

28.8.2014

**GOVERNMENT DECISION ON STRENGTHENING THE  
IMPLEMENTATION OF THE STRUCTURAL POLICY PROGRAMME**

## Introduction

According to the Government Programme (24 June 2014):

*Implementing the Structural Policy Programme in the manner decided in August 2013 will be ensured as previously agreed through further decisions made, if necessary, in the budget negotiations of summer 2014. The Structural Policy Programme agreed in August 2013, the General Government Fiscal Plan for 2015–2018 and implementation decisions clarifying them will be prioritised in the actions of the administrative branches during the remainder of the parliamentary term.*

The Structural Policy Programme includes key elements for the reform of economic structures in a manner that supports economic growth and the sustainability of public finances: balancing local government finances through a budgetary framework to be introduced as well as other joint measures of central government and the municipalities, improving the productivity of public service provision with the aid of a structural reform of social and health care services and funding, and extending working careers through pension reform and other measures directed at the beginning of working careers and career breaks. The programme also includes numerous measures to reduce structural unemployment and improve the efficiency of the housing market.

According to the Ministry of Finance's latest estimate, the sustainability gap in general government finances is 4.0% of GDP, whereas the corresponding figure in the autumn 2013 estimate was 4.7% of GDP. The estimate of growth of age-related expenditure in particular has been updated. The expected economic growth and the recovery of output to its potential level will not be sufficient to eliminate the general government sustainability gap. By implementing the Structural Policy Programme in full in accordance with set objectives, the use of the available resources in the economy can be increased and enhanced and the possibility of faster growth in the long term created. The key elements of the Structural Policy Programme are:

- Reform of social welfare and health care
- Pension reform
- Reduction of local government duties and obligations
- Extending working careers at the beginning
- Reducing breaks in working careers
- Reducing structural unemployment
- Increasing the supply of land and housing construction
- Digitalisation and the implementation of the related National Data Exchange Layer.

The Government in adopting the Structural Policy Programme emphasised the importance of a moderate long-term pay settlement for increasing the output potential of the economy. The desired settlement has been agreed and the Government measures supporting it have been implemented or they will be implemented within the planned schedule.

Most of the individual measures of the Structural Policy Programme have advanced to implementation or the Government bills relating to them are proceeding based on the plans and schedules outlined for each measure in the appendix to the decision made by the Government on 25 March 2014 (Government decision on the implementation of the Structural Policy Programme as part of the General Government Fiscal Plan). The present Government decision concerns the

strengthening of that decision with respect to the most significant items still under preparation and aimed at bridging the sustainability gap.

The Structural Policy Programme steering group has monitored the implementation of the programme and has presented both its assessment of the implementation of the programme and its recommendation for strengthening the implementation of the programme.

### **Reducing local government duties and obligations**

According to the Structural Policy Programme, the goal is to cover half of the local government's estimated structural deficit of just over EUR 2 billion, by reducing municipalities' duties and obligations by EUR 1 billion. At the same time, it will be necessary to ensure that new decisions affecting municipalities' duties and obligations do not adversely affect the budgetary position of municipalities.

So far, it has been possible to specify actions that will reduce municipalities' duties and obligations in a manner that will enable notional savings of just over EUR 350 million in local government expenditure, whereas the Structural Policy Programme requires savings of EUR 1 billion.

According to an assessment of Ministry of Finance experts, many key proposals in the administrative branch of the Ministry of Social Affairs and Health would not fulfil the targets set for reducing municipalities' duties and obligations. This is linked to fact that the administrative branch of the Ministry of Social Affairs and Health has at present very limited financial steering opportunities in respect of municipalities' actions and expenditure. Items significant in scale that remain open in terms of implementation include reducing institutional care in care for the elderly as well as relaxation of staff eligibility requirements. Plans for the reform of the emergency care system have advanced to a proposal, which may, when implemented in full, meet the target for reducing local government expenditure. Discontinuing the archiving of medical records in paper form may reduce local government expenditure significantly. The reform has been under way for some time.

The Ministry of Finance estimates that without binding financial steering, the measures proposed by the Ministry of Social Affairs and Health can be expected to reduce local government expenditure by around EUR 60 million at most.

At the same time, legislative proposals are under preparation that will increase municipalities' duties and expenditure. With respect to projects that increase municipalities' duties and obligations, the Government has specified the principles and appropriations within whose framework the projects must be implemented.

