

31.8.2016

Draft for a government proposal for health, social services and regional government reform legislation

SUMMARIES OF THE KEY ISSUES OF DRAFT LAWS

The purpose of the government proposal is to establish new counties which would start operating on 1 January 2019 and to lay down provisions on their administration and finances. The intention is also to transfer the responsibility for organising health and social services from the municipalities to the counties and to lay down provisions on the following: financial resources for the counties, tax criteria for collecting the financial resources, a new system of central government transfers to local government for basic public services, the implementation of the reform, the position of the personnel, and asset arrangements. The draft proposal also includes preliminary calculations on the effects of the reforms on the economy of each municipality.

The draft proposes that the following acts be enacted: a Counties Act, an Act on Organising Health and Social Services and an Implementation Act, which would serve to implement the Counties Act and the Act on Organising Health and Social Services. The draft proposal also includes the amendments that would need to be made to other legislation. A proposal for an Act on the Financing of the Counties is included in the draft, as well as proposals for amending the legislation on local government financing, taxes, personnel of municipalities and counties, and proposals for amending some acts on general administration.

The draft government proposal will be circulated for comments until 11 November. The government will make a final decision for a proposal and will submit it to Parliament at the end of 2016 or at the beginning of 2017.

On 31 August, also a new Act on Provision of Health and Social Services was sent for comments as a separate request. This summary includes a short description of the draft act.

The proposals for legislation on clients' freedom of choice and on the simplification of the multisource financing system are not included in this government proposal. They will be completed as planned at the end of the year. The summary includes a short description of the freedom of choice.

The Ministry of Finance is in charge of preparations for the duties to be transferred to the counties besides duties related to health and social services. The other duties are not included in this proposal. The draft government proposal on duty transfers shall be circulated for consultation in spring 2017.

The reform will safeguard services for people

The health, social services and regional government reform serves to modernise services and to improve the sustainability of general government finances. The reform creates the conditions for a future model for health and social services in Finland. All public health and social services will be brought under a single strong umbrella management, i.e. into the

counties. The new counties will adopt the most efficient and effective practices, so that services can be produced efficiently and cost-effectively. The services will be integrated in a customer-centred way based on people's needs. The aim is to narrow down the differences in people's wellbeing and to curb growing costs.

The information included in the draft government proposal is published on the website www.alueuudistus.fi/lausuntopyynnnot.

1 Establishment of counties and their duties

The Counties Act will create conditions for the autonomy of the counties and opportunities for residents to participate and exert influence in the counties. The Counties Act will prescribe on, among other things, the duties, governance structure, leadership, financial management and decision-making of the counties.

- Under the draft law, a county will be a public law entity that has autonomy in its area. There will be 18 counties in Finland. Health and social services and other duties will be transferred to the counties as of 1 January 2019 (see 'Provisional governance').
- Under the draft law, each county has a county council, a county executive and an inspection committee. The counties will be free to set up any other bodies they choose.
- Duties will be transferred to the counties, from Centres for Economic Development, Regional State Administrative Agencies, Regional Councils and other joint municipal authorities and municipalities (see 'Governance model').
- A county, which will be responsible for handling the duties, will also be responsible under the proposal for implementing the rights of clients resident in the county and for integrating service packages for clients. A county will also be responsible for ensuring that county residents receive services on an equal basis.
- A county will determine the need for services, the amount and quality of services, and the way that they are provided. Under the proposal, a county would also be responsible for steering and supervising the provision of services and for exercising the power assigned to it as a public authority.
- A county will itself finance the management of its duties and services, even if the services are produced by another county or by a private or third-sector service provider.
- A county may give a public administrative duty to a party other than a public authority only if this has been separately prescribed by law.
- A county may produce its services itself or jointly with other counties or outsource them from an external service provider, unless otherwise provided for by law.
- A county service utility will be responsible for a county's public service provision in duties separately prescribed in law, such as health and social services, and rescue services. The service utility will be a separate public law utility belonging to the county corporate group, led by a director and a board. The utility will also have officeholders.
- Decision-making in authorisation, notification and supervision matters requiring legal discretion and in matters such as health and social services matters directed at individuals will be prescribed as a duty of a county's and service utility's officeholders.

