

# City of Turku

# Annual Report 2020

## Summary

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## Mayor's review – Minna Arve

### Operating environment

Across the globe, the year 2020 was characterised by the coronavirus pandemic and its dramatic impacts on the functionality of societies. Finland implemented strong restriction measures to curb the pandemic, especially during the spring of 2020. The restrictions and changes in people's behaviour had a significant impact on the City's operations and its operating environment. However, the effect on Finland's general economic situation was more moderate than originally feared. This and the central government's strong one-time investment in municipal economy were evident in the figures of the City of Turku's financial statements for 2020.

Particularly during the autumn and towards the end of 2020, the City of Turku implemented restrictions in a manner that ensured their specific focus, proactivity and sufficient efficacy. In 2021, the nationwide infection status has deteriorated, leading to the reinstitution of national-level restrictions and declaring extraordinary conditions for the entire country. The situation will remain dire until the population is sufficiently protected against the coronavirus through vaccination. That said, it will be impossible to return to the operating environment as it was before the pandemic.

Due to the coronavirus pandemic, 2020 was particularly difficult for personnel, with them being required to show unprecedented flexibility to help thwart the virus under uncertain conditions. Despite grim economic forecasts, the City of Turku strived to entice employees through one-time bonuses and a variety of incentives to ensure operational capacity during the Christmas season. In 2020, one-time bonuses were granted to a total of 320 people. Last year, bonuses that extend to 2021 were additionally proposed for more than 350 people. Some of the bonuses take the form of direct monetary compensations to specific persons, while others involve incentives to entire work communities.

During last year, all City of Turku divisions adapted their operations by investing in operational development and adhering to strict financial management policies. The adjustment programme approved by the City Council in 2019 entailed 95 measures to alleviate the increase of net expenditures from City operations by about EUR 60 million. The aim is to find permanent savings by 2023.

The City Board updated the adjustment programme in 2020. The primary aim is to support growth and implement measures that will immediately improve the economic status. The adjustment programme will strengthen the City's financial capacity and enable it to maintain its high-quality services and appeal in years to come.

During the exceptional year, it is particularly difficult to predict the final financial figures. Ultimately, the net operating expenditures of all City divisions were lower than the levels specified in the adjusted budget approved by the City Council. This was mainly due to low operating costs.

The City's operational strategic goals progressed in 2020, but were slower than originally planned. Significant progress was achieved in the City's strategically important One Hour Train project with the LHT contract between the city region and the central government specifying the implementation of the investment target-ing the section between Turku's main railway station and the Kupittaa station. This project portion focusing on Turku's rail yards is a necessity for the realisation of the One Hour Train project.

The University of Turku's expanded technology studies have been very attractive to new students, as well as research and teaching staff. Overall, the applicant numbers for technology studies in Turku increased for both universities and Turku University of Applied Sciences. The efforts to combine the resources of the City and its universities have succeeded and strengthened Turku as a studying and working environment.

In 2020, the City Council decided to amend its Administrative Rules to implement the City's management system. In May, the Council decided on the first-phase changes that focused on the organisation of the City's Central Administration. The second-phase decision in December amended the Administrative Rules to enable the City of Turku to transition to a mayoral model in June 2021. A very significant change in the management and operating model will take place at the same time, with the arrangement of City services being consolidated from the various divisions to a joint organising function. The aim is to increase the resi-dent- and customer-orientation of the City's operations, strengthen service chains and improve operational productivity.

The postponement of the municipal election from April 2021 will delay the beginning of the new City Council's term and the implementation of the mayoral model.

## Development of the economic area

Produced by Statistics Finland, division-specific turnover data for the Turku sub-region is available until the end of September 2020. The impacts of the coronavirus pandemic are evident in the development of turnover and the number of employees of the Turku sub-region and the entire country. The turnover for businesses in all sectors increased moderately by 0.9% (entire country -0.8%) from the previous year in the Turku sub-region during the first quarter of 2020, but turned to a steep decline in the second quarter (sub-region -10.9% and entire country -8.5%). In the third quarter of 2020, turnover in all business sectors within the Turku sub-region decreased by a total of -6.7% (entire country -4.9%).

Across the sectors in the Turku sub-region, the decline was clearly the fastest in the third quarter at a staggering -16.2%. On the other hand, the turnover of the maritime industry did not weaken until the third quarter and even strengthened during the first half of the year by 8% from the previous year. A similar development was seen in the construction sector, where the climb during the first six months of the year (4.7%) turned to a downward trend in the third quarter. As regards turnover in industry and services, the drop took place earlier than in the previous year: between January and June, turnover decreased from the previous year by -10.3% for industry and -9.3% for services. In the third quarter, turnover dropped from the previous by -13.7% and -7.7% for industry and services, respectively.

According to Statistics Finland's trend data, the development of employee numbers in the Turku region varied in all sectors, much the same as the turnover, when examining the 2020 figures by quarter. The number of employees increased by 2.2% (entire country 1.1%) in the first quarter, but decreased in the second quarter by -5.9% (entire country -6.8%) and in the third quarter by -3.9% (entire country -4.0%).

The coronavirus pandemic also broke the trend of good developments in employment that had been ongoing for several years. According to employment service statistics, Turku's employment rate stood at 16.5% at the end of 2020, compared to 11% the year before. This means that the employment rate deteriorated by 5 percentage points in a year. A total of 15,757 Turku residents were unemployed in December 2020, compared to 10,888 at the same time a year before. Even though the number of unemployed persons has increased overall, the most significant increase stems from a surge in the number of layoffs. In December 2020, the number of laid-off Turku residents stood at 3,977. A year before, the number was 727, which indicates an increase of 447% in a year. During the same period, the number of unemployed persons, excluding laid-off employees, increased by 16%. Correspondingly, the number of unemployed jobseekers was 14.2% (4.9%) of the entire workforce in the Turku sub-region and 13.6% (3.8%) in the entire country.

According to the preliminary data of Statistics Finland, Turku's population at the end of 2020 was 194,488, which is an increase of 1,526 from the official population for 2019. As normal, the growth was based on migration. Net migration between municipalities was 655 people, while net immigration stood at 934 people. The birth rate was 66 persons lower than the mortality rate.

## Assessment of probable future trends

The budget for 2021 and the financial plan for 2021–2024 are strongly in deficit.

The positive structural change in the Turku economic area has shifted to a decline due to the prolonged coronavirus pandemic. This is particularly evident in employment, where the positive trend turned over the course of 2020. However, the situation is expected to be temporary as it has been worsened by the exceptionally sharp increase in layoffs. Last year, the effect on Finland's general economic situation was more moderate than originally feared. This and the central government's strong one-time investment in municipal economy were evident in the figures of the City of Turku's financial statements for 2020.

However, the development of taxable income, which is the basis for tax revenue, has been promising with regard to both municipal taxes and corporation taxes. The continuation of the coronavirus pandemic has made it difficult to predict developments in municipal tax revenue, and the situation is expected to remain challenging in 2021. The coronavirus support decisions made by the state on central government transfers have strengthened municipal economies. The temporary compensation for tax revenue lost by municipalities as a result of postponements to business tax payments increased central government transfers in 2020, but the increase will be deducted from central government transfers to municipalities in 2021 and 2022, including interest.

The central government's municipal economy programme for 2021 includes one-time support measures aimed at basic municipal services for the ongoing year. The 10% fixed-term change in the municipal apportioned share of the corporation tax will be retained, a one-time increase will be made to the central government transfer for basic services to compensate for losses in municipal tax revenue, and the discretionary central government transfer amount will be increased. Despite the support, the City's internal financing will not be enough to cover both the operational economy and investments, which is why the City's debt will continue to increase over the years.