- **The Government requires that legislative changes proposed by the Ministry of Social Affairs and Health to reduce municipalities' duties and obligations be submitted to Parliament so that Parliament has the opportunity to discuss them during the autumn session. Moreover, measures to reduce municipalities' duties and obligations that do not require legislation must be implemented without delay. A list of Ministry of Social Affairs and Health measures is presented in the Appendix.**
- **The measures in question are insufficient on their own, however, to ensure the slowing of growth of local government expenditure in line with the Government's decision, because the administrative branch of the Ministry of Social Affairs and Health has at**

present rather limited financial steering opportunities in respect of the development of expenditure.

- **The Government considers that the target set in the Structural Policy Programme to slow expenditure growth by EUR 1 billion can be achieved by introducing a cost management system for Ministry of Social Affairs and Health services (see below). The system will help ensure that savings arising from the reduction of agreed duties and obligations will also slow local government expenditure growth in accordance with the Government's earlier decision and that the set target of EUR 1 billion can be achieved.**

### **Cost management of social and health care services**

The steering group states in its assessment that the social and health care reform must be implemented in such a way that the costs of the service system remain at a level required to secure the sustainability of public finances.

International experiences of care systems based on public provision as well as those resting on insurance-based, private service provision show that, without centralised cost control, rapid care expenditure growth causes problems with respect to the sustainability of public finances and the capacity of the economy as a whole. To regulate the total costs of publicly arranged care and nursing, a procedure covering the whole of social and health care that can be steered by national-level political decisions is required. In accordance with the legislative proposal on the arrangement of social welfare and health care services, new bodies and procedures – a steering unit to be established in the Ministry of Social Affairs and Health, a national social and health care development programme, and a negotiating procedure between the ministry and the social and health regions as well as the social and health care region and the municipality and joint municipal authority responsible for providing services – must be developed to ensure that effective national steering of the service system is realised.

In the assessment of the steering group, limiting the rise in the costs of social and health care services within the framework of the General Government Fiscal Plan and the framework for local government finances included within it as well as national operational steering of service provision requires a budgetary framework system with spending limits that ensures the realisation of the target set for service system productivity growth. The aim of the system is to secure equal implementation of citizens' statutory services, taking into account the framework provided by public resources. In addition, the system can be used to facilitate the flexibility necessary for service quality and development as well as to ensure that the benefit to public finances of reducing municipalities' duties and obligations is commensurate with the set target.

- **In accordance with the steering group's proposal, the Government has decided that a budgetary framework system implementing the cost management of public social and health care services will be quickly prepared to support the agreement of the parliamentary social and health care group. The system to be prepared will help ensure that the development of public social and health care expenditure adheres to a spending limit in which the target set for service system productivity growth will be realised.**
- **In addition, the system can be used to secure the benefit to local and central government sought from reducing municipalities' duties and obligations. When changing the system, a critical assessment should again be made of the municipal**

duties and obligations included in social and health care legislation and the possibility of reducing them.

- **The intention is that the system be procedurally linked to decision-making relating to the General Government Fiscal Plan and the Budget. The system is expected to require legislative changes chiefly to legislation concerning central government transfers to local government, and possibly to the Local Government Act and to the draft bill on the arrangement of social welfare and health care services, currently being circulated for comment. The implementation of the model will also require constitutional assessment with respect to the implementation of equality (Section 6), the right to social security (Section 19) and municipal self-government (Section 121; e.g. funding principle). Preparation will be implemented by the end of October through a joint working group to be established soon by the Ministry of Finance, the Municipal Affairs Department of the Ministry of Finance, the Ministry of Justice and the Ministry of Social Affairs and Health. The working group will determine in more detail the elements of the national steering system. The aim is that the proposal will be reconciled with the work of the parliamentary social and health care group as well as the social and health care legislation under preparation and that the necessary proposals for change can be adopted in the current parliamentary term.**

### **Extending working careers at the end – pension reform**

Extending working careers at the end requires that the age of retirement be increased. To achieve the improvement in the sustainability of public finances set as a target in the Structural Policy Programme, the retirement age should be raised 1½ years from its current level.

Labour market organisations are negotiating a proposal for a working careers and pension solution. The organisations have committed to finding a solution that will reduce the general government sustainability gap by just over 1 percentage point and increase the average retirement age at least to 62.4 years by 2025 and that this will be ready by autumn 2014. The Government is committed to promoting a reform of the pension system in accordance with the working careers agreement based on a proposal negotiated by labour market organisations.

