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A STRUCTURAL POLICY PROGRAMME TO STRENGTHEN CONDITIONS FOR ECONOMIC GROWTH AND BRIDGE THE SUSTAINABILITY GAP IN GENERAL GOVERNMENT FINANCES

Starting point – the sustainability gap in general government finances

Finland's economy is simultaneously troubled by structural problems affecting growth and the sustainability of public finances and by difficult economic conditions.

A change in population age structure is reducing the number of people of working age and increasing age-related public expenditure. This adversely affects the funding of public finances and creates within it a so-called sustainability gap. The Ministry of Finance estimates that the sustainability gap is just over 4½% of GDP. This means that the fiscal position of public finances should be improved compared with the baseline scenario by more than EUR 9 billion by 2017 to ensure that the public sector would be able to fulfil its welfare state obligations at the current overall tax rate without the indebtedness of public finances taking an unsustainable path.

A programme to strengthen conditions for economic growth and bridge the sustainability gap in general government finances

It is customary to classify measures aimed at reducing the sustainability gap into direct measures, which adjust revenue and expenditure, and structural measures, which affect employment, productivity and economic growth over the longer term. Direct measures to reduce the gap are important, but covering the entire gap using such measures is not possible nor wise. Without action to reform economic structures and strengthen conditions for growth, the gap cannot be brought under control.

The structural reform programme is built on concrete structural policy measures to strengthen foundations for economic growth and the productivity of the public service system, to increase the employment rate and to solve the sustainability problem in general government finances. In the programme, the goal of closing the entire sustainability gap is divided into concrete subgoals relating to central government finances, local government finances, working careers and the supply of work, structural unemployment, the productivity growth and competitiveness of the whole economy, and the productivity growth of public service provision. The measures aimed at achieving the set goals will be directed particularly at the institutional frameworks of economic activity and the incentives created by them. When deciding on concrete measures, the Government will ensure that the package also implements the priority of the Government Programme to narrow disparities in income, wellbeing and health.

Implementing the programme will require broad-based cooperation between decision-makers, particularly the Government and social partners. The programme's effectiveness as well as economic and structural reform would be supported by the inclusion within the programme of a moderate multi-year labour market solution.

The framework, scale and targeting of the programme

With respect to economic growth conditions and the sustainability of public finances, a key role will be played by measures affecting the labour market and working careers, the renewal and competitiveness of the economy, and the productivity of public service provision. In addition, it is important to reform public economic management so that it serves better than at present the achievement of the goals set for economic management.

Dividing the overall goal into subarea-specific quantitative subgoals (Table) creates a foundation for concrete action programmes and monitoring the realisation of targets. The programme must, however, be a package whose parts complement each other and which implements all of the subareas simultaneously.

Public economic management

According to a Ministry of Finance macroeconomic forecast, reversing growth of central government debt relative to GDP in 2015 would require adjustment measures to increase central government revenue and reduce central government expenditure. The adjustment measures would also reduce the sustainability gap. A decision on adjustment measures will be made in next spring's Government spending limits discussion. It is important that the measures decided at that time are also justified in terms of structural policy.

Bridging the sustainability gap will require the balancing of local government finances. To achieve this goal, a financial steering system for local government will be introduced. In the system, tax funding and the total tax rate will remain in the mix of economic policy tools.

The balancing of local government finances is also included in the medium-term balance target for general government finances of -0.5% of GDP set in the stability programme approved by the Finnish Government in the spring. The balancing of local government finances would reduce the sustainability gap in public finances by one percentage point.

In the financial steering system for local government to be introduced, the system of central government transfers to local government will be reformed and the long-term nature, binding effect and steering role of the basic public services programme procedure will be enhanced in accordance with the Government Programme. The basic public services programme will reconcile

the municipalities' tasks and obligations and their funding. It will also outline the development of the municipalities' own tax and fee revenue as well as the productivity of local government services required by the balance target for local government finances, and at the same time specify the central government measures relating to central government transfers, local government tax bases and municipalities' tasks and obligations by which the balancing of local government finances will be supported. The review of the cost division between local and central government will be transferred to 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.

The sustainability problem cannot be solved by direct measures targeted at general government revenue or expenditure. A key role will be played by structural reforms aimed at boosting the employment rate, the other growth foundations of the economy, and the productivity of public service provision. The greater the success of such structural reforms, the less need there will be for direct adjustment measures.