Division into counties

- The number of counties and the placement of municipalities into counties will be prescribed in the law implementing the reform.
- The division into counties in the proposal is based on Finland's current 18 regions, with minor exceptions.
- The Government may decide on changes to the division into counties on the basis of criteria specified in the Act on the Division into Counties.
- A study on the merger of counties (county division study) may be initiated on the basis of an evaluation procedure, in addition to a proposal from counties or municipalities.

Governance model

The healthcare, social welfare and county reform will significantly reduce the number of administrative organisations when approximately 190 intermunicipal or other organisations are replaced by the 18 counties.

The new, three-tier governance model will consist of:

1. the **municipality** for local duties and as an entity for local participation and influence.
2. the **county** for organising health and social services and other regional duties as well as an entity for participation and influence related to these.
3. the **central government** for national duties as well as for safeguarding fundamental rights, the rule of law and general security.

At all of these tiers, elected decision-makers will decide on and will be responsible for the operation of governance as well as finances.

Under the draft Counties Act, a county will be a public law entity that has autonomy in its area. The counties will be established when the legislation enters into force on 1 July 2017. Health and social services and the other specified duties will be transferred to the counties as of 1 January 2019.

A county's duties will be:

- healthcare and social welfare
- rescue services and environmental healthcare
- rural development and promotion of agriculture
- funding and support for farmers
- development and funding for business and innovation environments
- certain transport planning and funding duties
- steering and planning of land use and county planning
- promoting county identity and culture
- other regional services assigned on the basis of the Act.

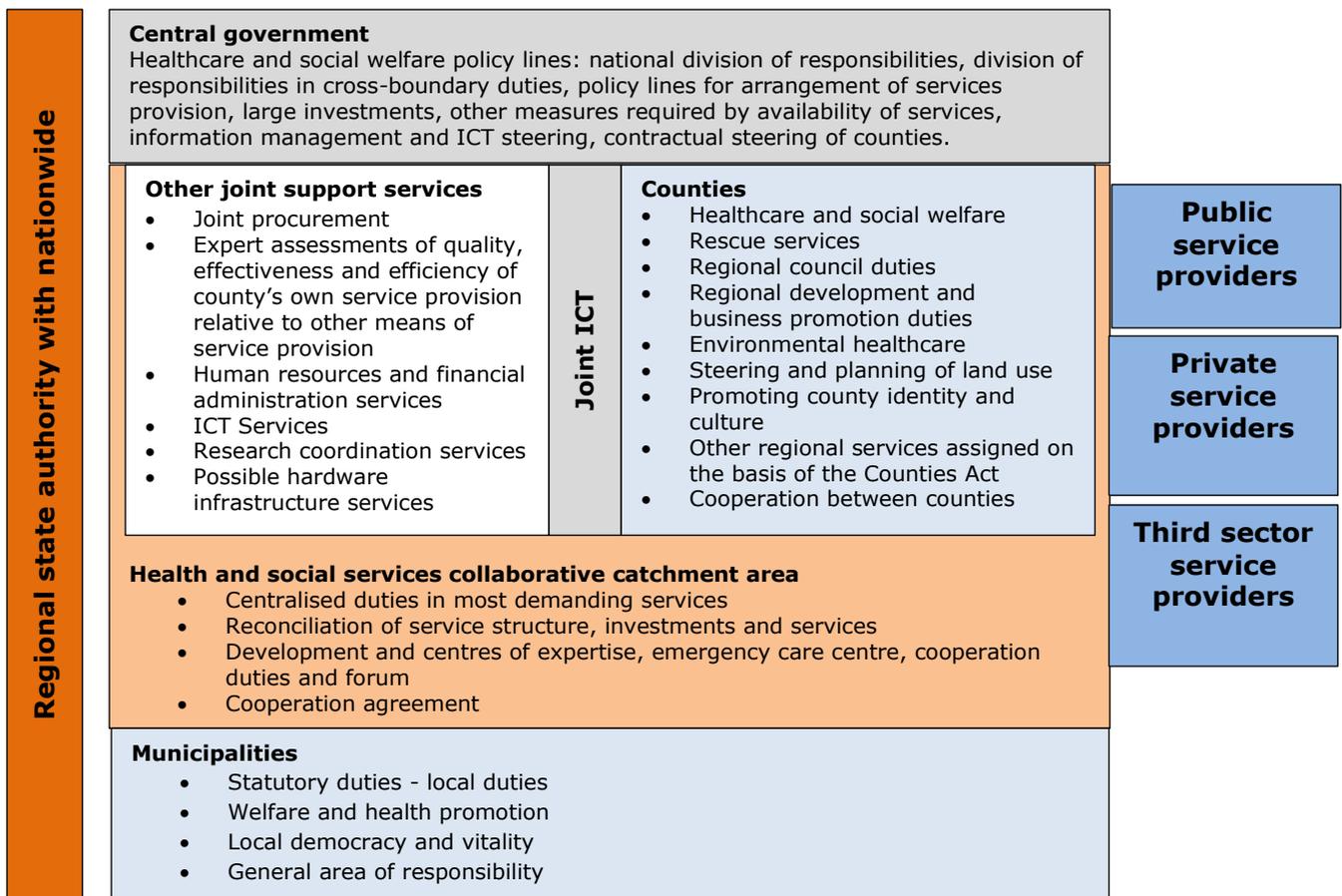
At this stage, of county services, only those in healthcare and social welfare will be specified. With respect to a county's other duties, these will be prescribed later as part of the reform of county government.

