

**29.11.2013**

**Government Decision on Implementing the Structural Policy Programme**

## **Contents**

Introduction

The Government's conclusion on implementing and supplementing the programme

The Government's decision on implementing the programme

Monitoring the implementation of the programme

Appendix 1: A steering system for local government finances

Appendix 2: A programme to reduce local government tasks and obligations and its implementation

Appendix 3: Extending working careers at the start and reducing breaks

Appendix 4: Reducing the structural unemployment rate

Appendix 5: Housing market

## Introduction

This year, Finland's GDP will be roughly 5% lower than in 2007. High unemployment and the large central government and local government deficits are a consequence above all of this long-continuing growth deficit. Underlying the weak economic growth are the problems of the global economy and the euro area, the restructuring of Finnish industry and weak competitiveness.

The weakening of competitiveness is not only a matter of relative cost level but also the ability to adapt to changes in the global economy and technology. Greater adaptability and full utilisation of human resources are also required. This, in turn, requires a raising of skills levels.

Even before the decline in economic growth, there was a sustainability gap in Finland's public finances. In other words, even during normal development of the economy and employment, general government revenue would not be sufficient without compensatory measures to finance, as determined by current criteria, public spending, which is growing rapidly through a change in population age structure, such that general government indebtedness would remain under control. The task of the structural policy programme is to bridge this funding gap and thus safeguard future benefits and services.

The Government's structural policy programme will help reform institutional frameworks in economic activity as well as the incentives they create so that conditions for economic growth are strengthened. The reforms must, however, be reconciled with other economic policies in such a way that the overall package supports growth and employment also in the short term. It should be noted that economic recovery worldwide has also been slow and fragile since the economic crisis of 2008–2009.

To ensure that incipient demand and growth are not stifled, a balanced fiscal policy is required. There exists a degree of choice between structural policy and rapid adjustment measures: the more credible the structural policy that secures the sustainability of general government finances, the less need there will be in the short term for tax increases and spending cuts that will put the brakes on growth.

The economic policy choice can be encapsulated and simplified as follows: without a credible overall structural policy solution, there would a greater need to reduce the central government and local government deficits quickly. Large-scale adjustment measures implemented immediately would weaken demand and employment. The agreement of a credible structural package will give time for the controlled removal of the budget gap. The Government has chosen the latter option.

## **The Government's conclusion on implementing and supplementing the programme**

For the structural programme to be implemented in the manner decided by the Government in August 2013 and taking into account the assessment of the programme's implementation by the steering group led by Permanent Secretary Martti Hetemäki, which coordinated the preparatory work

- The Government considers that amendments to the Local Government Act and changes to the tasks, obligations and norms of the municipalities will be implemented and a steering system for local government finances introduced in the manner outlined in Appendices 1 and 2. In addition, the Government considers that it will refrain from giving new tasks and obligations that increase local government expenditure without deciding at the same time to cut tasks and obligations of corresponding size or fully funding the new tasks or obligations that are given. This principle will be applied to new projects with respect to the framework of the spending limits decision. Furthermore, projects already in the spending limits that will increase local government expenditure will be critically assessed in connection with the spending limits decision.
- The Government will ensure in the social welfare and health care reform both the integration of social welfare and health care and their efficient administration.
- The Government will supplement proposals for central government service structures such that, for example, in connection with a reorganisation of the central government's central administration and regional administration, human resources are used more flexibly and administrative tasks reorganised so that the annual growth target set for the productivity of public service provision is also fulfilled in central government functions.
- The Government states that social partners will prepare a pension reform in accordance with objectives confirmed in the 2012 working careers agreement so that it is possible with sufficient certainty to estimate that the expected average retirement age will rise to at least 62.4 years by 2025.
- The Government will supplement proposals for measures directed at working career breaks and the employment of young people in the manner outlined in Appendix 3.
- The Government will supplement proposals for lowering the structural unemployment rate in the manner outlined in Appendix 4.
- The Government will supplement proposals to boost construction and the functioning of the housing market in the manner outlined in Appendix 5.
- The Government will oblige the ministries to implement the sound competition programme.
- The Government will implement all reforms within the framework of the central government spending limits.

- The Government is prepared to decide in the March 2014 spending limits discussion on necessary additional adjustment or structural measures to reduce the central government deficit and to turn the central government debt ratio on a declining path. The magnitude of the adjustment measures will be based on the then available adjustment needs assessment prepared by the Ministry of Finance and based on the central government finances forecast, and the implementation of the structural policy programme will also be taken into account in determining the magnitude of the measures.

The following table presents a summary of the steering group's assessment of the possible impact of the expected implementation of the structural policy programme on the sustainability gap, when the programme is supplemented in the ways outlined above. Estimates of the impact of measures on the sustainability of general government finances are inevitably indicative and approximate.

Table: Summary of the expected implementation of the structural policy programme.

	Possible sustainability gap impact, % points.
Management of local government finances	-1.0
Productivity of public service provision	-1.4 <sup>1)</sup>
Working careers and supply of work	-1.4 <sup>2)</sup>
Structural unemployment	-0.3
Output potential of the whole economy	-0.6
Total	-4.7

<sup>1)</sup> The possible sustainability gap impact includes an assumption that, as a consequence of the social welfare and health care service structure reform, instead of the annual net increase of around 3,000 people estimated earlier in public services provision and arising from a growth mainly in number of social welfare and health care staff required, that increase would remain at 1,000 people per year. This means a growth in public services productivity of one half of one per cent, which will narrow the sustainability gap by an estimated 1.4% of GDP. If the mentioned productivity growth is not achieved, the bridging of the sustainability gap in this respect will depend upon local government expenditure and tax adjustment measures. The new financial steering system for local government finances will ensure that the sustainability gap will be bridged.

<sup>2)</sup> The possible sustainability gap impact includes targets set for pension reform. The details of the pension reform have not been decided and the sustainability gap impact of the reform cannot be estimated yet. The reform, which would fulfil a commitment of social partners, will extend working careers by at least 1½ years and reduce the sustainability gap by just over 1 percentage point.

## **The Government's decision on implementing the programme**

### **1.1 Reform of the pension system**

The Government states that social partners will negotiate a solution for the next pension reform in accordance with that which was agreed for the extension of working careers in the working careers agreement (22 March 2012). The objective of the pension reform and the related contribution level solution is to promote employment, support the elimination of the general government sustainability gap, improve the financial sustainability of the pension system over the long term and ensure adequate pension security and fairness between generations. The social partners will negotiate a solution for pension reform by autumn 2014. In the same context, issues relating to the equalisation amount and the EMU buffer fund as well as the development of old-age pension funding will be decided. The aim is to submit all the Government bills relating to the pension reform to Parliament immediately after the 2015 parliamentary elections and for the reform to come into force at the beginning of 2017 at the latest.