Labour market and working careers

Measures to raise the employment rate will be directed at extending working careers and reducing structural unemployment by increasing the mobility of labour and incentives to accept work. Particular attention will be paid to young people and older workers as well as special groups whose employment rates are low. It is essential to change the institutional frameworks that determine the labour market status of these groups in a direction that encourages employment. Measures will be directed at the ground rules and service structures of working life, education systems and benefit systems. Extending working careers by an average of two years from the present figure, which would be equivalent to raising the employment rate by just under four percentage points, would reduce the sustainability gap in public finances by 1.4 percentage points. Moreover, lowering structural unemployment by one percentage unit would correspondingly reduce the sustainability gap by 0.3 percentage points. Achieving targets of this magnitude is essential to close the sustainability gap. With bold measures, it is also possible. Pension reform will be a key part of the package aimed at extending working careers. It has been agreed that the tripartite preparation of the reform will be implemented so that the reform would come into force from the beginning of 2017.

Competitiveness, renewal and growth of the economy

The renewal capacity of the whole economy and growth of the output potential can be promoted by measures directed at regulation of markets and

production frameworks. If the level of economic output were to rise through growth of the economy's output potential by 1.5 per cent, the fiscal position of public finances would improve by about 0.6 percentage points, which if sustained would reduce the sustainability gap correspondingly. The Government has already decided to invest in the utilisation of information and communication technology in order to create new economic growth. A sum of EUR 150 million has already been allocated to this. The necessary change in production structure and reallocation of resources also requires the improvement of cost-competitiveness and pay moderation. A very moderate multi-year pay settlement would promote economic stability and predictability and would also improve the cost-competitiveness of Finnish production.

Productivity of public service provision

Improving the productivity and effectiveness of public service provision is an essential element in solving the sustainability problem of general government finances. Only in this way will it be possible to provide public services within the welfare state also in future years with the resources available in the economy. The municipalities are responsible for a large part of these services. If growth in the productivity of public service provision were to be boosted by 0.5 percentage points, the sustainability gap in general government finances would be reduced by 1.4 percentage points. In the baseline scenario of the sustainability estimate, it is assumed that the number of personnel in public service provision will grow on average by just over 3,000 people per year. Achieving the productivity growth target would require the growth in the number of personnel to be just over 2,000 people lower than this. Thus 1,000 more people would be required annually in the provision of public services, without taking a view on whether the people concerned are public sector employees or not.

The determined completion of the reform project under way in local government structure and in social welfare and health services is of key significance for the achievement of this target. The reform will help ensure that the division of responsibilities among the municipalities and between the central government and the municipalities as well as financial incentives to improve operational efficiency are clear, that public service production chains are sound, and that partial optimisation does not occur. A key objective of the reform must be the improvement of the productivity and effectiveness of the public service system.

The improvement of central government productivity must be purposefully continued. It is important to reform central government service structures and to increase the proportion of electronic services provided to citizens and businesses, so that in future services can be handled in a high quality manner more efficiently and more economically than at present.

Preparation and implementation of the programme

The further preparation of the programme will take place, in accordance with the outline presented above, during autumn 2013 in subarea-specific groups consisting of experts from the sector ministries and coordinated by the Ministry of Finance. The preparation work will be coordinated by a steering group led by State Secretary of the Ministry of Finance, Martti Hetemäki serving as Permanent Secretary. Other members will be State Secretary of the Prime Minister's Office, Olli-Pekka Heinonen, Permanent Secretary of the Ministry of Employment and the Economy, Erkki Virtanen, Director General Jukka Pekkarinen of the Ministry of Finance, and Permanent Secretary Anita Lehikoinen of the Ministry of Education and Culture.

Social partners will participate in the preparation of measures relating to them in accordance with established practices. These measures are marked with an asterisk (*) in Appendix 1 below. [Translation of the Appendix will be available later].

The Government is preparing to decide on a concrete programme with its subarea-specific measures and their timetabling by the end of November. The Government will monitor the progress of the preparation work during the autumn in the Cabinet Committee on Economic Policy.

At the same time, the Government will assess whether the proposed measures are together sufficient to close the sustainability gap while also taking into account the timetable agreed for the reform of the pension system and substantive targets. Based on the assessments of the Ministry of Finance, the Government will decide on additional measures that may possibly be necessary to bridge the sustainability gap.

In the recommendations relating to the broad economic policy guidelines of Member States and the European Union, the Council has emphasised the need for Finland to reform economic structures to maintain sustainable economic growth and safeguard the stability of public finances. The content and implementation of the structural policy programme as well as any additional adjustment measures to moderate the growth of central government debt relative to GDP that may possibly be decided on in the Government spending limits discussion will be reported to the EU within the framework of the European Semester in the Stability Programme and the Europe 2020 Programme in spring 2014.

It is important that binding decisions on the framework, scale and targeting of the programme be made quickly. The entry into effect of the measures may be phased in over the longer term and in this it will also be possible to take economic conditions into account. If some measures require an increase in

appropriations, they will be implemented through re-allocations within the framework of the central government spending limits.