This year, too, hospital districts will be assisted with regard to direct costs resulting from the coronavirus crisis. Despite this, uncertainty regarding the impacts of the pandemic is strongly hampering economic predictability. In the event of a significant increase in the sustainability deficit of the public economy, it is highly likely that the central government's measures to balance the economy will also target municipal financing.

The demand for services is anticipated to keep increasing during the planning period. The change in the age structure and population growth are increasing the demand for public services. The most significant increases are expected to take place in social and health care services. The younger age groups are expected to be smaller than before, which means that there may be a decrease in the demand for early childhood education services.

In addition to cost pressures related to the operational economy, investment needs have increased significantly. The essential renovations of old facilities and the adoption of new facilities will increase rent expenses regardless. It is important to note that the surplus for the financial period was achieved thanks to the central government's exceptional measures to support the tax financing of municipalities in 2020. These arrangements will not remain in place in the current financial period.

The adjustment programme approved by the City Council in 2019 entailed 95 measures to alleviate the increase in net expenditures from City operations by about EUR 60 million.

The aim is to find permanent savings by 2023. The adjustment programme includes measures to balance finances in all City divisions.

The City Board updated the adjustment programme in 2020. The primary aim is to support growth and measures that will improve the financial situation with immediate effect. The adjustment programme will strengthen the City's financial capacity and enable it to maintain its high-quality services and appeal in years to come. In the future, the City of Turku will be operating in a more resident- and customer-oriented manner.

This year, too, the extraordinary arrangements resulting from the escalation of the coronavirus epidemic will impact the municipal economy in many ways, and the ultimate effect on the economies of the state and municipalities is impossible to estimate. The continuous analysis and enhancement of operations must be continued actively, in addition to seeking measures to secure the provision of services in the challenging operating environment.

## City personnel

Measured in person-years, the amount of labour used (entire personnel) during the period 1 January–31 December 2020 was 10,489.4. The reference figure from 2019 takes into account the transfer of the family law unit to the City on 1 March 2020/1 April 2020 (+7,3 person-years) and the transfer of the welfare division's information system support to 2M-IT Oy on 1 September 2020 (-2,6 person-years). Taking the organisational changes into account, the use of labour across the entire staff increased by 19.5 person years (+0.19%).

Use of labour All personnel	2019	2020	Change	Change considering organisational changes
Central Election Committee	6.0	0.0	5.5	-6.0
Audit Office	3.9	4.3	0.0	0.4
Central Administration and service centres	895.1	940.9	45.8	45.8
Southwest Finland Emergency Services	558.7	575.1	16.4	16.4
Welfare Division	4,286.8	4,235.7	-51.1	-53.7
Education Division	3,774.4	3,809.3	34.9	34.9
Recreation Division	624.6	605.3	-19.3	-19.3
Urban Environment Division	317.8	318.8	12.8	1.0
<b>Turku in total</b>	<b>10,467.3</b>	<b>10,489.4</b>	<b>22.1</b>	<b>19.5</b>

Excluding employees performing wage-subsidised work, students/interns, outplaced employees and partially disabled persons in job placements, the amount of labour used in 2020 was 10,156.9 person-years. Taking the organisational changes referred to above into account, the use of labour increased by 23.3 person-years (+0.23%).

Use of labour increased for Central Administration and service centres, Education Division and Southwest Finland Rescue Service. The number of wage-subsidised employees increased slightly in 2020 from the previous year, which is reflected by the use of labour figures of the Central Administration and service centres. As regards Central Administration and service centres, 87 vacancies were transferred from relevant divisions on 1 September 2020 in the first phase of the mayoral model – appropriations were also transferred for 48.5 person-years. The remaining appropriations will be transferred in 2021, during which time the personnel relocations will also continue. In the Education Division, the rise in the use of labour resulted from the increase in student numbers and the staff recruited by using the separate coronavirus financing.

The fact that the Welfare Division did not reach the expected level in the use of person-years was due to the increase in outsourced services and temporary labour. In the Recreation Division, the closure of operations and personnel transfers to the Welfare Division as a result of the coronavirus situation reduced the person-years used. Furthermore, the divisions scheduled annual holidays for the entire holiday season, which reduced the need to hire substitutes and temporary workers.

On the last day of the year, the City of Turku employed a total of 11,836 people, comprising 10,010 full-time and 1,826 part-time employees.

The personnel expenditure for 2020 was EUR 522.3 million, of which wages and remunerations (adjusted based on sickness insurance, accident insurance and other personnel expenditure adjustment items) accounted for EUR 412.3 million and social security contributions for EUR 109.9 million. Taking organisational changes into account, the personnel expenditure increased by EUR 11.9 million (+2.3%) compared to the previous year, while wages and remunerations increased by EUR 7.83 million (+1.9%). Not including employees performing wage-subsidised work, the increase was EUR 7.35 million (+1.8%).

In addition to the increase in person-years, the trend in wage expenditure is also influenced by the agreed upon wage increases defined in the collective agreements for the municipal sector. The cost impact of the agreed on wage increases on wages in 2020 was roughly +0.76% (the impact was EUR 3.96 million on personnel expenditure and EUR 3.13 million on wages).

In assessing the increase in personnel expenditure, the impact of the discontinuation of holiday pay cuts must also be taken into account as it increased salaries and wages paid in 2020 by 1.4% (EUR +7.3 million including employer costs).

## **Formation of the profit/loss for the financial period**

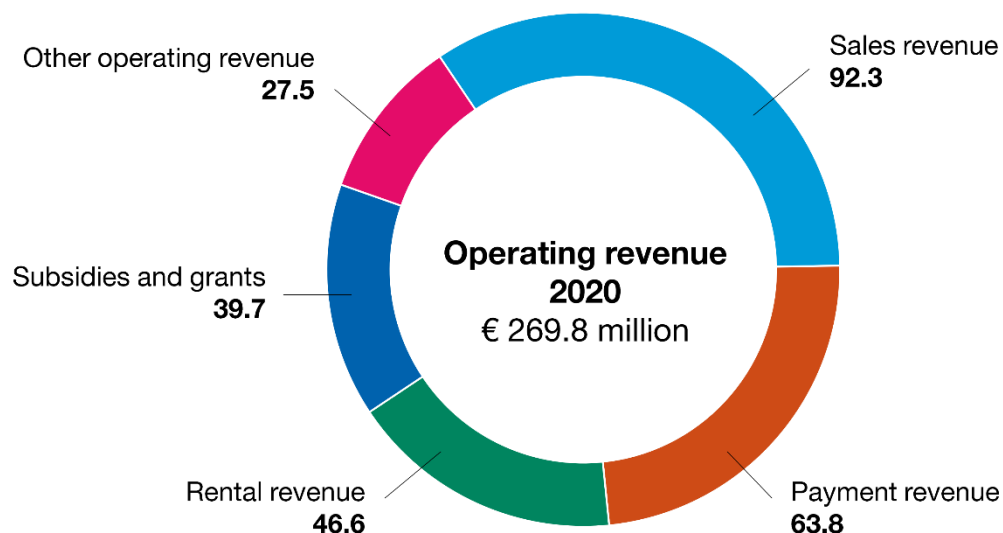
The unexpected coronavirus pandemic significantly restricted the predictability and development of national and municipal economies. However, a surplus of EUR 10.2 million for the financial period was achieved primarily thanks to a EUR 75.4 million central government injection to support the tax funding of municipalities. EUR 53.1 million was received as central government transfers and EUR 22.3 million was received for corporate tax revenue. Of the central government transfer, EUR 47.7 went to basic services and EUR 1.5 million to the Education and Culture Division. EUR 3.9 million of the central government transfer for basic services was used to compensate for losses in tax revenue. In addition to this, the coronavirus support arrangement that had the most significant impact on operating income was the central government transfer for public transport,