### **1.2 Employment of older workers**

The implementation schedule will be specified later in connection with negotiations relating to the reform of the pension system. Some of the new legislation will come into force on 1 January 2014.

### **1.3 Reducing alcohol consumption and its harmful effects**

Government bills will be submitted in 2014. The legislation will come into force during a transition period, 2015–2016. The alcohol programme will be revised in early 2014.

### **1.4a Preschool education**

A Government bill will be submitted as a finance and expenditure act in 2014. The legislation will come into force on 1 January 2015.

### **1.4b Social guarantee for young people**

An implementation schedule for the development of vocational education is outlined in section 1.5.

### **1.4c Age of compulsory schooling**

In accordance with the Government's structural policy programme, the age of compulsory schooling will be raised to 17 years in order to safeguard continuity at a critical transition point, reduce drop-out rates and extend the working careers of young people.

The reform will be applied to the entire age group and it will be prepared in such a way to target in particular young people who do not continue with education after basic education. The reform will be implemented within the constraints of

the Constitution. A legislative proposal will be submitted to Parliament in autumn 2014.

A Government bill will be submitted as a finance and expenditure act in 2014. The legislation will come into force on 1 January 2015.

#### 1.5a Provision of vocational education

The qualification system will be reformed and a Government bill relating to this will be submitted in spring 2014 so that the reform comes into force on 1 August 2015. The funding system for vocational education (basic and further education) will be reformed and a Government bill relating to this will be submitted in spring 2014. The new funding legislation will come into force on 1 January 2015.

Application procedures for preparatory education after basic education will be introduced in summer 2014. An integrated package of preparatory education for vocational basic education will be introduced on 1 August 2015. A Government bill will be submitted in autumn 2014. The structural development of the provider network for vocational education will continue. An action plan will be launched in early 2014. Licences to provide education will be revised at the latest by 1 January 2017.

#### 1.5b Closer cooperation in education

Upper secondary school education objectives and allocation of lesson hours as well as curriculum criteria will come into force on 1 August 2016. Revised statutes relating to the qualification structure of vocational education will come into force on 1 August 2015.

#### 1.5c Credit transfer in vocational qualifications

Changes with respect to vocational education will be implemented in connection with a reform of the qualification system and the funding system. Government bills will be submitted in 2014. The legislation will come into force in 2015.

Development of a competence-based qualification system was initiated in November 2013. The proposals will be ready in October 2014.

Preparation of activity within the National Board of Education promoting credit for earlier expertise will take place in 2014.

#### 1.6a Financial aid to students

A Government bill has been submitted.

#### 1.6b Higher education completion times

Government bills on the amendment of the Universities Act and the Act on Universities of Applied Sciences will be submitted during the spring session in 2014. The legislation will come into force on 1 August 2015 and it will be

applied to students that begin their studies after the legislation has come into force.

#### 1.6c Higher education funding (students acquiring 55 study credits per year)

Provisions for universities of applied sciences will come into force on 1 January 2014, provisions for universities on 1 January 2015.

#### 1.6d Admission to higher education

Development of the comparability of matriculation examination grades between different examination periods will be introduced gradually by 2016 so that it will be applied to the first examinations during 2014.

#### 1.6e Clearing the application backlog

A temporary increase in intakes will be implemented in cooperation with higher education establishments beginning in 2015 at the latest. The duration, scope and funding of the planned increase will be decided in connection with the Government's spending limits preparation.

A Government bill on student selection reform will be submitted in August 2014. The legislation will come into force on 1 January 2015. An application process in accordance with the new statutes will be introduced in spring 2016 when selecting students for studies beginning in autumn 2016.

#### 1.6f Competency of lower university degrees

The ministries' proposals will be supplemented so that the ministries will be obliged to revise competency requirements in their fields of activity such that studies leading to competency can be performed more flexibly than at present. The legislative amendments will come into force on 1 January 2015. In addition, the supplemented bill will be coherently integrated with measures 3.2 and 3.4.

#### 1.6g Year-round studies in higher education

The implementation schedule will be specified later.

#### 1.7 Apprenticeship training

A reform will be launched as projects in 2014. Selected elements of the activity will be established from the beginning of 2017.

#### 1.8 Funding criteria and digitalisation of upper secondary schools

The funding criteria for upper secondary school education will be reformed. A Government bill will be submitted in spring 2014 and the reform will come into force on 1 January 2015.

The matriculation examination will be made all-electronic. Students will sit the first electronic tests in 2016 and the whole examination will be electronic in



2019. In upper secondary education, digital learning environments and applications to support teaching will be developed as part of a national education cloud.

#### 1.9 Home-care allowance and limiting the subjective right to day care

A Government bill amending the home-care allowance will be submitted as a finance and expenditure act in 2014. The legislation will come into force on 1 August 2015.

With respect to limiting the subjective right to day care, a Government bill will be submitted in 2014. The legislation will come into force on 1 January 2015.

#### 1.10 Job alternation leave

A reform of job alternation leave will be implemented based on a tripartite proposal and Government policy. A tightening of the eligibility of substitutes will be particularly examined. Detailed preparation will take place on a tripartite basis. The reform will come into force in autumn 2014.

#### 1.11 Equalising the costs of parenthood

A report on different models of equalising the costs of parenthood and on the costs of these models has been prepared. The Government will continue an evaluation of the equalisation of the costs of parenthood in collaboration with social partners.

#### 1.12a Implementation of an immigrant integration programme

The implementation schedule will be specified later.

#### 1.12b Intermediate labour market

The implementation schedule will be specified later.

#### 1.12c People with partial work ability

The implementation schedule will be specified later.

#### 1.12d Long-lasting employment subsidy

A Government bill will be submitted in 2014. The legislation will come into force on 1 January 2015.

#### 1.12e Social enterprises

A Government bill on the issue will be submitted in autumn 2014. The legislative changes will come into force from the beginning of 2015.

#### 1.12f People in a weak labour market position

The EU Directive on Public Procurement will be submitted in February 2014. People in a weak labour market position will be taken into account in the preparation of a Government bill, which will be submitted in 2015. The legislation will come into force in February 2016.

#### 1.13 Re-orientation of training for the unemployed

The implementation schedule will be specified later.

#### 1.14 Participatory social security

The implementation schedule will be specified later.

#### 1.15 Employment service centres

The ministry's proposal will be supplemented within the package outlined in Appendix 4.

A Government bill on a Employment Service Centre Act will be submitted as a finance and expenditure act in 2014. The legislation will come into force on 1 January 2015.