- **The Government states that, with respect to the joint understanding reached by labour market organisations on a proposal for a working career and pension solution, the Ministry of Finance will assess together with the Ministry of Social Affairs and Health whether the proposed reform will implement the requirements set for the reform by the organisations and the Government to increase the expected retirement age and bridge the sustainability gap. The Government undertakes to promote a reform that in the joint assessment of the Ministry of Finance and the Ministry of Social Affairs and Health fulfils both objectives set for it.**

### **Extending working careers at the beginning and reducing career breaks**

The Structural Policy Programme includes measures to extend working careers at the beginning (e.g. raising the age of compulsory schooling, changing financial aid for students, funding reform of upper secondary education) and to reduce breaks in working careers (reform of home-care allowance, tightening conditions for job alternation leave). The objective is that working careers

will be extended due to these measures by ½ a year. According to an assessment of Ministry of Finance experts, the measures directed at the beginning of careers and the measures to reduce career breaks for which a quantitative estimate could be prepared will increase employment by 6,400 people, which would be insufficient to achieve the target set of extending working careers by half a year and the corresponding effect of improving the general government sustainability gap.

### **Reducing structural unemployment**

Through the measures included in the Structural Policy Programme, an effort will be made to reduce structural unemployment by one percentage point in line with the target set in the programme. Implementation of the measures is proceeding as agreed. Alongside additional labour policy measures, these measures include utilising to the full the binding force relating to unemployment security and other social benefit systems, including sanctions, increasing job offers, enhancing employment services and increasing the incentivisation of unemployment benefit and other income security. The programme's target of reducing structural unemployment by one percentage point will not be realised, however, without new measures.

- **The Government requires that job offers be further increased significantly and that sanctions for refusing work or activation measures be systematically applied.**
- **The Government requires that employment service activities be directed more strongly to take the needs of business into account. There is also a need to tighten active direct communication with businesses and local business organisations. The best practices now in use in different areas must be disseminated to all Employment and Economic Development Centres (TE Centres). The issue must be addressed, for example, in the autumn performance negotiations, and discussions on the reorientation of activities must take place with labour market and business organisations. In business cooperation, particular attention should be paid, for example, to sectors in which businesses recruit lots of labour from abroad. In addition, the Ministry of Employment and the Economy should launch new pilots, for example, on the acquisition of services from private service providers and to encourage a more business-oriented approach among TE Centres' own personnel.**
- **The Government will submit as planned a proposal on Employment Service Centres (TYP Centres) as a finance and expenditure act. The proposal will ensure, among other things, that a TYP Centre has the right to arrange employment services, funded by item 32.30.51, in accordance with the Public Employment and Business Service Act. In addition, the proposal will ensure that enhanced employment services will be offered at an earlier stage of unemployment so that, by a decision of a TE Centre, individuals who have been unemployed for more than a year can also be transferred to the responsibility of a TYP Centre, even though they had not received labour market support for more than 300 days of unemployment.**
- **The municipality's nominated person will be the TYP Centre Director.**
- **The transfer to municipalities of funding responsibility for labour market support will be implemented as planned so that municipalities will fund 50% of labour market support after 300 days of unemployment and 70% after 1,000 days of unemployment. The central government will compensate EUR 75 million of the estimated growth in municipalities' costs by changing the corporate income tax apportionment in the municipalities' favour.**

- **During autumn 2014, options for the development of the employment service administration will be studied. The Ministry of Employment and the Economy will establish a working group, in which labour market organisations, municipalities, Finnish business and the central government will be represented. The study will assess options for developing and enhancing the employment service administration in the light of international examples. Special attention will be paid to the opportunities for labour market and business organisations to influence effectively the planning and management of the employment service administration.**

### **Increasing the supply of land and housing construction**

The Structural Policy Programme and the Government Programme identify key measures to increase the supply of land and housing construction. Scarcity of supply of land and insufficient housing construction are a problem, particularly in Greater Helsinki.

- **On 25 August 2014, representatives of the Government and the 14 municipalities of Greater Helsinki concluded negotiations on an agreement by which the municipalities undertake to increase planning of land for residential development in 2016–2019 by around 25% in terms of floor area compared with the current letter of intent on land use, housing and transport. In the agreement, the central government undertakes to promote separately the funding of the indicated infrastructure projects, provided that planning levels in accordance with the agreement are fulfilled.**

### **Overall assessment**

Based on the assessment of the Structural Policy Programme steering group, the Government states that implementing the above measures for strengthening the implementation of the Structural Policy Programme will close the sustainability gap, currently estimated to be around 4%. The Government emphasises that this assessment is decisively linked to the following:

- To balance local government finances, a local government budgetary framework will be introduced as part of the General Government Fiscal Plan in 2015.
- Legislative changes proposed by the Ministry of Social Affairs and Health to reduce municipalities' duties and obligations will be submitted to Parliament so that Parliament has the opportunity to discuss them during the autumn session. Moreover, other measures to reduce municipalities' duties and obligations that do not requiring legislation will be implemented without delay.
- The target set for growth of public service system productivity will be achieved. A key instrument in this is the reform of social and health care as well as the budgetary framework system for social and health care services to be implemented in connection with it.
- Labour market organisations will achieve a joint understanding on a proposal for a working careers and pension solution which in the joint assessment of the Ministry of Finance and the Ministry of Social Affairs and Health will implement both the objective of raising the expected retirement age and the objective for reducing the sustainability gap.
- Structural unemployment will be reduced through enhanced labour policy measures, including systematic application of sanctions for refusing work or activation measures in accordance with the legislation in force.

- The municipalities of Greater Helsinki will increase planning of land for residential development in 2016–2019 by around 25% in terms of floor area compared with the current letter of intent on land use, housing and transport, in accordance with the agreement made between the municipalities and the central government.

There will be much uncertainty surrounding sustainability gap estimates also in the future. The Government will therefore strive through its actions to implement the 4.7% strengthening of the sustainability of general government finances originally sought.

## **APPENDIX: Measures still to be prepared for which the Ministry of Social Affairs and Health is responsible**

### **3.2. Reduction of municipalities' duties and obligations**

- 3.2: 1. SAVINGS MEASURES IN ADULT DENTAL CARE (€15M)**
- 3.2: 2. REFORM OF THE EMERGENCY CARE SYSTEM (€60M)**
- 3.2: 3. REMOVAL OF UNNECESSARY CERTIFICATES FROM HEALTH CARE (€8M)**
- 3.2: 4. RE-ALLOCATION OF ACTIVATION PLAN AND REHABILITATIVE WORK ACTIVITY (€3M)**
- 3.2: 5. ABOLITION OF DUTY TO SUPERVISE SOLARIUM DEVICES (€1M)**
- 3.2: 6. COMPETITIVE TENDERING OF RELIEF WORKER SERVICES FOR AGRICULTURAL ENTREPRENEURS (no euro targets)**
- 3.2: 7. TRANSFER OF INSPECTIONS OF PRIVATE SERVICE PROVIDER'S PREMISES AND EQUIPMENT TO THE REGIONAL STATE ADMINISTRATIVE AGENCIES (€0.55M)**
- 3.2: 8. REMOVAL OF THE CUSTOMER COOPERATION GROUP ON REHABILITATION FROM LOCAL GOVERNMENT DUTIES (€3.5M)**
- 3.2: 9. DISCONTINUATION OF ARCHIVING OF MEDICAL RECORDS IN PAPER FORM (€94M)**
- 3.2: 10. TRANSFER OF SHELTERS TO CENTRAL GOVERNMENT (€8M)**
- 3.2: 15. RE-EVALUATION OF MUNICIPALITIES' SUPERVISION DUTIES. (€30M total STM, VM, YM)**
- 3.2: 16. REDUCTION OF MUNICIPALITIES' PLANNING OBLIGATIONS (€30M All ministries)**
- 3.2: 24. REDUCTION OF INSTITUTIONAL CARE IN CARE FOR THE ELDERLY (€300M)**
- 3.2: 25. EXTENDING THE VALIDITY PERIOD OF PRESCRIPTIONS (€3M)**
- 3.2: 26. REDUCING SUPPLEMENTARY FUNDING ALLOCATED IN THE SPENDING LIMITS FOR DEVELOPING SOCIAL WELFARE AND HEALTH CARE SERVICE (€50M)**
- 3.2: 27. BASIC HEALTH CARE – SPECIALIST HEALTH CARE – SOCIAL CARE – INTEGRATION (€50M)**
- 3.2: 28. WITHDRAWAL OF NORMATIVE RECOMMENDATIONS (€30M)**
- 3.2: 30. ENHANCING PUBLIC TRANSPORT AND PASSENGER TRANSPORT (€100M total LVM, OKM, STM)**
- 3.2: 34. RELAXATION OF ELIGIBILITY REQUIREMENTS (€123M)**

**APPENDIX 2: TRANSFER OF SOCIAL ASSISTANCE CALCULATION AND PAYMENT TO KELA**

**APPENDIX 4: LOWERING OF SOCIAL ASSISTANCE.**