Table. Structural policy reform programme to bridge the sustainability gap.

MEASURES DIRECTED AT PUBLIC ECONOMIC MANAGEMENT	TARGET	IMPACT ON SUSTAIN-ABILITY GAP
Municipalities	EUR 2 billion	-1.0% points
In the financial steering system for local government to be introduced, the system of central government transfers to local government will be reformed and the long-term nature, binding effect and steering role of the basic public services programme procedure will be enhanced to secure the balance of local government finances. Municipalities' tasks and obligations will be reduced to generate EUR 1 billion in cost-savings. A further EUR 1 billion will be covered by tax funding and through the municipalities' own measures, e.g. by improving productivity.		
Productivity growth of public service provision	+½% points	-1.4% points
The social welfare and health care reform will continue in accordance with the policies proposed in the interim report of the Ministry of Social Affairs and Health's working group preparing an act on the arrangement of the reform. Further measures will be decided based on statements of the municipalities. A broad-based study (involving Parliamentary representation, various funding parties and organisations) will be prepared on options for clarifying the multi-channel funding of social welfare and health care and on their impact on the status and rights of the customer, the availability of services, benefits, the social welfare and health care system and the economy. The aim of the study is the clarification of funding, the removal of problems relating to it and the reduction of partial optimisation. A more efficient division of responsibilities in service provision will be promoted by relaxing eligibility requirements, for example, in various public sector management and service provision tasks without jeopardising customer safety and service quality.		
MEASURES PROMOTING EMPLOYMENT, PRODUCTIVITY AND ECONOMIC GROWTH	TARGET	IMPACT ON SUSTAIN-ABILITY GAP
Working careers and supply of work	+2 years	-1.4% points
Within the framework of a transition period, measures will be implemented that extend working careers by ½ a year at the start and 1½ years at the end and reduce breaks and under-employment during careers.		
Measures will be directed at labour legislation, the pension system, factors determining the labour market status of older workers, young people, people with partial work ability, long-term unemployed and immigrants, the framework and content of secondary and tertiary education, and financial aid to students.		
Structural unemployment	-1% point	-0.3% points
Measures will be directed at employment regulation, work incentives (e.g. housing allowance, housing policy), labour policy service structures, skills and maintenance of working capacity, structural change management, and factors determining the general functioning of the labour market.		
Output potential of the whole economy	+1½%	-0.6% points
The output potential of the economy will be strengthened and resources re-allocated by promoting healthy competition, securing Finland's status as an investment location, enhancing the functioning of the commodity and housing markets and reducing regulation of business. Agreement will be reached on a very moderate multi-year pay settlement.		
TOTAL		-4.7% points

APPENDIX 1

A detailed action programme to strengthen conditions for economic growth and bridge the sustainability gap in general government finances

This appendix presents a list of measures that can be used to strengthen conditions for economic growth and bridge the sustainable gap in general government finances. The impact of individual measures on the sustainability of public finances is not presented, however. There are a number of reasons for this. Some of the measures are presented in a manner that points the way to more specific further preparation. These proposals are not at this stage so specific as to enable the assessment of their sustainability impact. For these reasons, no close link can yet be demonstrated between the measures outlined in this list and the sustainability gap and its subarea-specific quantitative targets. Much will depend on how ambitiously the measures are planned and implemented. With respect to bridging the sustainability gap, the main course of action must in each case be founded on measures that raise the employment rate and improve the productivity of public service provision.

The measures will be implemented within the framework of the central government spending limits.

1. Labour market and working careers

Employment-creation measures relate to the supply of labour at different ages, to activation and to employment and other social security. Measures will be directed at the rules and service systems of working life, education systems and benefit systems.

Employment of older workers and extension of working careers

It can be difficult for older workers to find new jobs after they become unemployed. The reasons may be, for example, out-dated expertise, higher pay than younger workers or impaired working capacity. Redundancies directed at older workers will be prevented and financial incentives for employers created to maintain the employment of older people.

- 1.1* A reform of the pension system will be implemented, in accordance with the working careers agreement, based on a proposal negotiated by social partners, so that the employment rate of older people and the average retirement age (currently c. 60.9 years) will rise. The goal of the agreement is ambitious, namely raising the average retirement age to at least 62.4 years by 2025. (Ministry of Finance [VM], Ministry of Social Affairs and Health [STM])

- 1.2* A package of measures will be prepared aimed at improving the employment of older people by promoting the continuance of such people in work and the re-employment of the unemployed. (Ministry of Employment and the Economy [TEM])

Maintaining health and working capacity

Extending working careers also requires measures aimed at promoting the health of citizens and maintaining working capacity.

