

MUNICIPAL MERGER GRANTS

This audit sought to determine whether municipal merger grants have promoted municipal mergers and whether they have been used according to the provisions in the Act on Local Authority Boundaries and the Act on Discretionary Government Transfers.

Finland has never had a broad reform of municipal boundaries. The municipal structure has changed mainly through voluntary mergers. In the past fifty years the number of municipalities has fallen by about one hundred. At the beginning of 2005 Finland had 432 municipalities, and ten municipal mergers were carried out at that time. As a result the number of municipalities fell by twelve. At the beginning of 2006 one municipal merger took place.

Significant changes are expected in the municipal structure in the coming years, however. In discussing options for reforming the municipal and service structure, estimates concerning the number of municipalities in the future have ranged from about 20 to about 100. The Minister of Regional and Municipal Affairs has given a considerably higher figure.

The purpose of municipal merger grants is to encourage municipalities to merge, to compensate the costs of merging and to offer resources to help the new municipality develop. Grants consist of a calculated amount, compensation for lower central government transfers, and aid for investment and development projects. The Ministry of the Interior is responsible for administering municipal merger grants.

The Act on Local Authority Boundaries was amended at the beginning of 2003 to include aid for investment and development projects as a new element. Temporary aid for investment and development projects on a trial basis was considered a suitable incentive for mergers. Subsequently aid for investment and development projects has been extended so that it can also be granted for changes in

boundaries that come into effect at the beginning of 2006-2009. Provisions concerning aid have also been amended so as to encourage structural changes that improve productivity.

The intention is to appropriate about 35 million euros a year for municipal merger grants. The Ministry of the Interior's framework proposal for 2006-2009 sets aside 50 million euros in item 26.97.32 in 2009. This means support for about ten municipal mergers in 2009. If the number of municipalities were to fall by about one hundred, over 600 million euros would have to be spent on municipal merger grants, according to the Ministry of the Interior's calculations. Thus the framework proposal does not foresee such a large change.

The audit examined all the projects receiving aid for investment and development projects in the municipalities that merged at the beginning of 2003 insofar as this was possible in spring 2005. The impression was received that municipal merger grants and aid for investment and development projects have had a positive influence on municipal mergers. They are not the only factor influencing mergers, however. On the basis of the audit, changes have been recommended in the purposes for which municipal merger grants and especially aid for investment and development projects can be used. The hearing procedure in the aid decision process should also be revised. The State Audit Office believes that the amendment of the Act on Local Authority Boundaries so that a municipality cannot make the approval of aid for investment and development projects a condition for changing boundaries was justified.

Aid for investment and development projects has been paid to municipalities at the beginning of the year in which they merged. The State Audit Office has proposed changes in the timing of payment. The Ministry of the Interior has announced a change in payment practices so that half of aid will be paid when an investment or development project starts and the other half when the project has been concluded and a final report has been submitted. The State Audit Office believes that the new practices will allow the monitoring and control of projects to be placed on a proper footing. In reforming the Act on Local Authority Boundaries, consideration should also be given to limiting the amount of aid to a set part of a project's total costs.

Paying aid for investment and development projects at the beginning of the year in which municipalities merge has caused significant problems, since many projects receiving funds have not been planned far enough and so their implementation has not been possible right away. Some of these projects are no longer considered necessary. For example, many of the projects that received funds when Raahe and Pattijoki merged at the beginning of 2003 have still not been implemented.

The audit revealed cases in which the need for investment and development projects that were approved for aid by the Ministry of the Interior has been reconsidered after a merger, with the goal of replacing them with other projects. In general this cannot be regarded as acceptable practice, since the parties that made a commitment to projects no longer exist legally. The increased frequency of this kind of procedure also causes large doubts about mergers.

On the other hand, sometimes changing projects appears to have been justified. In this case the Ministry of the Interior has approved a new project before its implementation has begun.

In making aid decisions the Ministry of the Interior has often had scanty information concerning investment and development projects for which aid has been requested. When aid decisions are made in future, the content of a project, a cost estimate and financing and implementation plans should be required along with the name of the project.

Decisions regarding aid for investment and development projects have been sketchy. In future they should contain all the information that is required in section 11 of the Act on Discretionary Government Transfers for each project. The State Audit Office emphasizes that the ministry should monitor the use of aid for investment and development projects much more clearly than it did during the period covered by the audit. The Ministry of the Interior should also make sure that after a project has been concluded the recipient prepares a report containing correct and adequate information to ensure compliance with the aid decision and the Act on Discretionary Government Transfers.

In the first stage of reforming the municipal and service structure, clear national principles should be defined for the structure of welfare services such as social services and health care as well as

education and culture. Municipalities must together seek innovative solutions to reform service production.

To support this kind of solutions the state does not need new forms of financing. In the opinion of the State Audit Office, aid for investment and development projects works well for this purpose. Projects carried out with municipal merger grants should be clearly connected to the reform of the municipal and service structure.