A Government bill on the amendment of the Unemployment Security Act will be submitted in 2014. The amendments will come into force on 1 January 2015.

#### 1.16 Increasing job offers

The ministry's proposal will be supplemented in the manner outlined in Appendix 4 .

A Government bill on future amendments to the Unemployment Security Act will be submitted in 2014. The amendments will come into force at the latest in 2015.

#### 1.17 Wage subsidy

An electronic payment application will be introduced in January 2014. An evaluation of the possibility of simplifying the structure of the wage subsidy will be completed by 30 April 2014. If a proposal is made to change the wage subsidy system, a Government bill will be submitted in autumn 2014 and the provisions will come into force on 1 January 2015.

#### 1.18 Municipalities' role and responsibility in the active management and funding of labour market support of the long-term unemployed (300 days)

A Government bill will be submitted as a finance and expenditure act in 2014. The legislation will come into force on 1 January 2015.

#### 1.19 Obligation to accept work

A Government bill will be submitted in 2014. The amendments will come into force on 1 January 2015.

#### 1.20 Advance payment of unemployment benefit

New guidelines will come into force from the beginning of 2014.

#### 1.21 Protected portion in unemployment benefit

A Government bill has been submitted.

#### 1.22 Protected portion in housing allowance

The Government will decide in line with its position of 29 August 2013 on a model for the protected portion of housing allowance.

A Government bill will be submitted at the beginning of the spring session. The legislation will come into force on 1 January 2015.

#### 1.24 Negotiation and agreement system

The implementation schedule will be specified later.

#### 1.25a Zero-hours contracts

A Government bill will be submitted in the spring session of 2014. The entry into effect of the legislation will be decided on then.

#### 1.25b Underpayment of wages

The implementation schedule will be specified later. A reform of the Act on Cooperation within Undertakings relating to this issue will come into force on 1 January 2014.

#### 1.25c Part-time workers

The implementation schedule will be specified later.

#### 1.26 Foreign students

The implementation schedule will be specified later.

### 2.0 Shop opening hours

A Government bill will be submitted at the beginning of the spring session of 2014. The legislation will come into force on 1 April 2014.

#### 2.1a Business aid

The Government will establish a ministerial working group to prepare a bill on the reform and re-allocation of business aid and of environmentally harmful aid by the March 2014 spending limits discussion.

#### 2.1b Environmentally harmful aid

Preparation will continue in the manner outlined in section 2.1a.

#### 2.1c Availability of business financing

The implementation schedule will be specified later.

#### 2.2 Planning and barriers to competition

The ministry's proposal will be supplemented in accordance with Appendix 5.

Government bills will be submitted in autumn 2014. The legislation will come into force in spring 2015.

#### 2.3 Competition in construction

The ministry's proposal will be supplemented in accordance with Appendix 5.

The expertise and consistent operating practices of municipalities' building regulation departments will be enhanced by combining building regulation departments into larger, supramunicipal units. The new building regulation units would cover their operating costs in full through permit fees. The intention is to implement the reform during 2016.

#### 2.4 Sound competition programme

The Government will oblige the ministries to implement the sound competition programme.

#### 2.5 Making the most of the Russian market

The implementation schedule will be specified later.

#### 2.6 Basis for industrial production

The implementation schedule will be specified later.

#### 2.7 Shadow economy

The implementation of the programme to combat the shadow economy will be continued. Some of the reforms will be implemented in 2014. A Government bill on the introduction of a public tax debt register will be submitted in autumn 2013.

#### 2.8 Contractor's liability and sanctions

The implementation schedule will be specified later. A study on e.g. the expansion of the tax number into other sectors and well as the duty to report information will be implemented in such a way that the necessary bills can be submitted at the beginning of 2015.

## 2.9 Anticipation of labour and education needs

The implementation schedule will be specified later.

## 2.10 EU Structural Funds

The ministerial working group on public administration and regional development decided on 18 September 2013 that, in the Structural Fund period starting from the beginning of next year, four Centres for Economic Development, Transport and the Environment (ELY centres) will specialise in the administration of the Structural Funds.

## 2.11 National electronic service channel

Government bills will be submitted in the early part of 2014. Electronic identification will be enabled and the channel will feature its first services in 2015.

## 2.12 Baltic Sea cable

The implementation schedule will be specified later.

## 2.13 Opening up of public information resources

The Cabinet Committee on Economic Policy has discussed the ministry's proposal. Preparation will continue, utilising proposals prepared by the ministries. In so far as a proposal calls for changes in appropriations, such changes will be brought into the central government spending limits within the framework of the normal spending limits procedure.

Public information resources will be opened up gradually in the period 2014–2018.

## 2.14 Permit and appeal procedures

In significant permit projects, an operating model that improves information flow between businesses and permit authorities even before the submission of a permit application and accelerates the permit process will be introduced immediately.

Government bills for a new Environmental Protection Act will be submitted in December 2013 and in the autumn session of 2014. A Government bill on developing appeal procedures will be submitted in spring 2014.

## 2.15 Housing investments of authorised pension providers

The ministry's proposal will be supplemented in the manner outlined in Appendix 5.

#### 2.16 Tax-free sale of land

A Government bill has been submitted.

#### 2.17 Start-up assistance for rental housing production

A Government bill has been submitted.

#### 3.1 A steering system for local government finances

A new steering system for local government finances will be decided in accordance with the proposal outlined in Appendix 1.

#### 3.2 Local government tasks, obligations and norms

A reduction of local government tasks and obligations will be decided in accordance with the proposal outlined in Appendix 2. In addition, the Government will refrain from giving new tasks and obligations that increase local government expenditure without deciding at the same time to cut tasks and obligations of corresponding size or fully funding the new tasks or obligations that are given. This principle shall be applied to new projects with respect to the spending limits decision. Furthermore, projects already in the spending limits will be critically assessed in connection with the spending limits decision.

To support the reduction of obligations, local government trials will be launched in 2015–2016. The selection of local government trials will be initiated at the end of 2013 based on six different operating models: an integrated operating model for wellbeing, education service trials, a sheltered housing operating model, a supervision operating model, cooperation between the local authorities and the Social Insurance Institution of Finland (Kela), and the social guarantee for young people. The legislative amendments required by the local government trials will be submitted to Parliament in the spring session of 2014.

#### 3.3 Social welfare and health care service structure and funding

The Government will ensure in the social welfare and health care reform both the integration of social welfare and health care and their efficient administration.

Following consultation, a Government bill will be submitted to Parliament in spring 2014. The legislation will come into force on 1 January 2015. The new organisations will start operating on 1 January 2017.