- 1.3 A comprehensive action programme will be prepared and the necessary changes made to legislation in order to reduce alcohol consumption and its harmful effects in a situation in which travellers' imports limit opportunities to use taxation to steer consumption. (STM, VM)

Youth employment and start of working careers

It is important that young people receive education and training and continue quickly into working life. To ensure this, conditions and incentives to study, graduate and enter the labour market must be improved.

- 1.4 To improve the equal learning capacity of children when entering comprehensive school, attendance at preschool will be made obligatory. The implementation of the social guarantee for young people will be enhanced so that a higher proportion than at present of young people leaving comprehensive school at least complete a secondary education qualification and are placed quickly into work. In order to ensure continuity of education at a critical transition stage, to reduce drop-out rates and lengthen young people's working careers, the age of compulsory schooling will be raised to 17 years. (Ministry of Education and Culture [OKM], TEM)
- 1.5 Provision of vocational education, including student selection, will be reformed in a way that takes more flexibly into account the requirements directed at demand for vocational education. Within the framework of existing legislation, cooperation between secondary general education and vocational education will be tightened as well as their cooperation with the traditional universities and the universities of applied sciences. (OKM)
- The acceptance of earlier expertise, work experience and training will be increased in education programmes leading to vocational qualifications. (OKM)

1.6 The level of financial aid to higher education students will be raised cost-neutrally as the period of entitlement to financial aid is shortened. The increase in financial aid to students will be scaled according to the permanent cost impact of the shortening of the period of financial aid. The entitlement period for financial aid for the completion of one higher education qualification will be shortened so that the duration will be determined on the basis of the scope of the said qualification prescribed by virtue of the Universities Act or the Universities of Applied Sciences Act, so that the entitlement period for financial aid is a maximum of nine months of financial aid per academic year according to the scope of the qualification plus five months of financial aid. For each half academic year exceeding full academic years, the entitlement period to financial aid will be, however, five months of financial aid.

Legislation relating to indicative completion times for higher education establishments will be tightened to accelerate completion of studies. The proportion of those completing more than 55 study credits per year will be increased in the funding of higher education establishments.

The weighting of the matriculation examination will be increased in entry requirements for higher education. In coordination with the higher education establishments' selection reform, the backlog of applications will be cleared by increasing intakes for a fixed period, particularly in key sectors for employment. The suitability in the labour market of lower university degrees will be strengthened. Higher education establishments will be obliged to offer the possibility of year-round studies. Particular attention will be paid to the availability of studies in early autumn and late spring. (OKM)

1.7* In addition to the reform projects already outlined relating to the development of young people's apprenticeship training, contractual and public-sector employment-based solutions will be explored in collaboration with social partners with the goal of increasing companies' interest in offering apprenticeship places to young people.

1.8 The digitalisation of upper secondary schools will be continued and upper secondary school education developed by enhancing funding and teaching so that more students graduate within the target period of three years.

Breaks in working careers

Breaks in working careers adversely affect workers' position in the labour market. When they last for extended periods, such breaks limit employment opportunities and reduce earnings development.

- 1.9 Half of the current home-care allowance will be allocated to each parent and the subjective day-care right will be restricted to part-time in a way that takes social criteria into account when a parent is at home on maternity, paternity, parental or child-care leave or on home-care allowance. If one of the parents does not take up leave allocated to him or her, the family will lose this part of the family leave. (STM, OKM)
- 1.10* A reform of job alternation leave will be prepared so that use of the system will be restricted, for example, by tightening conditions for receiving it. (TEM, STM)
- 1.11 Alternative models (and their cost) for equalising the costs of parenthood will be explored. (STM)

Rapid employment of the unemployed

The rapid filling of job vacancies and the shortening of periods of unemployment provide support for economic growth and result in savings in unemployment benefit expenditure.

- 1.12 The implementation of an immigrant integration programme, an action programme relating to the intermediate labour market and an action programme for people with partial work ability will be enhanced. A long-lasting employment subsidy for older long-term unemployed people will be prepared. A system will be developed in which a framework will be created for the use of hard-to-employ people in public contracts. In this context, the legislation relating to social enterprises will be reformed. (TEM, STM, VM)
- 1.13 Emphasis will be given to the training of unemployed people in working life change situations, particularly in sectors that have a growing labour shortage and the capacity to provide immediate employment. The implementation of the system has been started in the social welfare and health care sector, where the necessary knowledge base has been collected. For example, the Ministry of Employment and the Economy and the Ministry of Social Affairs and Health have in collaboration compiled a nursing assistant training scheme in which competence in the work is achieved in one year. This is also a means of promoting the rapid employment of people of an immigrant background. (TEM)

1.14 Participatory social security among working age people will be developed to prevent social exclusion and increase incentives to work, while taking into consideration a person's functional capacity by coordinating social security and participatory measures. During autumn 2013, an action programme will be prepared in which the experiences of development projects under way will be utilised. The action programme will specify the content of participatory social security.