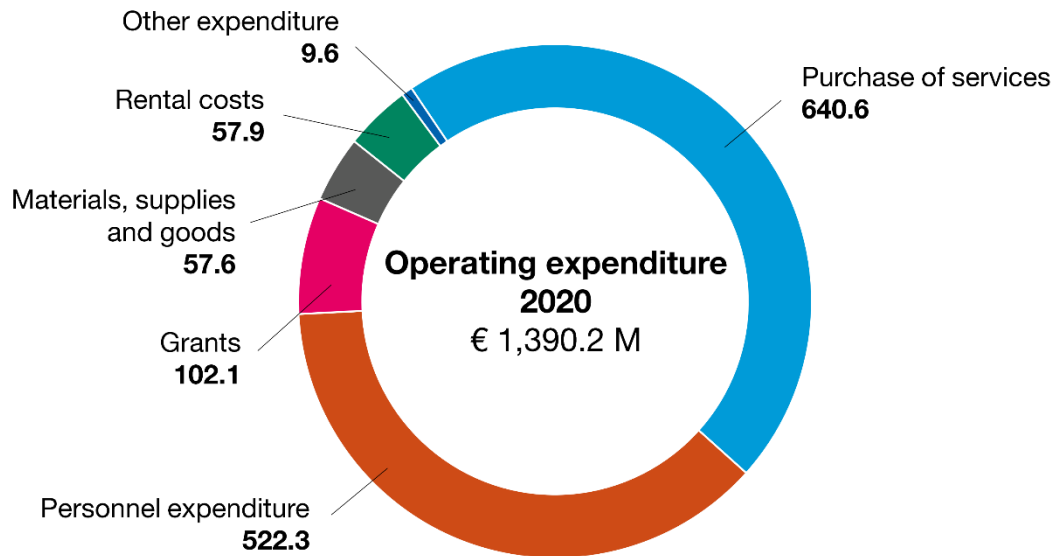


which was EUR 4.6 million for Turku. Without the central government's aforementioned support measures, totalling about EUR 80 million, the City would have accumulated EUR 69.8 million in deficit.

Of the EUR 8.2 million in profit for the financial period, EUR 3.0 million was recorded as an investment provision deduction for Puolala School and, correspondingly, as an increase in depreciation difference. A total of EUR 2.1 million of the accumulated depreciation difference was recognised as revenue to cover the planned depreciations of investments implemented with investment reserves.

Operating revenue totalled EUR 269.8 million. According to the profit and loss account, operating revenue decreased by EUR 12.5 million. The most significant drop, EUR 14.8 million, was seen in sales revenue, mainly because of the EUR 9.0 million lost as a result of the decrease in the use of public transport due to the coronavirus pandemic. Other operating revenue decreased by EUR 9.2 million, while rental revenue decreased by EUR 1.4 million. The accumulation of payment revenue increased slightly by EUR 0.6 million to a total of EUR 63.8 million. The most significant increase took place in land use and development compensations, daily hospital fees, admittance fees and basic health care customer fees. The total amount of support and grants received was EUR 12.3 million higher than in the previous year. Support from the Ministry of Education and Culture increased by EUR 2.5 million, and support from other state bodies increased by EUR 8.8 million. The central government's coronavirus support amounted to EUR 5.3 million of the increase for regional public transport and EUR 1.2 million of the increase for the Education Division.





The operating expenditure at EUR 1,390.2 million increased by EUR 34.8 million from the previous year. The increase in service acquisitions by EUR 20.3 million, due to higher demand for the City's services, had the most significant impact in terms of driving the operating expenditure up. Purchases of social and health care customer services increased by EUR 6.5 million from the previous, and purchases of other services increased by EUR 13.8 million. The increase in the purchasing of other services is explained especially by increases in the purchasing of temporary labour by EUR 7.4 million, ICT services by EUR 6.4 million, construction and maintenance services by EUR 5.1 million and cleaning services by EUR 2.7 million. On the other hand, the purchasing of other services was reduced by the decreased need for accommodation and restaurant services, transport services and public transport as a result of the coronavirus pandemic by a total of EUR 7.2 million. In conjunction with fixed-amount invoicing, the Hospital District of Southwest Finland (VSSH) reimbursed a total of EUR 5.4 million in costs resulting from the treatment and testing of coronavirus patients. The usage-based payment share was EUR 4.5 million (net impact EUR 0.8 million).

The personnel expenditure increased by EUR 11.9 million, while wages and remunerations increased by EUR 7.8 million. The organisational changes did not have a significant impact on the reference year. In addition to the increase in person years, the increase in wages was affected by the wage increases agreed upon in accordance with the municipal sector collective agreements in the amount of EUR 4.0 million. The impact of the removal of holiday pay cuts on wage expenditure was about EUR 6 million.

The operating margin, i.e. net operating expenditure, was EUR -1,118.8 million. The increase compared to the previous year was EUR 47.5 million, 4.4%.

Tax revenue and central government transfers increased by a total of EUR 106.3 million, of which EUR 75.4 million was municipal tax revenue support due to the coronavirus crisis, while the remainder was formed by the better-than-expected bottom line of the municipal income tax at EUR 32.1 million. The operating revenue covered 19.4% of the operating

expenditure (20.9% in the financial statements for 2019). The proportion left to be financed by tax revenue and central government transfers was, thereby, 80.6% (79.1% in the financial statements for 2019).

The financing revenue was EUR 30.5 million higher than the financing expenditure. Interest revenue decreased by EUR 2.9, and other financing expenses dropped by EUR 1.5 million. The change in other financing expenses is impacted by the share write-downs of EUR 1.3 million (EUR 1.0 million in the financial statements for 2019).

The accumulated annual margin was EUR 64.9 million, which includes EUR 56.7 in fixed asset depreciations and impairments. This means an increase of EUR 53.2 million from the previous year. Without the aforementioned roughly EUR 80 million in central government coronavirus support, the annual margin and change from the previous year would have been EUR -15.1 million and -26.8 million, respectively.

## Tax revenue

### Determination of Turku's tax revenue

<b>Basis for tax revenue</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Income tax rate (%)	19.50	19.50	19.50	19.50	19.50
Property tax rate (%):					
General	1.00	1.00	1.00	1.00	1.00
Permanent residential building	0.37	0.41	0.41	0.41	0.41
Other buildings used for housing	0.80	0.93	0.93	0.93	0.93
Tax rate (%) for an undeveloped building site	3.00	3.00	3.00	3.00	4.00

The total amount of tax revenue was EUR 816.7 million. The growth compared to the previous year was EUR 31.6 million (4.0%). The amount of tax revenue accrued was EUR 7.8 million less than budgeted. The municipal tax accumulation exceeded the budgeted level by EUR 2.2. The revenue from corporate taxes was EUR 3.9 million below the budgeted level, with the revenue from property taxes falling short of the budget by EUR 6.1 million.