- Under the draft law, joint national service centres, bringing together support services required by the counties, will be established for the counties. The service centres will be limited liability companies jointly owned by the counties and the central government.

The service centres will provide support services (including procurement, premises services, ICT and human resources and administrative services) for all of the counties. In addition, the counties may establish joint support services with municipalities or with some other public sector partners. (see 'Joint support services'.)

- The counties will have five collaborative catchment areas for the purpose of regional coordination, development and cooperation in healthcare and social welfare. Each collaborative catchment area will have a university hospital unit.
- The counties belonging to each collaborative catchment area will be prescribed in a Government decree. The counties of Pirkanmaa, Northern Ostrobothnia, Northern Savonia, Uusimaa and Southwest Finland will maintain a university hospital.
- For each collaborative catchment area will be prepared a counties' cooperation agreement, coordinating the area's health and social services. The counties of Pirkanmaa, Northern Ostrobothnia, Northern Savonia, Uusimaa and Southwest Finland will handle the administrative duties required by the preparation of the cooperation agreements.

Counties' duties and new healthcare and social welfare structure 1 January 2019



Draft laws:

Draft for the Act on Organising Health and Social Services

Draft for the Counties Act

Draft for the Act on the Division into Counties

Draft for the Act Implementing the Counties Act and the Act on Organising Health and Social Services (Implementing Act)

Experts:

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Senior Adviser Eeva Mäenpää, Ministry of Finance, tel. 0295 530 266 (Counties Act, Act on the Division into Counties)

Senior Financial Adviser Teemu Eriksson, Ministry of Finance, tel. 0295 530 177 (division into counties)

Senior Adviser Auli Valli-Lintu, Ministry of Finance, tel. 0295 530 079

Senior Adviser Pekka Järvinen, Ministry of Social Affairs and Health tel. 0295 163 367 (Implementing Act)

2 Participation and democracy in the counties

Under the proposal, a county's residents and service users will have the right to participate and influence their county's activities. A county's highest decision-making power will be held by the county council and county executive. It will be a duty of the county council to ensure diverse and effective opportunities for participation.