The programme will clarify legislation and diversify opportunities for participation – utilising, for example, social and other rehabilitation, training and measures by employment offices.

The municipalities' role in implementing participatory social security will be increased. The offering of participatory measures will be expanded in municipalities, central government, businesses, organisations and households. (STM, TEM)

More effective employment services

Employment can be boosted by effective employment services. The labour policy service system and labour administration services should meet the needs of a changing operating environment and particularly the management of structural changes.

1.15 Employment service centres will be expanded to cover the whole of Finland. Service centre resources will be secured within current appropriations. Placing the employment service centres on a permanent basis will improve the cooperation of local and central government in promoting the employment of people who are in the weakest labour market position. The necessary legislative changes will be made to enable municipalities to obtain advance knowledge of those people whose 500 days of labour market support will soon be completed. (TEM, STM)

1.16 Steps will be taken to ensure that Employment and Economic Development (TE) Centres increase job offers to the unemployed. Job offers will be made immediately at the beginning of a period of unemployment, and regularly as unemployment is prolonged, to all unemployed people who have sufficient labour market skills. In this context, the tasks of the TE Centres in the implementation of unemployment security will be reduced by cutting back the comment procedure, without jeopardising the legal protection of the unemployed, so that resources can be directed into an effective job placement service. Sanctions following the refusal of work and

activation measures will be applied consistently. Instructions and targets relating to this will be included in the performance agreements of the TE Centres. (TEM, STM)

- 1.17 Changes to wage subsidy application and payment procedures will be prepared, to ensure that wage subsidies can be directed more flexibly than at present also for the employment of the unemployed within companies. (TEM)
- 1.18 Municipalities' role and responsibility in the active management of long-term unemployment will be emphasised when, according to an earlier decision, part of the funding responsibility for the labour market support of long-term unemployed who have received the support for more than 300 days is transferred to the municipalities on 1 January 2015. (TEM)

Improving the incentive aspects of unemployment and other income security

The changes to income security conditions agreed in the social partners' working careers agreement will come into force on 1 January 2014¹. The development of earnings-related unemployment security will be continued in a more incentivising and binding direction in the job-seeking process. Incentive problems are associated particularly with the acceptance of short-term, part-time and lower-paid work. There is a need to improve regional mobility.

- 1.19* A change in unemployment security will be prepared, extending the obligation to accept work as a condition for receiving unemployment benefit also outside the 80 kilometre commuting area laid down in current legislation, so that the one-way travel time using public transport is on average up to 1.5 hours in full-time employment. (TEM)
- 1.20* Applications for short-term employment relationships will be facilitated by amending the Unemployment Security Act so that unemployment benefit would be paid always as an advance payment, if the unemployed person applies for an advance payment. (STM)

¹ The employment requirement will be shortened to 6 months from the present 8 months, the duration of unemployment security will be scaled according to the length of employment history and the job applicant's activity (duration will be shortened with an employment history of 3 years to 400 days), the number of benefit levels will be reduced, wage determinations will be reduced and made more flexible, setting of own contribution periods will be reduced, the ceiling for the adjusted daily allowance will be raised, and the age limit for additional days of unemployment security will be raised. Through the changes to be implemented, participation in activation measures as well as acceptance of work will be incentivised, breaks in unemployment security will be reduced and sanctions will be tightened.

- 1.21* To remove incentive traps, a protected portion of work income will be introduced in unemployment security. The incentives of the disability pension system and the costs of easing the income adjustment will be assessed with the aim of improving the acceptance of part-time work. Reform proposals will be made on the basis of the study. (STM)
- 1.22 A model will be introduced in which the starting point will be that EUR 400 of earned income will be retained per beneficiary per month, excluding the housing allowance, in income consideration of six months of employment. (STM)
- 1.23* The effects on employment of the unemployment security changes agreed in the working careers agreement as well as the means proposed in items 1.12–1.22 will be monitored. 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. (TEM, STM)

Changes to labour legislation to improve the functioning of the labour market

In Finland, specific terms of employment are to a large extent determined according to collective agreements. Sectoral needs are taken into account in national collective agreements. Depending on the sector, collective agreements give to the workplace level the opportunity to agree local arrangements within limits outlined in each collective agreement. As part of the negotiation system, local agreement requires that the equal treatment of the contracting parties is safeguarded.

An increase of skills requirements arising from changes to working tasks calls for continuous measures to facilitate the learning in work and continuous education and training of workers. Anticipating changes in skills requirements will play a key role in trying to respond to new challenges as effectively as possible.