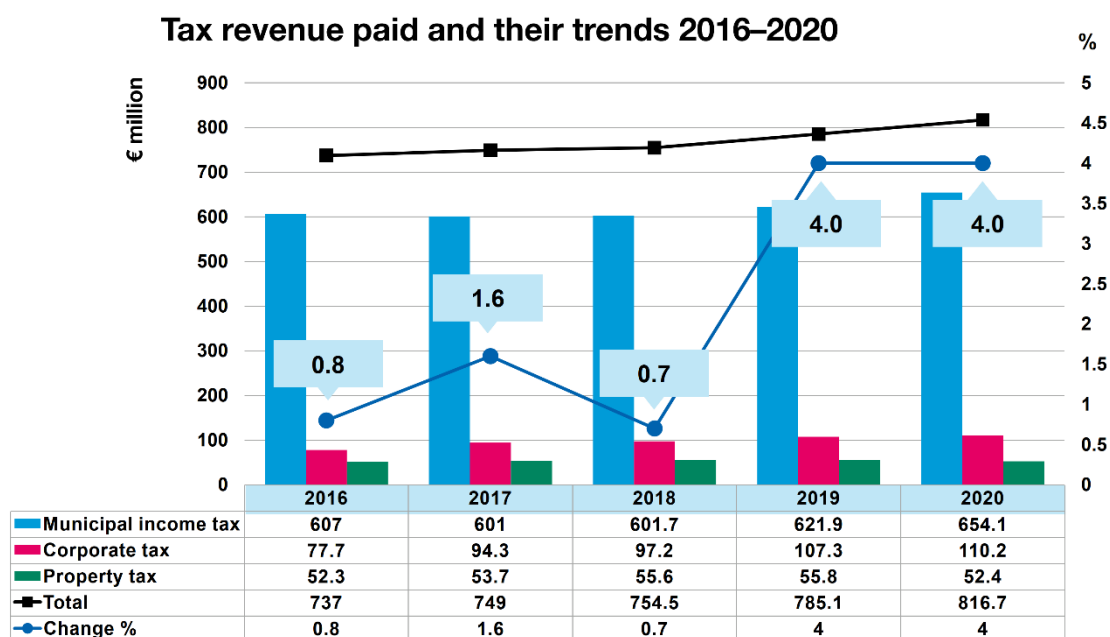
The growth in municipal tax revenue compared to the previous year was EUR 32.1 million (5.2%). The better-than-anticipated development was the result of many factors, including income development which exceeded expectations, the increased municipal apportioned share which improved in 2020, and the tax payment arrangements for companies. Due to the tax card reform, the accumulation of municipal taxation for 2019 had a deficit of EUR 350 million. The situation was fully rectified in 2020, which contributed to improving the total accumulation for the calendar year.

The corporate tax revenue increased by EUR 2.8 million (2.6%) from the previous year. The positive development was primarily due to the 10% increase in the corporate tax share of the group of municipalities in 2020.

The amount of property taxes paid was EUR 3.3 million (-6.0%) lower than in the previous year. The weaker development in property tax was due to the transition of property taxation

to a scheme more geared towards flexible completion. About 10% of the property taxes rendered for 2020 were transferred to 2021.

Rendered tax revenue accounts and their development in 2016–2020:



## Revenue from central government transfers

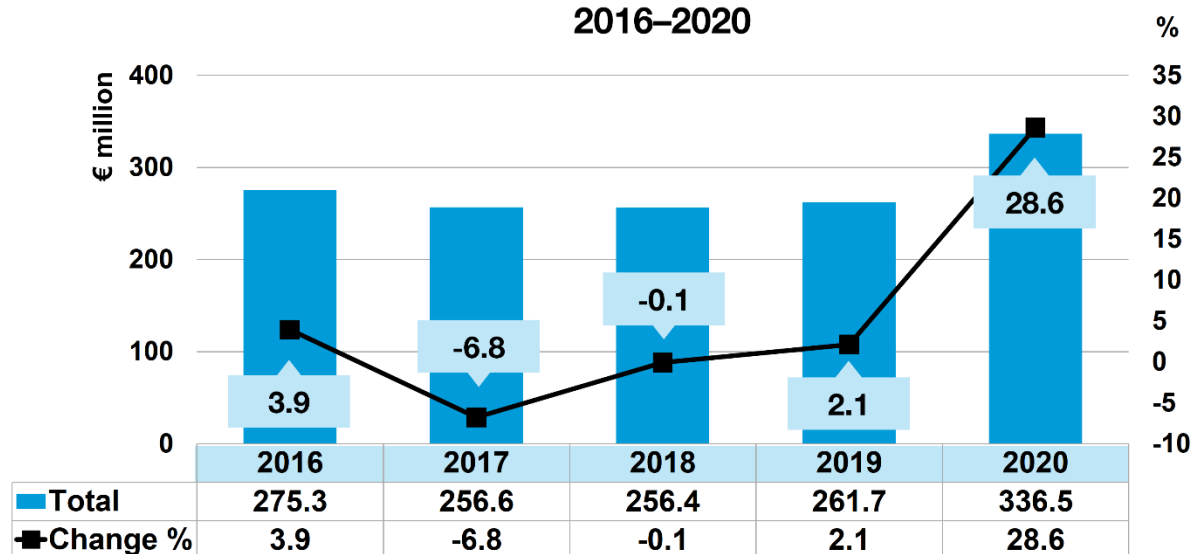
Revenue from central government transfers amounted to a total of EUR 336.5 million, being EUR 74.7 million, i.e. 28.6% more than the previous year. The central government granted a sizeable support package for municipalities to cover the effects of the coronavirus pandemic. The EUR 53.1 million support package for central government transfers included resident-specific coronavirus support, compensation for tax revenue payment delays, compensations for protection equipment costs, testing costs and tracking costs relating to the coronavirus pandemic, and an increase in the central government transfer for vocational education.

The actual received central government transfer was EUR 204.1 million for basic services and EUR 83.1 million in compensation for tax revenue losses. EUR 3.9 million was received as compensation for postponement arrangements regarding a tax payment, but this sum will be recovered with interest in 2021 and 2022.

EUR 46.2 million in central government transfers for the education and cultural sector were realised, which was EUR 9.0 million (24.1%) more than the previous year. Over the course of the year, the Ministry of Education and Culture granted a roughly EUR 5.0 million increase to the central government transfer, about EUR 1.5 million of which was allocated to alleviating the impacts of the extraordinary conditions brought about by the coronavirus pandemic.

Turku paid EUR 0.7 million in equalisation of tax revenue to other municipalities, whereas in the previous year, Turku received equalisation from other municipalities in the amount of EUR 0.5 million.

### Realisation of central government transfer revenue 2016–2020



Revenue from taxes and central government transfers, i.e. tax funding, increased by EUR 106.4 million (10.2%) from the previous year. Without the increases to central government transfer and the 10% fixed-term increase to the apportioned share of the corporate tax, the increase in tax funding would not have exceeded EUR 31.0 million (+3.0%).

## Funding operations

The operating cash flow was positive by EUR 48.1 million (-6.5 in the financial statements for 2019). The increase in internal financing is largely the result of the central government's measures to support municipal tax funding, which boosted the annual margin significantly from the previous year. EUR 53.1 million was received as central government transfers and EUR 22.3 million was received for corporate tax revenue. Of the central government transfer, EUR 47.7 went to basic services and EUR 1.5 million to the Education and Culture Division. EUR 3.9 million of the central government transfer for basic services was used to compensate for losses in tax revenue. In addition to this, the coronavirus support arrangement that had the most significant impact on operating income was the central government transfer for public transport, which was EUR 4.6 million for Turku. Without the aforementioned roughly EUR 80 million in coronavirus support, the annual margin and operational cash flow would have been EUR -15.1 million and -31.9 million, respectively.