In accordance with the structural policy programme, the Government will establish a broad-based working group (involving Parliamentary representation, various funding parties and organisations), which will prepare a report on options for clarifying the multi-channel funding of social welfare and health care, and the effects of these options. The report should be ready in early 2015.

### 3.4 Competency requirements

The ministry's proposal will be supplemented such that it connects in a coherent manner with measures 1.6 and 3.2. The ministries will be obliged to revise competency requirements in their fields of activity such that studies leading to competency can be performed more flexibly than at present.

### 3.5 Local government structure

A Government bill will be submitted in early spring 2014. The legislation will come into force in summer 2014. The Government will decide on possible mergers of municipalities such that they can come into force from the beginning of 2017.

### 3.6 Metropolitan Authority 1

The Government will decide on the content of the reform in autumn 2014, after the working group preparing the Metropolitan Authority has completed its work. The municipalities will probably decide on the mergers in 2014. Possible mergers will probably come into force at the beginning of the 2017 local council term.

### 3.7 Metropolitan Authority 2

The ministry's proposal will be supplemented with respect to planning and housing objectives in the manner outlined in Appendix 5. In other respects, preparation will continue, utilising proposals prepared by the ministries. In so far as a proposal calls for changes in appropriations, such changes will be brought into the central government spending limits within the framework of the normal spending limits procedure.

The Government will decide on the content of the reform in autumn 2014, after the working group preparing the Metropolitan Authority has completed its work. A Government bill will be submitted at the beginning of the spring session of 2016. The legislation will come into force such that the new structure is taken into use from the beginning of 2017.

### 3.8 Comprehensive reform of the Act on Public Procurement

Public procurement legislation will be reformed in line with the new EU directives that come into force in February 2014 and taking into account the Government Programme. The new legislation will come into force in February 2015.

### 3.9 Central government administration and service structures

Preparation will continue, with special emphasis on measures according to policy outlines (incl. central administration reform project (KEHU), regional administration) made on 8 November 2013 by the leaders of governmental party groups.

In connection with the Prime Minister's Office, a Government Administration Unit centralising the joint administration and service functions of the ministries will be established on 1 March 2015. A proposal on the tasks and appropriations to be transferred will be made by 30 April 2014.

Particularly in connection with a reorganisation of the central government's regional administration, expert resources will be used more flexibly and administrative tasks reorganised so that the annual growth target set for the productivity of public service provision is also fulfilled in central government functions. The Permanent Secretary Group will make a proposal on the reorganisation of regional administration by 31 January 2014.

A Parliamentary Committee will be established to assess Government reform needs. The deadline for the work is January 2015.



## Monitoring the implementation of the programme

Monitoring of the implementation of the structural policy programme will be arranged as follows:

- Proposals confirmed by the Government for the implementation of the structural policy programme will be brought within the normal spending limits framework as part of the central government spending limits in the March 2014 spending limits discussion. If structural policy programme measures call for an increase in appropriations, the increases will be implemented through re-allocations within the central government spending limits.
- The Government will authorise a steering group led by Permanent Secretary of the Ministry of Finance Martti Hetemäki to monitor the implementation of the structural policy programme until the March 2014 spending limits discussion. The other members of the steering group are State Secretary of the Prime Minister's Office, Olli-Pekka Heinonen, Permanent Secretary of the Ministry of Education and Culture, Anita Lehtiköinen, Permanent Secretary of the Ministry of Employment and the Economy, Erkki Virtanen, and Director General Jukka Pekkari of the Ministry of Finance.
- The Budget Department of the Ministry of Finance will assess by the March 2014 spending limits discussion whether the structural policy programme is being implemented within the framework of the central government spending limits.
- The Hetemäki steering group will report of the implementation of programme measures to the Cabinet Committee on Economic Policy. By the March 2014 spending limits discussion, the steering group will propose to the Government the further measures it considers necessary to strengthen implementation to ensure that the programme can be implemented in the manner decided by the Government in August 2013.
- In the structural and administration reforms, including the amendment of the Emergency Decree and the reorganisation of the fire and rescue service, an evaluation of linguistic impacts will be made with the aim of safeguarding services in Finnish and Swedish.
- The Government will monitor the implementation of the structural policy in the March 2014 spending limits discussion and in the September 2014 budget discussion and will decide, if necessary, on additional measures to ensure that the programme is implemented in the manner decided by the Government in 2013.
- A more precise estimate of the effects on the length of working careers of measures already decided and those decided now will be prepared by the March 2014 spending limits discussion. If, on the basis of the said estimate, expected working careers will not be extended by at least six months at the start by 2020, sufficient additional measures will be implemented.
- A more detailed assessment of the effects of measures 1.12-1.22 will be prepared by the March 2014 spending limits discussion. If it is found that employment is not boosted by the proposed means, additional measures will be prepared on a

tripartite basis for implementation during the parliamentary term, in accordance with the Government statement on 29 August 2013.

- The Government will report on the implementation of the structural policy programme within the framework prescribed by a national act complying with the provisions of the EU Directive of Budgetary Frameworks, in a public finances plan as well as within the framework of the EU's European Semester in the Stability Programme and the Europe 2020 Programme in spring 2014.

## Appendix 1

### Steering system for local government finances

To ensure the balance of local government finances, a new steering system for local government **finances** will be introduced with the aim of safeguarding the sustainability of local government finances. In terms of its long-term and binding nature, the steering system will be comparable to the present central government spending limits procedure. The new system will ensure that municipalities' tasks and obligations are consistent with the balance of local government finances.

Under the new system, a local government finances programme will reconcile municipalities' tasks and obligations with their funding. The programme will replace the present basic public services programme. The local government finances programme will determine the development of municipalities' own tax and payment revenue as well as the target productivity level of local government services required to balance local government finances. Similarly, it will specify those central government measures relating to central government transfers, the municipalities' tax base and the municipalities' tasks and obligations by which the balance of local government finances will be ensured. The review of the cost division between local and central government will be changed into an annual procedure. A section established in connection with the Advisory Board for Municipal Administration and Economy will assess the reliability of cost calculations relating to the tasks and obligations prescribed for the municipalities by the central government.