- 1.24* The need to make legislative changes will be assessed on a tripartite basis utilising the social partners' negotiation and agreement system and also, as part thereof, the results of negotiations on the ground rules for local agreements. (TEM)
- 1.25* Led by the Ministry of Employment and the Economy, an already initiated tripartite review of issues relating to zero-hours contracts, underpayment irregularities and opportunities for part-timers to do additional work will be continued. (TEM)

- 1.26 Prerequisites will be improved for foreign students to remain in Finland to work after gaining a qualification, with the aid of a significant extension of the duration of a study permit granted after graduation as well as training opportunities. (SM)

2. Economy's ability for renewal, competitiveness and growth

The productivity as well as the renewal and competitiveness of the economy can be promoted by measures directed at the structure of taxation and at the regulation of market and production frameworks.

Market efficiency and promoting healthy competition

Economic structures, services and products are going through a period of change. It is important to create structures that promote the creation of new business activity and boost growth.

A proposal for a new Aid to Business Act will be given to Parliament during autumn 2013. The aid system will be simplified and administration of business aid made more efficient.

With respect to shop opening hours, progress will be made in a manner required by Parliament and by the conclusions of a report on the effects of extending opening hours. Processing of exemption permits will be centralised in a single authority, the position of small-scale entrepreneurs will be improved in shopping centres, and research data will be acquired on the effects of opening hours on the security of retail workers.

The Government will implement a programme to combat the shadow economy and financial crime. The programme was supplemented by additional measures in the spring 2013 spending limits discussion. Furthermore, it is important to step up the implementation of measures that were decided and proposed for discussion in the spending limits discussion. It is particularly important to support citizens' opportunities to identify the shadow economy and to engage them in combating it.

- 2.1 Business aid will be developed so that the priority is shifted from weakly effective aid in terms of structural policy towards an aid policy that will regenerate the economy and the economic structure. Business aid will be directed more strongly at activity that supports the growth and internationalisation of businesses. Conditions for R&D&I activity will be strengthened. (TEM)

The re-allocation of environmentally harmful aid will be implemented with the aim of achieving the desired social objective in a manner that increases sustainable economic growth and reduces adverse environmental impacts. (VM, Ministry of the Environment [YM], TEM, Ministry of Agriculture and Forestry [MMM], Ministry of Transport and Communications [LVM])

To safeguard the availability of business financing, the creation of an SME bond market will be promoted and means explored to improve stock market operating conditions and lower the threshold for the listing of growth companies. (TEM, VM)

- 2.2 Barriers to commercial competition in relation to planning will be removed without compromising a compact urban structure. (YM)
- 2.3 Competition in construction will be increased by removing barriers to market access. Regulation of construction will be reduced, without compromising building quality, in connection with a reform of building regulations currently under way. (YM)
- 2.4 In accordance with the policies of the healthy competition programme, proposals will be prepared for the reduction of regulation in various sectors, such as the retail trade, the pharmaceutical care system and the energy sector, in which regulation restricts competition. (TEM, STM, LVM, YM)
- 2.5 A package of measures (incl. streamlining border-crossings, improving transport infrastructure and accessibility, reform of land use planning, safeguarding internal security, and production of Russian-language information and support services by the authorities) will be prepared with the aim of enhancing conditions to exploit the growing Russian market and the increasing purchasing power of Russian consumers. The package of measures will particularly support tourism, the creation of trade and services and employment growth as well as increasing inward investment in Finland and trade between businesses. (TEM, SM)
- 2.6 A package of measures will be prepared with the aim of strengthening the basis for industrial production. To this end, the Government has committed itself in its decisions during the latter part of the parliamentary term to avoid increasing the costs and regulatory burden arising to industry. (TEM)
- 2.7 To combat the shadow economy, the use of the tax number will be expanded also in sectors other than the building industry. Procedures relating to indirect labour costs will be simplified, particularly with respect to small-scale employers. To support

official supervision, a centralised online service will be introduced to which individual citizens can report their observations on the shadow economy. (TEM, VM)

- 2.8* The Contractor's Liability Act and, if necessary, other complementary legislation will be reformed so that, among other things, the liability of the customer or the main contractor for their subcontractors' taxes and for the pay and social security payments of workers in their employment will be extended sector specifically on the basis of a consultation round on the proposal of a tripartite working group and a separate impact and costs study. Sanctions for repeated and wilful neglect of obligations will be tightened significantly. The necessary legislative amendment proposals will be given to Parliament at the latest in autumn 2014.

Management of sudden structural changes

Abrupt structural changes present a complex challenge. It is important to reform the operating model for anticipating and managing sudden structural changes, from mere reaction to an acute situation to a way that more clearly anticipates future development.