The internal financing adjustment items correct the capital gains from non-current assets, which are presented in the investment cash flow – as well as losses amounting to a total of EUR 19.4 million.

The City's investment expenditure stood at EUR 80.4 million and its capital gains were EUR 24.4 million. Compared to the previous year, the City's investments decreased by

EUR 40.5 million and its capital gains by EUR 8.9 million. EUR 3.4 million in funding contributions were received for investment costs, after which the investment acquisition cost stood at EUR 77.0 million. The internal financing percentage, which measures the funding capacity of city investments, increased significantly from the previous year to 84.3% (10.0% in the financial statements for 2019). Compared to the year before, the figure improved by more than 74 percentage points due to the impact of the state's aforementioned tax revenue support measures and government subsidies on the annual margin.

The operating and investment cash flow for the financial year 2020 is negative by EUR 4.5 million, which is an improvement of EUR 85.3 million from the previous year. The actual accumulated cash flow for operations and investments between 2016 and 2020 dropped EUR 104.5 million into the negative, while it was EUR 31.0 million in the positive for the previous year. In previous years, the amount was substantially affected by the capital gains and sales proceeds gained from corporatisation in different financial years. The proceeds gained from the sale of properties used by health care and social services was EUR 127.9 million in 2015, while extraordinary profit totalled EUR 87.2 million. In 2017, the proceeds gained from the sale of Turku Water Utility was EUR 104.3 million, while extraordinary profit totalled EUR 23.7 million.

During the year, long-term loans were paid back in the amount of EUR 4.5 million and granted in the amount of EUR 29.5 million, the most significant portion of which, at EUR 29.3 million, went to the Student Village Foundation of Turku.

A new long-term loan was withdrawn in the amount of EUR 110 million and paid back in the amount of EUR 104.2 million. EUR 34.5 million in short-term loans were paid back. The EUR 28.8 million decrease in loan portfolio is primarily due to the decrease in short-term interest-bearing loans, such as local government papers and deposits by affiliated companies and personnel financial services, compared to the previous year.

The realised funding cash flow in the closed financial period was EUR 57.3 million in the negative.

## Largest investments and capital gains

The largest ongoing infrastructure projects were the Logomo bridge and the Market Square. Other extensive construction projects in the urban environment included the extension to Pyhän Maarian tie, Koroistenkaari and Puolalanmäki. Among the ongoing renovation projects of the City's service buildings, the largest ones were the modifications of Ruiskatu 8, the renovation of Puolala School and the renovation of the Kallelankatu day care centre. The largest ongoing projects involving the construction of new service buildings were Viinamäki and Tommila day care centres and the Sofiankatu day care centre rental project, which was carried out by one of the City's subsidiaries.

The City received a total of EUR 24.4 million in proceeds from divesting land, facilities and equipment. The net overrun in capital gains stood at EUR 0.5 million compared to

the budget (EUR 23.9 million). The net overrun resulted from a EUR 1.6 million increase in sales revenue from real estate and shares and from a EUR 0.9 deficit in divestment proceeds from land.

The records list EUR 22.1 million (EUR 31.6 million in the financial statements for 2019) in property sales profits and EUR 2.7 million (EUR 4.2 million in the financial statements for 2019) in divestment losses. The sales profits from land were exceeded by EUR 2.3 million compared to the budget (EUR 19.2 million). A divestment loss of EUR 1.7 million was recorded for the unrequited non-cash transfer of land property to a subsidiary. A divestment loss of EUR 0.6 million was recorded for the transfer of the City of Turku Welfare Division's customer and patient information system support, development and administrator functions. EUR 0.4 million was recorded in share sales losses.

A total of EUR 9.5 million was recorded in land use agreement compensations (EUR 4.6 million in the financial statements for 2019). Compared to the budget, the share of land use agreement revenue was exceeded by EUR 4.9 million (EUR 5.0 million in the budget). The acceleration of construction has generated a higher level of land use agreement revenue than expected.

## **Implementation of the infrastructure investment plan**

The investment expenditure in the development of the urban environment in 2020 was EUR 36.4 million in total (EUR 30.3 million in the financial statements for 2019). 38% of the investments went towards strategic spearhead projects. The share of infrastructure renovation projects that will reduce the overall renovation debt stood at 31% of the investment expenditure. The share of real estate development projects stood at 20% of the investment expenditure. 5% of the investment expenditure went towards ensuring the smoothness and safety of traffic. These investments covered repairs of the Aura River wall and improvements to the functionality of traffic lights and the transport network. 5% of the investment expenditure was channelled towards projects that improve the comfort of local residents, including parks, outdoor recreation sites and playparks. Threshold investments that support operations, such as investments in soil dumping areas, accounted for one per cent of the investment costs.

## **Implementation of the facility investment programme**

The investment expenditure for the construction of City operating premises was EUR 16.8 million in total (EUR 20.8 million in the financial statements for 2019). EUR 3.1 million of the investment appropriation was used on new construction projects and EUR 13.6 million was used on renovation and repair projects. New construction projects have also been carried out by using Turku Group's implementation solutions. The City may grant temporary funding to projects for the duration of the construction process via a limit on the Group account or grant a surety for the projects' funding.

## **Other investments**



The City spent a total of EUR 5.5 million in the procurement of real property (EUR 7.3 million in the financial statements for 2019). The real property acquisitions included land procurement at EUR 1.9 million, reclamation of buildings at EUR 1.5 million and land procurement under land use agreements at EUR 2.1 million. As regards handovers of land areas to the City under land use agreements related to town plans confirmed during the year, the appropriations for the procurement of real property were exceeded by EUR 2.1 million in total. For affiliates, share acquisition costs and investments in subsidiary shares and other shares stood at EUR 0.8 million in total (EUR 50.0 million in the financial statements for 2019).

EUR 10.6 million was invested in the development of city-level IT and information systems, while EUR 10.4 million was invested in the procurement of equipment and other non-current assets – EUR 21.0 million in total (EUR 12.4 million in the financial statements for 2019). The actual use of the investment appropriation was EUR 0.6 million lower than the budget (EUR 21.6 million). A total of EUR 3.4 million was recorded in funding contributions (EUR 2.7 million in the financial statements for 2019).

## Financial position and its changes

The City's liquidity remained good throughout the year. At the end of 2020, the City's cash reserves amounted to EUR 139 million (EUR 204 million in 2019), not including investments in the City's own funds. Cash reserves decreased by EUR 65 million in 2020. As regards the cash reserves, long-term interest investments were discontinued almost entirely in 2020 since the decreased interest level pushed the values of interest investments too high, resulting in a poor risk-reward ratio.

During the year, the cash reserves were EUR 43 million at their lowest and EUR 201 million at their highest. On average, the cash reserves stood at EUR 112 million. Group financing and payment transactions by the City's subsidiaries have increased fluctuations in cash reserves, in addition to the City's own financial transactions. Short-term local government paper limits or other limits were used in accordance with the budget and the City Board's loan plan to balance the fluctuations in cash reserves during the year. The worth of the City's short-term local government paper limits or other non-binding limits at the end of the year was EUR 440 million. However, no local government papers were issued by the end of the year.