### Government policy on the steering system for local government finances:

1. A steering system for local government finances will be introduced as well as a related local government finances programme, which will replace the present basic public services programme. To balance local government finances, the local government finances programme will reconcile municipalities' tasks and obligations and their funding.
2. In accordance with the steering system for local government finances, the Government will decide on a local government finances programme at the beginning of the parliamentary term. The local government finances programme will set a balance target for local government finances and at the same time decide on measures to achieve the target in a separate local government finances programme. As with the central government spending limits procedure, the programme will be reviewed annually in connection with the Government's spending limits decision.
3. To support the balance target, a financial framework for local government finances will be introduced in which a monetary limit for the change in local government expenditure arising from central government measures will be set.
4. In connection with a reform of the Local Government Act, the deficit coverage obligation of an individual municipality or joint municipal authority as well as the procedure for assessing municipalities in a difficult financial situation will be reformed so that they effectively support maintaining the balance of local government finances as a whole. In addition, the assessment procedure will be extended to cover joint municipal authorities.
5. The division of costs review will be changed to be conducted on an annual basis.

6. To alleviate cyclical economic effects, the stability of local government finances will be maintained by measures aimed at balancing revenue development.
7. To ensure the effectiveness of the steering of local government finances, the information needs of steering will be taken into account in implementation of the Local Government Information Programme. Transparency and comparability of the costs of public services will be promoted by introducing in the local government sector a common model for the accounting and comparison of production and costs. As a basis for decision-making, the steering group will submit a proposal to the Government by the 2014 spending limits discussion.
8. Steering of local government finances will be implemented as part of a public finances plan and its annual revision in accordance with the implementation of the EU Directive of Budgetary Frameworks.
9. The Government will include legislative amendments relating to the steering system for local government finances in a bill on the reform of the Local Government Act. The legislation is due to come into force on 1 January 2015.

## Appendix 2

### **A programme to reduce local government tasks and obligations, and its implementation**

The goal in reducing municipalities' tasks and obligations is to achieve a one billion euro reduction in municipalities' operating expenditure at 2017 prices. Only proposals that are considered to reduce public spending overall have been included in the review. For this reason, transfers of tasks from local government to central government have not been taken into account unless they are considered to generate achievable productivity gains or other benefits through centralisation. The review, moreover, does not take into account measures whose implementation is already under way (for example a Government bill has been already submitted).

Some of the enclosed measures are proposals to reduce municipalities' tasks and obligations and some are obligations falling within the scope of lower-level regulation that, if eased, would boost operational efficiency. In addition, a revision of payment criteria has been included in the review.

The reform programme also includes local government trials. The purpose of such trials is to test legislative changes and other measures that might help municipalities to develop their service structure and service processes and to save costs irrespective of the municipal obligations within the scope of the trial and without compromising the effectiveness sought for services under the legislation.

The Government will evaluate the transfer of accounting and payment of social assistance to the Social Insurance Institution of Finland (Kela) by the March 2014 spending limits discussion. The Government is committed to social assistance cooperation between the municipalities and Kela, at least via the local government trials.

The structural policy programme package also includes a comprehensive reform of social welfare and health care, which will play a dominant role in realising the productivity requirement for the public service system included in the programme. The effects of this reform are not included in the enclosed measures.

The measures decided upon will have the effect of lowering local government expenditure by EUR 1230 million at 2017 prices. This expenditure includes central government transfers to local government in accordance with central government transfer percentages. The Government will take a position on the use of saved central government transfers in connection with spending limits decisions, after legislative changes reducing expenditure have been made or when a slowdown in the growth of local government expenditure has been achieved. The Government will ensure, in connection with decisions relating to saved central government transfers, that local government finances will be strengthened in line with the target by EUR 1 billion at 2017 prices. The estimates of the effects of the proposals will be revised as preparations advance.

By the end of February 2014, the ministries shall prepare the changes to central government statutes and instructions required by Government measures, which will result in the desired effects. In addition, the ministries shall prepare to the same schedule proposals for changes to competency requirements that will reduce local government expenditure by EUR 165 million at 2017 prices.

The programme to reduce local government tasks and obligations will require persevering implementation. From 2015, it will be transferred for implementation within the new steering system for local government finances.

## Appendix 2

### Proposals for the reduction of local government tasks and obligations, boosting operational efficiency and reviewing payment criteria

Measures to reduce local government tasks							
		Impact in 2017, EUR million					
		Local gov. spending	Local gov. revenue	Central gov. spending	General gov. finances, total		Administrative branch
1	Savings measures in adult dental care	-15	-5	-5	-15	Lengthening of dental check intervals in adult dental care and discontinuation of 24-hour emergency service.	Ministry of Social Affairs and Health
2	Reform of the emergency system	-60	-17	-17	-60	The implementation of the Emergency Decree will be accelerated in basic health care, in obstetric services and in surgical activity.	Ministry of Social Affairs and Health
3	Removal of unnecessary certificates in health care	-8			-8	<p>There are estimated to be over 100 different kinds of medical certificates and statements prepared in health care. A large proportion of the prepared certificates are not directly connected with patient care. Some of the health certificates are statutory and relate to a municipality's obligation to give official assistance to another authority, for example the official assistance of a health centre doctor to the Police or to a prison authority. Health certificates are prepared in connection with, among other things, work, education and leisure pursuits.</p> <p>The writing of certificates can be reduced when the information required for a benefit entitlement or decision can be communicated in other ways, e.g. rehabilitation under the Military Injury Act and driving licence certificates.</p>	Ministry of Social Affairs and Health
4	Re-allocation of activation plan and rehabilitative work activity	-3			-3	Through the cooperation of the social welfare and health care and the employment and economic development functions, it is possible to target services more effectively and to better correspond to the needs of rehabilitative work activity customers. Through better cooperation between social welfare and employment functions, it is possible to answer better the needs of customers in various life situations. Also connected with social welfare's rehabilitative work activity and its reimbursements are burdensome administrative tasks, which can be reduced in this context.	Ministry of Social Affairs and Health
5	Abolition of duty to supervise solarium devices	-1			-1	Inspection visits of solariums under the Health Protection Act will be abolished.	Ministry of Social Affairs and Health
6	Competitive tendering of substitute worker services for agricultural entrepreneurs					In collaboration with the Farmers' Social Insurance Institution Mela, by 30 May 2014 the Government will explore opportunities to achieve cost savings by developing the system.	Ministry of Social Affairs and Health
7	Transfer of the checking of private service provider's premises and equipment to the Regional State Administrative Agencies	-0,55		0,55	0	Task transfer. The transfer of the obligation is closely related to work already done by the Regional State Administrative Agencies. Social welfare and health care permit processes will be integrated.	Ministry of Social Affairs and Health
8	Removal of the Customer Cooperation Group on Rehabilitation from local government tasks	-3,5			-3,5	In the Employment Service Centres (TYP), there will be closer cooperation between the employment and social welfare functions, where customer cooperation will also be realised and in this respect the work of the Rehabilitation Customer Cooperation Group can be discontinued in both the municipalities and regionally. Municipalities will take care of the implementation of customer cooperation other than that arranged in TYP activity by other means.	Ministry of Social Affairs and Health
9	Discontinuation of archiving of patient information in paper form	-94	-28	-28	-94	Under the Act on the Electronic Processing of Client Data in Social and Health Care, municipalities do not need to archive in paper form patient documents that are created after 1 September 2014; the National Patient Data Archive (Kanta) will handle electronically long-term archiving in accordance with the Archives Act. The saving will arise from the fact that the municipalities can discontinue the maintenance of an archive.	Ministry of Social Affairs and Health
10	Transfer of refugees to central government	-8	-4	4	0	The refugees will be transferred to the responsibility of the central government from the beginning of 2015.	Ministry of Social Affairs and Health