- 2.9 A plan will be prepared to develop the anticipation of labour and education needs, so that labour skills challenges can be responded to better than at present both in the long term and in situations of rapid structural change. The objective is to direct the offerings of vocational education, universities of applied sciences and traditional universities according to the anticipated need for labour. (TEM, OKM)
- 2.10 The Government will ensure that of the EUR 2.6 billion available in the coming EU Structural Fund period 2014–2020, sufficient funds will be allocated to industrial and environmental projects that, on the basis of impact studies, will support economic growth, low-carbon development, employment and structural change. At the same time, the structural fund management model will be reformed to improve its cost-effectiveness. (TEM)

Utilisation of ICT

In accordance with the policy outlined in the 2013 spending limits discussion and the proposal of the ICT 2015 working group, the Government will invest in strengthening the skills of the ICT sector. Finland's fragmented information

system base is a productivity problem and a barrier to developing new services. The degree of digitalisation of municipal services, even in the best municipalities, is only around a few per cent. The local government sector has an acute need to promote productivity by integrating information management solutions. Finland needs a comprehensive and integrated electronic services service channel that, when created, will improve cost-efficiency and identify opportunities for cross-border cooperation.

- 2.11 A national electronic service channel and electronic identification will be implemented without delay, and opportunities to cooperate with Estonia will be utilised to the full.
- 2.12 To develop basic ICT infrastructure and the operating conditions for information-intensive industry, the Government will invest in improving high-speed international connections in accordance with the policies outlined in the 2013 spending limits discussion. The Government's Ownership Steering Department will ensure that the Baltic Sea cable between Finland and Germany will be implemented as quickly as possible.
- 2.13 The opening up of public information resources will be continued.

Streamlining appeal and permit procedures

For the smooth running of business activity, it is important that all procedures relating to the start-up of trade and industry are as clear, efficient and transparent as possible. Exchange of information between businesses and various authorities should be enhanced.

- 2.14 Measures will be prepared with the aim of improving businesses' access to information and the simultaneous handling of permit issues via the competent Centres for Economic Development, Transport and the Environment (ELY centres) and Regional State Administrative Agencies. The efficiency of various official processes and the reconciliation of timetables in permit procedures will be promoted. Practices will be improved with the aim of handling all appeals relating to one project simultaneously. Special measures will be directed at clearing backlogged permit procedures. (YM, Ministry of Justice [OM], TEM, VM)

Housing market structures

The shortage of building land and affordable rental housing must not be a barrier to economic renewal and growth. This will require an effort to

increase the supply of building land available for residential construction in the Helsinki Metropolitan Region and other growth centres. In addition, incentives to build housing intended particularly for renting should be increased.

- 2.15 Regulations steering the investment activity of authorised pension providers will be changed to facilitate the pension funds' larger investment in housing in Finland. (STM)
- 2.16 The sale of land to municipalities for house building will be made tax-free for a fixed period, where the seller is a natural person. (VM)
- 2.17 Regulatory changes will be prepared to ensure that start-up assistance for rental housing production assigned to the Helsinki region will be allocated equally to all parties. (YM, VM)

3. Productivity of public service provision

A package of measures aimed at increasing the productivity of public service provision will contain many mutually supportive elements. Work to review the tasks and related obligations of municipalities will be an important part of the structural reform of local government finances. The objective of the work is to identify tasks and obligations as well as operational practices which if changed might enable resources to be allocated more efficiently and effectively and ease funding pressures on local government finances.

- 3.1 To secure the balance of local government finances, a financial steering system for local government will reform the system of central government transfers to local government and will enhance the long-term nature, binding effect and steering role of the basic public services programme procedure in accordance with the Government Programme. The basic public services programme will reconcile the municipalities' tasks and obligations and their funding. It will also outline the development of the municipalities' own tax and fee revenue as well as the development of local government services' productivity required by the balance target for local government finances. At the same time, it will specify the central government measures relating to central government transfers, local government tax bases and municipalities' tasks and obligations by which the balancing of local government finances will be supported. The review of the cost division between local and central government will be transferred to 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.

3.2 Local government tasks and the obligations prescribed on the basis of them will be assessed in an action programme for 2014–2017. The goal is a total reduction of EUR 1 billion in local government operating expenditure at the 2017 level. A working group assessing local government tasks will discuss the action programme during September, and a working group preparing the development of macroeconomic steering will supplement and specify the programme by the end of November 2013, so that the EUR 1 billion overall reduction is achieved in local government operating expenditure. To support the reduction of obligations, local trials will be launched from the beginning of 2014 in municipalities that fulfil the objectives of the Local Government Structure Act.