At the end of 2020, the City had EUR 574 million in long-term loans (EUR 568 million in 2019), including the following year's repayments. The total amount of long-term loans increased by EUR 6 million over the course of the year. In 2020, the repayments of long-term loans stood at EUR 104 million and new loans were withdrawn in the amount of EUR 110 million. Short-term interest-bearing debt also includes EUR 92 million in deposits by subsidiaries and EUR 46 in deposits by personnel financial services, resulting in a total of EUR 138 million.

This brought the loan portfolio, i.e. the total sum of interest-bearing debt, to EUR 713 million at the end of 2020 (EUR 742 million in 2019) and reduced the debt by EUR 29 million during the year. The drop was due to a decrease in personnel financial service deposits and company deposits in 2020. The interest expenses of the total interest-bearing debt were EUR 7.6 million with an effective interest rate of 1.28%, including hedging costs.



A 1% increase in the interest level would reduce the interest cost of the loan portfolio (incl. hedges) to about 1.06%.

At the turn of the year, the City had EUR 660 million in hedges against interest increases affecting the total interest-bearing debt. Of these hedges, EUR 190 million was implemented with loans with a fixed interest rate and EUR 470 million with interest rate swaps. The total nominal value of the open interest rate swaps was EUR 540 million. At the turn of the year, the hedge ratio was about 93%, which means that the City's interest costs will not increase as interests climb. Instead the costs will decrease, as an increase of short-term reference rates (Euribor) would reduce the payable cash flow for variable interest rates under interest rate swaps. At the end of the year, the fair value of the interest rate swaps related to the hedges was EUR -65.9 million.

At the end of the year, the long-term lending portfolio was EUR 473 million (EUR 458 million in 2019), while the subsidiaries' short-term credit limit debt connected to the Group account was EUR 42 million (EUR 46 million in 2019). Long-term lending receivables from subsidiaries saw a net increase of EUR 25 million during the year. Primarily, the increase took place with regard to loans granted to the TVT Asunnot Oy group (EUR 29 million). Sufficient protective counter securities have been received for the loans in accordance with the Local Government Act.

The guarantee liabilities of EUR 280 million increased by EUR 3 million (EUR 277 million in 2019) during the year. The most substantial guarantee liabilities are to Turun Seudun Vesi Oy (EUR 106 million) and Turun Seudun Puhdistamo Oy (EUR 82 million). The increase in guarantee liability was primarily due to the increase in the guarantee liability granted to Turun Seudun Puhdistamo Oy by EUR 10 million. The largest leasing liabilities consist of fixed asset purchases included in the framework agreement and the Turun Satama Oy's leased property, which has been re-leased to the company.

The capital in city funds increased slightly, despite the low interest level in 2020 and the stock market crisis caused by the COVID-19 pandemic. At the end of the year, the damages fund had EUR 48.7 million in capital. Profit was EUR 1.1. million, which is a return of about 2.3% on the capital at the beginning of the year. As regards donation funds, the capital stood at EUR 25.7 million and the loss was EUR 0.9 million. The result of the donation funds will not be consolidated with the result of the City's parent organisation. At the end of the year, the damages fund allocation was as follows: equity funds 30%, direct shares 3% and interest investments 67% of the fund's market value. The corresponding allocation for donation funds was as follows: equity funds 43%, direct shares 4% and interest investments 53% of the fund's market value. In practice, both funds have discontinued direct share investments and have shifted to using passive and cost-efficient exchange-traded funds (ETFs).

The investment activities of the city and donation funds adhere to the investment principles approved by the City Council on 18 March 2019, with particular emphasis on section 4 on the investment activities of funds. The principles of managing assets in special margin funds. On 7 December 2020, the City Board also approved a loan withdrawal and investment plan for 2021, which will more specifically steer the selection of fund allocations and investment instruments. As a general rule, the weight of city fund share instruments in any portfolio must not exceed 50% of the fund's capital. Furthermore, an investment committee has been established to steer fund investment activities. The committee is tasked with providing recommendations on fund allocations and the risk profile, among other things. The investment committee met regularly during 2020.

## Analysis of the balance sheet

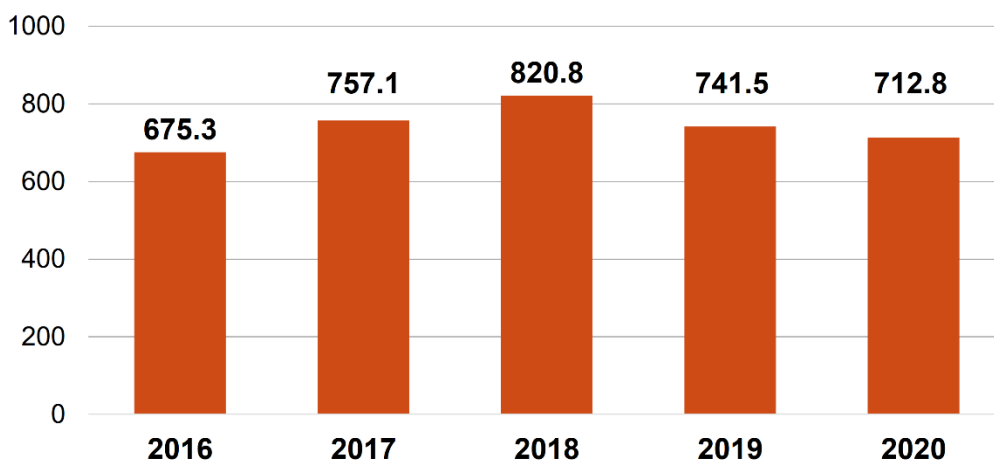
At the end of the financial year, the balance sheet total was EUR 1,792.7 million. The decrease compared to the previous year was EUR 13.6 million (-0.8%). The surplus for the financial period increased equity by EUR 10.2 million (1.3%).

The equity ratio increased by 0.8 per cent, being 45.6 per cent at the end of the year (44.8% in the financial statements for 2019). A level that exceeds 50% can be regarded as the general target level for municipal economies. Without the central government's measures to support tax funding and the largest central government transfer for Turku Region Public Transport, equity would have decreased by EUR 69.7 million and the equity ratio 43.1% would have dropped by 1.7% from the previous year.

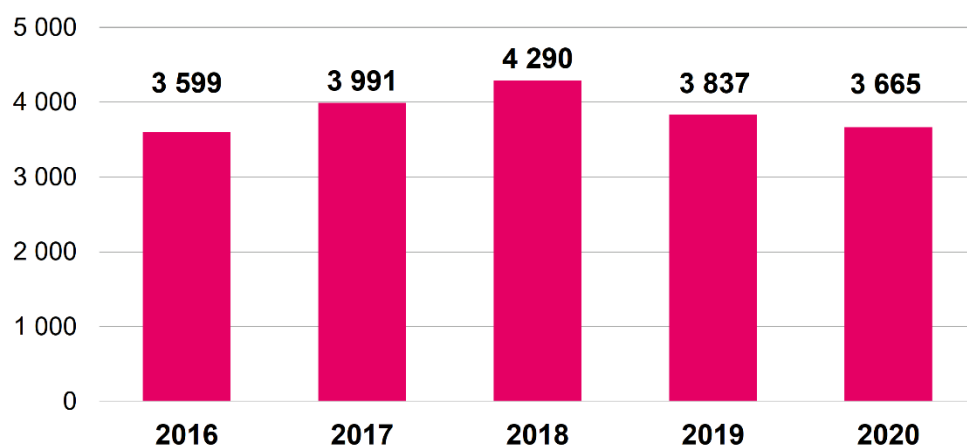
As regards investments under non-current assets, other loan receivables increased by EUR 25.0 million from the previous year. This change was mainly the result of an increase in intra-group loans to group organisations.

