding period over one year;
- ✓ Right to adopt supplementary budgets
- ✓ Operating budget and investment budget are separated;
- ✓ Budget should be adopt at least in the end of March.
- ✓ Annual report should be adopted in the end of June.
- ✓ LG-s keep accrual base accounting and cash base accounting for budget execution.



Ministry role in monitoring LG budgeting

- ✓ MoF shapes all rules of LG financial management.
- ✓ LG units submit accounting data monthly.
- ✓ LG units submit annual budget strategy, annual budget and budget implementation data every quartal.
- ✓ MoF monitors LG-s capacity to follw financial criteria. If budgets implies that net debt will exceed allowed limit, MoF sends reminder.
- ✓ MoF has no right to interfere into LG councils decision about spending.
- ✓ MoF monitors how state grants are used in general scope.

Data about LG finances is available on website

<http://riigiraha.fin.ee/>



Amalgamations

- ✓ In the frame of Estonian constitution the state forced amalgamation of LG units and forced inter-municipal co-operation is very much unlikely and infeasible.
- ✓ During 23 years of independence all State Governments have stood back from changing LG borders by force.
- ✓ During two decades experts have not been able to define the optimal size of LG unit. Each function has its catchment area.
- ✓ What is first? Do agreed functions dictate size or agreed optimal size imply the functions unit can carry out.
- ✓ Since 1996 the number of LG units has dropped 40 units.
- ✓ Since 2002 state government has paid out ca 16 mln euro for mergers.



Amalgamations

- ✓ Since 2004 is in the force Act of supporting voluntary amalgamations and special grant is foreseen for merging units:
 - ✓ Each merging unit gets 50 EUR per person;
 - ✓ Minimum fund per LG unit is 150 000 and maximum is 400 000;
 - ✓ The fund is calculated on the base of population of the unit involved into merger and summed as the grant for the new unit.
- ✓ The amalgamation grant is paid out in the end of year the merger is completed.
- ✓ Ex-mayors get compensation if he/she fired after amalgamation.
- ✓ New LG unit can freely use that grant. Mainly the grant is spent for compensation of persons leaving, costs of reorganisation and investments.
- ✓ If the state grant is smaller for new merged unit than units were separately, the gap is compensated 4 years in row.



Inter-municipal co-operation

- ✓ Inter-municipal co-operation is absolutely free in Estonia.
- ✓ LG units can hire common officials:
- ✓ LG units can sign any kind of co-operation agreement.
- ✓ LG units can establish joint enterprises (water-supply companies, waste management companies, hospitals), foundations and NGO-s.
- ✓ LG units can join into associations to represent their own interests.
- ✓ If LG does not have school it is obligated to pay for other LG unit where pupil goes to school for school house costs (not teacher salaries).
- ✓ For obtaining EU investment grants in the field of water supply and waste management is required to establish joint companies (large scale effect).



Local Government debt rules

- ✓ Operating revenues and costs should be balanced;
- ✓ The calculation of debt burden:
 - ✓ debt is considered loans, obligation, leasing, other loan kind instruments, unpaid or overdue bills;
 - ✓ Debt burden is debt minus liquid assets the LG has;
 - ✓ LG can have a maximum debt burden between 60% to 100% of their primary revenues depending of their self-financing capacity;
- ✓ Rules for LG-s and their units dependent from LG-s;
- ✓ Sanctions for LG-s violating rules (medium term plan for meeting criteria);
- ✓ Measures for solving local governments financial difficulties.



Relations between state budget and LG budgets

- ✓ Annual negotiations are held between state government representatives and local government associations.
- ✓ In the process of state budget strategy parts try to make agreement on main changes in LG financing.
- ✓ State budget strategy consists of LG main revenues forecasts and changes in policies.
- ✓ In the process of state budget parts try to specify details of financing.
- ✓ State budget consists of LG shared taxes and grants.