11	Easing and digitalisation of food control	-1			-1	The reporting and planning obligations of the municipalities will be eased and digitalised. The proposal to increase supervision fees (see below number 39) is connected with this measure.	Ministry of Agriculture and Forestry
12	Changes in the Rural Business Administration	-1,5			-1,5	In connection with the implementation of the CAP2020 reform, the Government will review the change of tasks arising to municipalities so that savings are realised.	Ministry of Agriculture and Forestry
13	Removal of the local government obligation to prepare and maintain the statutory water management development plan	-2			-2	The municipalities' planning obligation under the Water Services Act will be eased. In connection with the reform of the Water Services Act, municipalities' obligation to prepare and maintain the statutory water management development plan will be removed.	Ministry of Agriculture and Forestry
14	Removal of regional employment obligation	-2,6	-0,8	-0,8	-2,6	The regional obligation under the Act on Public Employment and Business Service to arrange employment opportunities for unemployed job seekers will be abolished.	Ministry of the Economy and Employment Ministry of the Environment
15	Re-evaluation of municipalities' supervision tasks	-30	-9	-9	-30	<p>The municipalities have many supervision tasks that are based e.g. on the Health Care Act, the Health Protection Act, the Environmental Health Care Act, the Tobacco Act, the Alcohol Act, the Consumer Protection Act and the Waste Management Act. A fee can be charged for many of these supervision tasks.</p> <p>Municipal supervision tasks will be comprehensively reviewed. The objective is to reduce the number of municipal supervision tasks. Supervision tasks may be transferred to larger municipal units or to the responsibility of the central government. The costs to the municipalities arising from supervision tasks will be assessed in the review.</p> <p>By withdrawing supervision tasks, it may be possible to achieve a net saving of at most some tens of millions of euros.</p>	Ministry of Social Affairs and Health, Ministry of Finance, Ministry of the Environment
16	Reduction of municipalities' planning obligations	-30	-9	-9	-30	<p>In connection with the preparation of the Local Government Act and the Act on the Organisation of Social and Health Care, municipal-level planning obligations will be taken as a subject of comprehensive review with respect to all administrative branches, and opportunities to standardise municipal-level planning processes in larger units will be jointly examined by the different ministries. All functions relating to the preparation of a plan to arrange a service/activity will be subject to review.</p> <p>Cost savings are difficult to estimate, but it is estimated that they may be at most some tens of millions of euros.</p>	All ministries
Measures to reduce local government tasks, total		-260	-73	-64	-252		

#### Withdrawal of standards and norms steering the provision of local government obligations and services

		Impact in 2017, EUR million					
		Local gov. spending	Local gov. revenue	Central gov. spending	General gov. finances, total		Administrative branch
17	Structural reform and funding system reform of secondary education provider network	-195	-73,5	-73,5	-195	<p>The structural reform of the education provider network and the reform of the funding system will be implemented such that funding is based primarily on performance (e.g. qualifications, partial qualifications, credits) and results, not study time.</p> <p>The secondary education provider network will be condensed so that the operating conditions for strong providers of upper secondary school and vocational education (basic and further education) and regional availability of education corresponding to further studies and business needs can be ensured.</p> <p>Savings in premises and equipment costs will also arise from changes to the funding system.</p>	Ministry of Education and Culture

18	In secondary education, focusing on the funding of qualifications and discontinuing the public funding of other education	-65	-27	-27	-65	In future, the focus will be on arranging qualifications and parts of qualifications, and the public funding of other education will be discontinued: upper secondary education subject-related studies, and education not leading to a (educational establishment and apprenticeship form of education) partial qualification in vocational further education.	Ministry of Education and Culture
19	Tightening of criteria for the teaching of religion and ethics in basic education and in upper secondary school education	-3	-1	-1	-3	A minimum group size of 10 (currently three) for teaching other than Evangelical- Lutheran and Orthodox religion and ethics.	Ministry of Education and Culture
20	Reducing funding for liberal education	-15	-8,5	-8,5	-15	A structural and funding reform of liberal education will be implemented. The objective is create liberal education establishments of sufficient size to ensure operational quality and effectiveness. The reform will clarify and bring up to date the criteria for determining funding. Funding must encourage the development of study formats. To improve operational predictability, the boundary conditions of maintainer-specific funding constraints on the volume of liberal adult education activity will be defined.	Ministry of Education and Culture
21	Reducing the library and information service network by cutting the number of regional libraries	-1	-0,4	-0,4	-1	The regional library network will be thinned. Nowadays, public libraries form extensive, even regional, associations, and as a result their activities and those of the regional libraries sometimes overlap. A Government bill on the amendment of the Library Act will be submitted to Parliament at the beginning of the next parliamentary term, such that the Act comes into force in 2016.	Ministry of Education and Culture
22	Including teaching assistants as part of the teacher-student relationship	-10	-4	-4	-10	Taking teaching assistants into account in forming basic education teaching groups will require the amendment of provisions relating to teaching group size in basic education. Since the reform of the Basic Education Act in 1999, the size of study groups has not been specifically prescribed in legislation otherwise than in terms of the teaching of students requiring special support, the teaching of those within the sphere of extended compulsory education, and the teaching of students who are seriously disabled. Under the Basic Education Act, teaching groups should be formed such that the objectives set in the curriculum can be achieved in the teaching activity.	Ministry of Education and Culture
23	Centralised procurement of learning materials in general education and transfer towards digital materials	-7	-3	-3	-7	Learning material costs in basic education are approximately EUR 90 million. It is estimated that transferring to digital learning materials and utilising the education cloud will save approximately 5–10% of municipalities' learning material costs. If a corresponding arrangement would also be utilised in upper secondary school education, there would be a resulting benefit to students.	Ministry of Education and Culture
24	Reduction of institutional care in care for the elderly	-300			-300	An implementation programme will be prepared to fulfill the obligation, under the Act on Care Services for the Elderly, by which long-term care and attention may be implemented as institutional care only if there are medical grounds for doing so or if it is otherwise justified to ensure the dignified life and safe care of the elderly person to ensure a reduction of institutional places such that it reduces local government expenditure by EUR 300 million at 2017 prices within the framework of the central government's resources as currently estimated.	Ministry of Social Affairs and Health
25	Extending the validity period of prescriptions	-3			-3	Extending the validity period of prescriptions to two years will reduce municipalities' health care and medical costs, because the number of doctor or nurse consultations connected with the renewal of prescriptions will decrease. At the same time, the working time spent on updating patient records as well as the work of reception staff will decrease, because the volume of incoming and outgoing prescriptions will decline. The estimated cost impact is based on the fact that around 1.4 million long-term medical treatment patients renew their prescriptions annually.	Ministry of Social Affairs and Health
26	Reducing supplementary funding allocated in the spending limits to developing social welfare and health care services	-32	-4	-4	-32	Depends in practice on the scale of the reform of the Social Welfare Act.	Ministry of Social Affairs and Health