The surpluses/deficits accumulated in the previous financial years include extraordinary non-recurring items that have a total impact of roughly EUR 173.8 million. The most relevant of these are mentioned below: The sale of the business operations of Turun Puhelin in 1997 yielded EUR 45.5 million in capital gain. The connection fee fund was discontinued in 2004, and the accrued surpluses/deficits increased by EUR 13.1 million. In 2008, as a result of the crisis in the financial security market, EUR 31.9 million was recorded as write-downs of financial securities, listed under current assets. In conjunction with the merger of the Turku Science Park Oy Group in 2010, a write-down of EUR 14.1 million was recorded in investments under non-current assets. The corporatisation of the business operations of the Port of Turku yielded EUR 30.9 million in capital gain in 2013. The corporatisation of social and health care services properties in 2015 yielded EUR 87.5 million in capital gain. The corporatisation of Turku Water Utility in 2017 yielded EUR 23.7 million in capital gain.

**Loan portfolio 2016–2020, € million**



### Loan portfolio 2016–2020 per capita, €



The other statutory provisions recorded stood at EUR 2.6 million more than in the previous year, primarily due to the increase in environmental responsibility provisions.

At the end of the year, the loan portfolio was EUR 712.8 million, changing by EUR -28.8 million from the previous year. The loan portfolio per capita was EUR 3,665 (EUR 3,843 in the financial statements for 2019).

Relative indebtedness was 64.5 per cent of the operating income (operating revenue, tax revenue and central government transfers), which is required to pay back the loan capital. Relative indebtedness decreased by 6.3 per cent from the previous year (70.8% in the financial statements for 2019). Total loans and rent liabilities in the amount of EUR 1,080.0 million (EUR 1,132.5 million in the financial statements for 2019) dropped by EUR 52.5 million (3.9%) from the previous year.

## Consolidated financial statements and key figures

The City of Turku controls 58 subsidiaries, of which 49 are consolidated in the consolidated financial statements. Of the consolidated subsidiaries, three are foundations and 20 are housing and real estate companies. There are 25 consolidated associated entities and three joint municipal authorities. Four subsidiaries and five associated entities have been consolidated through the sub-group of the Joint Municipal Authority of the Hospital District of Southwest Finland.

A detailed list of the entities consolidated and not consolidated in the consolidated financial statements is provided in the notes to the City's financial statements, under items 20–22 on holdings in other businesses.

## Formation of the Group's profit/loss for the financial year

The accumulated Group surplus for the financial year was EUR 36.0 million (a surplus of EUR 50.6 million in the financial statements for 2019). The surplus was primarily achieved thanks to the central government's EUR 75.4 investment in supporting the tax funding of municipalities. Other coronavirus support payments that had the most impact on operating revenue were the central government transfer for public transport at EUR 4.6 million and the central government transfer to the Hospital District of Southwest Finland at EUR 14.9 million, of which Turku's calculated share under the consolidated financial statements is about EUR 4.5 million (consolidation percentage 30.5%). Without the aforementioned significant support measures from the central government (EUR 84.5 million in total), the Group would have suffered a deficit of EUR 48.5 million. The profit/loss for the financial year was EUR 44.8 million in surplus (EUR 59.1 million in surplus in the financial statements for 2019). Without the central government's support measures, the profit/loss would have been EUR -39.7 million.

The Group's annual margin was EUR 193.2 million (EUR 128.7 million in the financial statements for 2019), which can be used for the Group's investments and loan repayments. The Group's annual margin per capita, EUR 993, improved by EUR 326 from the previous year (EUR 667 in the financial statements for 2019). The euro per capita for 2020 was calculated according to the preliminary data on the population of Turku (194,488), provided by Statistics Finland. The annual margin covered 130.0% of the depreciations according to plan (88.2% in the financial statements for 2019).

The Group's operating margin was EUR -1,002.9 million (EUR -959.1 million in the financial statements for 2019). The Group's operating margin weakened by EUR 43.8 million from the reference year. The Group's operating revenue was used for financing 48.1% of the operating expenditure, reduced by the item 'manufacture for own use'.

## Financing the Group's operations and investments

The Group's investment expenditure was EUR 244.9 million in total (EUR 278.5 million in the financial statements for 2019). EUR 3.5 million was eliminated from the Group's investment expenditure as items within the Group. The most significant investments included in the separate financial statements of organisations within the Group were

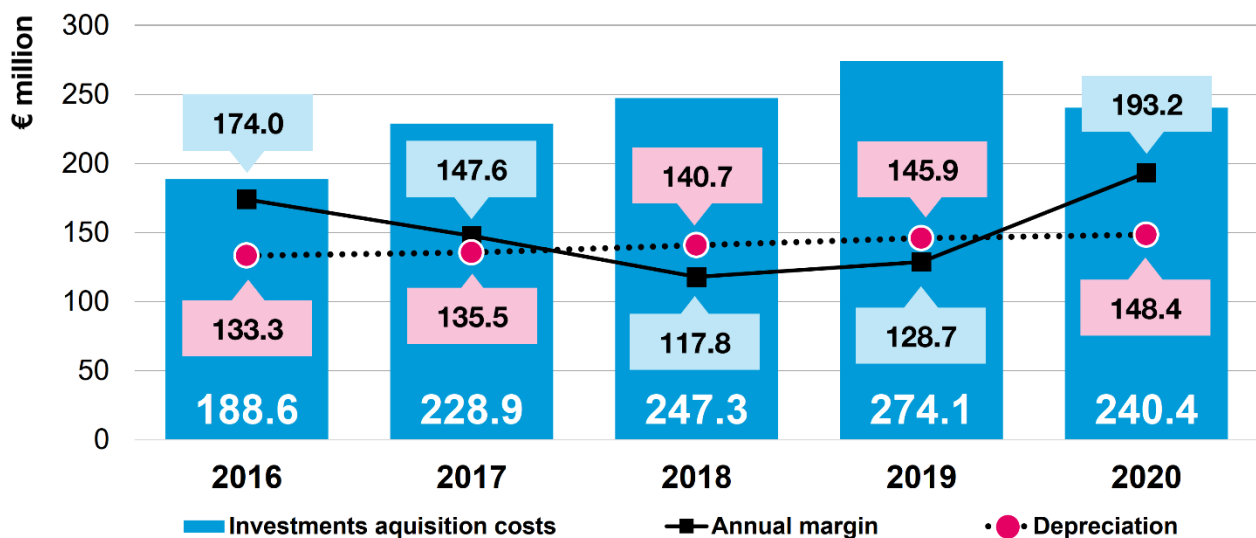
- The City of Turku EUR 80.5 million
- Student Village Foundation of Turku EUR 18.6 million
- Varsinais-Suomen Asumisoikeus Oy EUR 15.3 million
- TVT Asunnot Oy Group EUR 41.8 million
- Turku Energia Oy Group EUR 23.6 million
- Joint Municipal Authority of the Hospital District of Southwest Finland, Group EUR 9.8 million

The investment costs of Student Village Foundation of Turku stood at EUR 18.6 million, the majority of which at EUR 17.9 million went towards the construction of Tyyssija, the renovation of Kuunsilta stairways A–E at EUR 0.2 million, and the design of Kyläkulma at EUR 0.1 million.