3.3 The social welfare and health care reform will continue in accordance with the policies proposed in the interim report of the Ministry of Social Affairs and Health working group this is preparing an act on the arrangement of the reform. Further measures will be decided based on statements of the municipalities.

A broad-based study (involving Parliamentary representation, various funding parties and organisations) will be prepared on options for clarifying the multi-channel funding of social welfare and health care and on their impact on the status and rights of the customer, the availability of services, benefits, the social welfare and health care system, and the economy. The aim of the study is the clarification of funding, the removal of problems relating to it and the reduction of opportunities for partial optimisation. The study will take into account the availability and fair targeting of services and benefits as well as the freedom of choice of the customer/patient in accordance with the Health Care Act and the EU Directive on Patient Mobility. In addition, the study must take into account the decisions of the social welfare and health care reform currently under way.

The reform of the funding system for social welfare and health care must also secure the availability of student health care, rehabilitation, services for the elderly, occupational health care and pharmaceutical care. The study must also take into consideration all funding channels, such as central government transfers to local government, the funding of municipalities, the Social Insurance Institution of Finland, authorised pension providers and insurance institutions, employers and employees, parishes, patient insurance

and other liability insurance, and customer fees paid by service users.

The study must be ready at the beginning of 2015. (STM)

- 3.4 A more efficient division of responsibilities in service provision will be promoted by relaxing eligibility requirements, for example in various public sector management and service provision tasks, without jeopardising customer safety and service quality. (STM, OKM)
- 3.5 With respect to regional development, a supplement to the Local Government Structure Act will be prepared to safeguard the compact urban structure of the main metropolitan areas, the development of regional vitality and the efficient arrangement of services. This will increase, in accordance with the boundaries set by the Constitution, the Government's power in relation to the merger of municipalities in the integrated commuting and urban structure area referred to in Section 4d(3) of the Local Government Structure Act. The increase in the Government's power will be restricted by clear boundary conditions and a commitment to the majority view of an area's residents. The exercise of power would be restricted to situations in which the goals of the Local Government Structure Act cannot be implemented voluntarily. The fulfilment of language rights will be ensured. (VM)
- 3.6 The competitiveness of the Helsinki Metropolitan Region will be ensured, segregation prevented and the planning and implementation of land use, housing and transport enhanced by promoting municipal mergers in the region and by assembling a metropolitan authority to support this. With respect to the municipal mergers and joint administration, decisions will be made by the beginning of 2015 and the new structure will come into force from the beginning of 2017 at the latest.
- Municipalities will be encouraged to proceed with municipal merger study areas initiated by the municipalities themselves. To ensure the unity of the area, the Ministry of Finance will assign a special municipal boundary rapporteur to review each area. Municipal boundary studies will be implemented within the timetable required by the Local Government Structure Act.
- 3.7 A metropolitan authority, whose decision-making body is an elected council, will be established. The metropolitan authority would handle, in accordance with the recommendations of

metropolitan rapporteurs, the competitiveness of the region as well as the implementation of economic and innovation policy, land use, housing and transport, and the settlement of regional issues relating to segregation, labour and immigration. The metropolitan council would approve the metropolitan plan and its implementation, which would direct the decision-making of municipalities in land use, housing and transport issues. This should ensure that planning and housing objectives decided in cooperation with the central government are fulfilled. The metropolitan authority would handle the regional public sector tasks assigned to it, which would be transferred from the municipalities, joint municipal authorities and the central government.

The preparation of legislation relating to the metropolitan authority will be initiated with a fast timetable alongside the municipal merger studies. In this preparation, the precise content and scope of metropolitan authority tasks will be linked, according to a preliminary study, to the scope and significance of the municipal mergers that take place in the region. (VM, YM)

- 3.8 A comprehensive reform of the Act on Public Procurement will be prepared on the basis of a reform of the EU Directive on Public Procurement. In the comprehensive reform, proposals will be prepared for, among other things, the simplification of procurement procedures, the consideration of various quality factors, the improvement of SMEs' opportunities to participate in competitive tenders, the raising of threshold values and the tightening of the appeals procedure. (TEM)
- 3.9 The central government administration is still structurally and operationally fragmented, which adversely affects the effective targeting of resources and the implementation of joint policies, which in turn undermines the achievable effectiveness and creates overlapping work. The proportion of electronic services provided to citizens and businesses should be increased, so that in future services can be handled in a high quality manner more efficiently and more economically than at present. Service structures and functions will be reformed both in central administration and regional administration in order to improve the productivity and effectiveness of central government. Permanent Secretaries will be responsible for preparing the reforms and the necessary cooperation as part of the further preparation of the structural policy programme, taking into account both the central government effectiveness and productivity programme and the central administration reform programme. (MINISTRIES)