27	Deepening integration of basic health care, specialised health care and social work	-50	-15	-15	-50	The Ministry of Social Affairs and Health will immediately prepare legislative changes by which health-care arrangement plans and their implementation will be extended also to cover social services arranged by municipalities in order to strengthen basic-level social welfare and health care activity, improve integration, boost operational efficiency and remove overlapping administration. This will support the formation of seamless service chains for services, e.g. mental health and substance abuse services, services for the disabled, and child welfare. As part of this, extension of the use of the Imatra model will also be explored.	Ministry of Social Affairs and Health
28	Withdrawal of normative recommendations	-30	-9	-9	-30	In this measure, normative recommendations will be reviewed and their status assessed in relation to legislation and service targets.	Ministry of Social Affairs and Health
29	Reorganisation of the rescue service system	-7,5			-7,5	A structural reform directed at rescue service administration will be implemented. The area division of the rescue service will be reformed by reducing the number of areas from 22 to 11, mainly in accordance with the police department area division, which comes into force next year.	Ministry of the Interior
30	Enhancing public transport and passenger transport efficiency	-70		-30	-100	The establishment of municipal transport consolidation centres will be promoted by developing legislation. A ten per cent saving has been set as the target for public transport and passenger transport costs. Transport consolidation centres could achieve significant savings, particularly in sparsely populated areas. Consolidation of public local transport as well as school and student transport, health insurance reimbursable travel and transportation for the elderly and the disabled would generate cost savings.	Ministry of Transport and Communications, Ministry of Social Affairs and Health, Ministry of Education and Culture
31	Enhancing street network maintenance efficiency and reorganising local government tasks relating to the construction, funding and maintenance of private roads	-5			-5	The objective is to enhance the maintenance of the street network by developing procurement processes in areas of cooperation between the municipalities and central government (Ely centres).	Ministry of Transport and Communications
32	Evaluating the effectiveness of the tasks of municipal environmental protection authorities as well as reforming their tasks and operating practices	-3,5			-3,5	Changing the permit threshold for environmental protection will be explored. Secondly, a review will be made as to whether some functions can be transferred from the permit procedure to within the scope of registration. The digitalisation of municipalities' environmental permit procedure will be initiated. The reform will be implemented in connection with the second stage of the reform project of the Environmental Protection Act and Decree and certain other statutes.	Ministry of the Environment
33	Centralising the tasks of municipal building regulation authorities into supramunicipal units	-7,5	16,5		-24	The expertise and consistent operating practices of municipalities' building regulation departments will be enhanced by combining building regulation departments into larger, supramunicipal units. The new building regulation units would cover their operating costs in full through permit fees. The intention is to implement the reform during 2016.	Ministry of the Environment
	Easing of competency requirements					To safeguard the sustainability of local government finances and the availability of staff, there is a need to increase flexibility particularly in terms of norms that regulate staff competency and sizing. This requires the relaxation of too detailed staff norms and narrow competency requirements, which adversely affect the efficient arrangement of services and the reform of tasks and division of responsibilities. Staff competency conditions or the education structure of staff are prescribed in legislation on the handling of municipalities' statutory tasks. Relaxing competency conditions and education structure will require the preparation of legislation in the ministries. The Government will set as a target that the ministries initiate statute preparation immediately so that the implementation of the proposal can begin in 2015.	
34	- In the administrative branch of the Ministry of Social Affairs and Health	-145	-43	-43	-145		Ministry of Social Affairs and Health
35	- In the administrative branch of the Ministry of Education and Culture	-20	-8	-8	-20		Ministry of Education and Culture
	Withdrawal of standards and norms steering the provision of local government obligations and services	-970	-180	-226	-1016		

Proposals to strengthen the municipalities' revenue base							
		Impact in 2017, EUR million					
		Local gov. spending	Local gov. revenue	Central gov. spending	General gov. finances, total		Administrative branch
36	AdjuMinistry of Social Affairs and Healthtent of day care fees		25		-25	Day care fees will be increased moderately such that the fee increase is weighted towards those with high incomes.	Ministry of Education and Culture
37	Fees for supervision under the Environment and Land Extraction Act		3,3		-3,3	A Government bill in preparation on the reform of the Environmental Protection Act will propose that institutional supervision of environmental protection be placed on a fee-paying basis. A municipality could charge a fee for regular inspections, based on a prepared supervision programme, of permit- or register-based activity or other regular supervision or inspections. The primary objective is to enhance follow-up supervision of environmental protection.	Ministry of the Environment
38	Increasing of fees charged for food control		10		-10	Fees will be increased such that fee revenue grows by EUR 10 million. Linked to proposal 12 of this table.	Ministry of Agriculture and Forestry
Proposals to strengthen the municipalities' revenue base, total		0	38	0	-38		

SUMMARY OF ALL PROPOSALS	Impact in 2017, EUR million			
	Local gov. spending	Local gov. revenue	Central gov. spending	General gov. finances, total
Measures to reduce local government tasks, total	-260	-73	-64	-252
Withdrawal of standards and norms steering the provision of local government obligations and services	-970	-180	-226	-1016
Proposals to strengthen the municipalities' revenue base, total	0	38	0	-38
ALL MEASURES, TOTAL	-1230	-214	-291	-1306
Impact on local government finances, net		-1015		

## **Appendix 3**

### **Extending working careers at the start and reducing breaks**

The structural policy programme contains a number of measures aimed at extending working careers:

- Reform of financial aid to students.
- Reform of higher education funding incentives.
- Reform of higher education student selection.
- Tightening of statutes relating to target completion times in higher education.
- Clearance of the application backlog.
- Extension of compulsory schooling.
- Reform of home-care allowance.
- Reform of job alternation leave based on a tripartite proposal and Government policy.