The demand for right-of-occupancy housing of Varsinais-Suomen Asumisoikeus Oy was strong across all ownership types, which supported investments in new locations. In 2020, 78 new housing units were completed and the construction of 35 new housing units was initiated. In addition to this, a building permit was submitted for 76 housing units along Pääskyvuorenrinne. Vaso invested in existing properties through a variety of measures including renovations, four of which were initiated and completed in 2020.

For TVT Asunnot Oy, the most important investment targets in 2020 were the residential buildings completed in Hirvensalo, Runosmäki and Kärsämäki, the residential buildings being constructed in Hirvensalo, the harbour area, Länsikeskus and the centre of Kaarina, the renovation projects in Jäkärä and Moisio, and the day care centre project in Sofiankatu.

### Group's investment acquisition costs and annual margin 2016–2020



Turku Energia Oy's actual investments (EUR 23.6 million) mainly focused on the improvement and maintenance of the networks' transmission capacity and operational reliability. Heating business investments focused on expanding heating networks and procuring equipment. The investments by the electricity grid company focused on improving and maintaining the electricity grids' transmission capacity and operational reliability. Long-term investments focused on Suomen Hyötytuuli Oy, Voimaosakeyhtiö SF and Turun Seudun Energiatuotanto Oy.

The investments of the Hospital District of Southwest Finland mainly focused on property renovations, refurbishments and modifications as well as acquisitions of research and treatment equipment.

More details about the City of Turku's investments are provided in the annual report's Section 3.2 on the funding of operations

The investment acquisition cost was EUR 240.4 million. The Group's operating cash flow, EUR 162.8 million, improved by EUR 56.2 million compared to the previous year, and it was not enough to cover the investment acquisition costs.

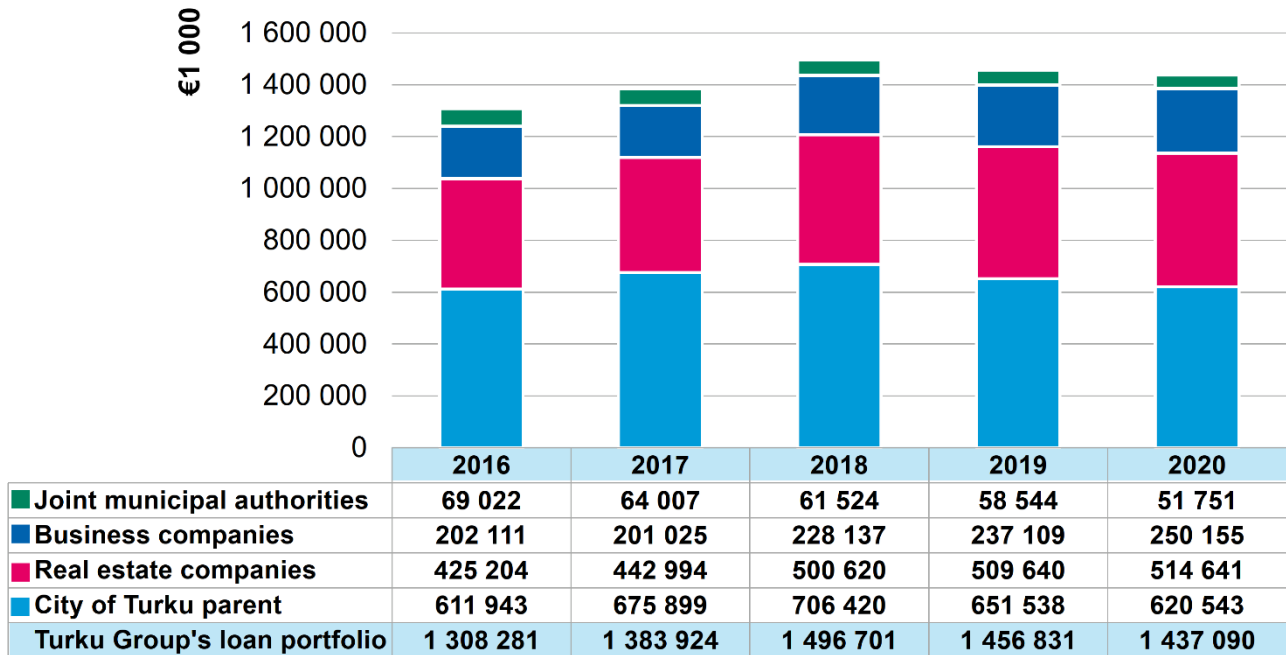
The capital gain was EUR 31.1 million (EUR 66.4 million in the financial statements for 2019). The Group's cash flow from operations and investments was negative by EUR 46.6 million (EUR -101.2 million in the financial statements for 2019). The Group's combined total cash flow from operations and investments for the financial year and the previous four years is negative by EUR 338.0 million (EUR -298.7 million in the financial statements for 2019). This accumulation was EUR 39.3 million weaker compared to the previous year, and the Group was forced to cover investment expenditure either by reducing cash reserves, taking out more loans or selling assets. During the financial year, the Group took out EUR 176.5 million in long-term loans and paid off EUR 165.5 million. The additional investments in the right-of-occupancy fund of Southwest Finland increased the Group's equity by EUR 2.2 million.

## **The Group's financial position and its changes**

Turku Group's interest-bearing loan portfolio was EUR 1,437.1 million at the end of the financial year (EUR 1,456.8 million in the financial statements for 2019). The Group's loan portfolio includes a total of EUR 46.3 million in the personnel financial services' deposits as interest-bearing short-term loans (EUR 52.9 million in the financial statements for 2019). The loan portfolio decreased by EUR 19.7 million (a decrease of EUR 39.9 million in the financial statements for 2019). The Group's loans per capita were EUR 7,389 (EUR 7,550 in the financial statements for 2019) according to the preliminary population data for 2020. The loans per capita decreased by EUR 161 per capita from the previous year.

Of the Group's interest-bearing loan portfolio, 36% pertains to the real estate and housing business (35% in the financial statements for 2019) and 17% to other business operations (16% in the financial statements for 2019). Joint municipal authorities accounted for 4% of the loan portfolio (4% in the financial statements of 2019), while the City of Turku accounted for 43% (45% in the financial statements for 2019). The City of Turku's share of liabilities includes EUR 481 million in loans lent forward to the City's subsidiaries. When the City of Turku's share of Group debt is adjusted by an amount corresponding to its loans receivable from its subsidiaries and joint municipal authorities, the City of Turku is left with EUR 140 million (EUR 206 million in the financial statements of 2019) of the Group debt, while the Group's subsidiaries and joint municipal authorities are left with EUR 1,297 million (EUR 1,251 million in the financial statements for 2018). The subsidiaries' and joint municipal authorities' share of the adjusted loan portfolio has increased by EUR 45 million, while the City's share has decreased by EUR 66 million from the previous year.

## Turku Group's loan portfolio



The Turku Group's whole loan capital was EUR 1,888.0 million at the end of the year (EUR 1,937.2 million in the financial statements for 2018). This means a decrease of EUR 49.2 million from the previous year.

The Group's loans and rental liabilities amounted to EUR 1,981.6 million at the end of the financial year (EUR 1,881.5 million in the financial statements for 2018). The Group's equity ratio was 37.1 per cent (35.4% in the financial statements for 2018). Relative indebtedness was 90.4 per cent, which represented a decrease from the previous year (95.8% in the financial statements for 2018). 90.4 per cent of the Group's operating revenue would be required to repay all borrowed capital.