In the programme, the following measures supplementing the programme's measures will be prepared to achieve the targets set for the extension of working careers at the start:

- Change of competency requirements
- The '2+1 model' for vocational basic education
- A reasonable application fee, covering the costs of processing applications, will be set for those coming from outside the EU/EEA who apply to become students. A more detailed model will be prepared. This may also reduce the very large number of unqualified applicants.

The effects of the proposed measures on the length of working careers will be assessed in more detail before the March 2014 Government spending limits discussion.

## Appendix 4

### Reducing the structural unemployment rate

The structural policy programme contains a number of measures aimed at reducing the structural unemployment rate. To achieve the targets set in the programme, some of these measures will be supplemented.

- A protected component of unemployment benefit and housing allowance will be introduced.
- The advance payment of unemployment benefit will be introduced.
- The current system that obliges to active job seeking, compliance with employment plans and the acceptance of work and activation measures and the concomitant sanctions will be applied consistently. Job offers will be made extensively for different employment opportunities. Targets on the use of job offers have been included in the performance agreements of the Centres for Economic Development, Transport and the Environment (ELY centres) and the Employment and Economic Development Offices (TE offices).
- A new electronic monitoring system for employment plans will be introduced in 2014.
- The ways in which job seekers can look for work themselves and how the TE office will support job seeking will be agreed in the employment plan. The services offered to job seekers and the services that job seekers can themselves explore will also be agreed in the plan. Job seekers will be obliged to report regularly on their compliance with the plan either electronically or at a TE office.
- After 3 months' occupational immunity period, job vacancies will also be offered outside the job seeker's own occupational field.
- Vacancies will be offered beyond a 80 kilometre radius from the job seeker's home. The Unemployment Security Act will be amended so that such work must be accepted if the daily commute using public transport does not exceed three hours in full-time work; the corresponding time limit for part-time work is two hours. The legislation shall come into force on 1 January 2015.
- If a person is not offered a job vacancy after 3 months of unemployment, he or she will then be offered activation measures.
- At the beginning of 2014, in relation to social assistance, the Ministry of Social Affairs and Health will issue a new instruction that will require the consistent application in accordance with current legislation of a reduction in benefit if a person refuses work or activation measures. At the same time, TE offices will be authorised from 2014 to offer activation measures to those receiving social assistance, at the latest 3 months from the start of unemployment.
- A network of employment service centres will be enacted and extended nationwide. The network will bring together the services of TE offices, the municipalities and Kela that improve the labour market skills of the long-term unemployed. The legislation shall come into force on 1 January 2015.
- With respect to the wage subsidy, a more flexible application and payment system will be adopted so that an electronic payment application is introduced in January 2014.
- As agreed earlier, funding responsibility for the labour market support of the long-term unemployed will be transferred to the municipalities (an estimated EUR 150 million transfer of funding responsibility). The legislation shall come into force on 1 January 2015.
- The functioning of the intermediate labour market will be improved.
- Options for a long-lasting employment subsidy for older workers will be explored.

- Legislation relating to social companies will be reformed.
- Flexibility of vocational labour market training based on the needs of workers and employers will be increased.
- The employment of people in a weak labour market position will be promoted by utilising public procurement.

The effects of the proposed measures on structural unemployment will be assessed in more detail before the March 2014 Government spending limits discussion.

## Appendix 5

### Housing market

The housing shortage and high price of housing in the Helsinki Metropolitan Area represent a significant constraint on the functioning of the labour market, economic growth and the reduction of structural unemployment. A key problem has long been the shortage and high price of plots allocated for residential construction.

In the period 2008–2012, an average of one third of the agreed 12,000–13,000 new homes failed to be built in the Helsinki Metropolitan Area each year. This has meant a deficit of around 20,000 homes, even though the agreed level was close to being reached in 2012, for example. With respect to the agreed annual planning of at least 13,000 homes planned for each year, the municipalities of the Helsinki Metropolitan Area have fallen short by around 17,000 homes in five years. The shortage of plots for building is also likely to restrict competition in the construction industry and thus affect the Helsinki Metropolitan Area's construction costs, which are higher than in the rest of Finland.

Adequate levels of planning and housing production in the Helsinki Metropolitan Area are important for the employment, labour mobility and productivity development of the whole economy. They are therefore also important for the implementation of the objectives of the structural policy programme.

To achieve the objectives set in the structural policy programme, aspects relating to housing-policy measure proposals made by the ministries will be supplemented in the following ways:

#### Helsinki Metropolitan Area

1. In the Helsinki Metropolitan Area, the following planning and housing objectives decided with the central government will be implemented (Structural Policy Programme, Section 3.7):
  - The central government will evaluate its infrastructure and service investments on the basis of the municipalities' planning results and will require a building plot reserve corresponding to the housing production target of at least five years to be continually adopted in the municipalities.
  - In addition to central government incentives, the use of sanctions if agreements remain unfilled for reasons attributable to the municipalities will also be considered for inclusion in letters of intent on land use, housing and transport.

#### Rental housing production

2. Conditions for rental housing production will be improved (Structural Policy Programme, Section 2.15):
  - Led by the Ministry of Social Affairs and Health, regulations steering the investment activity of authorised pension providers in real-estate investment will be reformed so the authorised pension providers can use borrowed capital in the development of rental housing. The use of borrowed capital will be permitted in

pension providers' subsidiaries founded for this task and will be restricted to 50 per cent of the value of the investments. The reform will be implemented as part of the capital adequacy review of pension providers currently under way. At the same time, the necessary changes will be made in tax law relating to the valuation of assets at fair values in the balance sheets of pension providers. The measure is for a fixed term and will be effective in 2015–2017.

- The objective is to create conditions for the growth of rental housing production. The investment decisions of authorised pension providers (pension insurance companies as well as company pension funds and industry-wide pension funds) would still depend, however, on their own investment strategies and the prevailing market situation.
- A 20-year interest subsidy model will be quickly prepared.

### Planning and barriers to competition

3. Barriers to competition in relation to planning and construction will be removed without compromising a compact urban structure (Structural Policy Programme, Sections 2.2 and 2.3).
  - Municipalities shall promote planning by increasing the density of already built areas, by increasing the density and height of buildings, particularly close to the city centre, and by building in areas with good locations. Infill construction and density increases in good locations will at the same time increase productivity.
  - The Land Use and Building Act will be developed with sufficient incentives for infill construction and addressing the benefits and adverse effects of additional construction. Legislation will be developed so that it supports negotiation, business activity and agreement between real-estate owners and other parties. Planning should react flexibly to the needs of business and residents and to changes in the economy.