County council

- A county's activities and finances will be the responsibility of a county council, which will exercise the highest decision-making power in the county.
- The county council will be elected in county elections for four years at a time.
- A county's activities will be managed in accordance with a county strategy approved by the county council.
- A county's activities, administration and finances will be managed by a county executive.
- An executive director elected by the county council will manage the county's administration, financial management and other activities subject to the oversight of the county executive.

County elections and participation of residents

- Under the proposal, the first county elections will be held in connection with the 2018 presidential election. The election day will be Sunday, 28 January 2018. The Election Act will prescribe on the county elections.
- In 2021 and thereafter, the county elections will be held in April simultaneously with the municipal elections.
- In the elections, each county will be one constituency. County election boards will be established as the new election authorities.
- The county elections will be direct, secret and proportional.

- In the county elections, all people with a right to vote will have an equal right to vote.
- The number of elected councillors will depend on the population of a county, so that the number of councillors is at least 59 in small counties and at least 99 in the larger counties. However, the county council may decide on a number of councillors larger than the minimum.
- Under the proposal, the election financing limit in the county elections will be the same as in the parliamentary elections. A county election candidate may not receive more than EUR 6,000 from any individual donor.
- A county's residents and service users will have the right to participate in and influence their county's activities. For instance, residents have the right of initiative in matters concerning the county's operations.
- It will be the county council's duty to ensure that residents have available to them diverse and effective opportunities to participate. The county strategy must take into account and specify residents' opportunities to participate and influence.
- Residents' opportunities to participate and influence may be promoted for instance by holding public discussions and hearings, by establishing residents' panels and by involving residents in the planning and development of services.
- A county council may decide to hold an advisory referendum covering the whole area of the county on a matter assigned to the county.
- Under the proposal, an initiative on the holding of a referendum may be made by at least 3% of the county's residents who are 15 years of age or over.

Draft laws:

Draft for the Counties Act

Draft amending the Election Act

Draft for the Act on the Division into Counties

Draft amending the Act on Political Parties

Draft amending the Act on the Procedure for Holding Municipal Consultative Referenda

Draft for the Act Implementing the Counties Act and the Act on Organising Health and Social Services

Experts:

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Senior Financial Adviser Teemu Eriksson, tel. 0295 530 177, Ministry of Finance (division into counties)

Ministerial Adviser Inga Nyholm, Ministry of Finance, tel. 0295 530 042 (participation and democracy, county elections)

Director of Electoral Administration Arto Jääskeläinen, OM, tel. 0295 150 128 (county elections and Elections Act)

3 Organising and providing health and social services

Under the Government's draft law, a county will *organise* publicly funded health and social services. This means that a county will plan, manage and finance health and social services in its area. Under the proposal, services will be *provided* by a service utility owned by the county. In addition, services can be provided by other public, private and third sector operators. The county will be responsible for ensuring that clients are provided with efficient service packages as well as service and care chains. The municipalities will no longer organise or finance health and social services. The municipalities will continue, however, to have a duty to promote wellbeing and health.

Proposal relating to the organisation of services

The Counties Act will prescribe on the organisation of the counties' governance and finances

- The Counties Act will have general provisions on the organisation of the counties' governance and finances.
- A county will be responsible for implementing the residents' rights prescribed in the Act. A county will also be responsible for ensuring that residents receive statutory services on an equal basis.
- A county will determine the need for services, the amount and quality of services, and the way that they are provided, unless otherwise prescribed by law. In addition, a county would also be responsible for steering and supervising the provision of services and for exercising the power attributable to a public authority.
- A county may provide services itself or in cooperation with other counties or acquire them based on an agreement from some other service provider.
- A county will finance services and the management of the duties assigned to its responsibility mainly with the funding it receives from the central government and to some extent with fee income it collects itself.
- A county may give a public administrative duty to a party other than a public authority only if this has been separately prescribed by law.

The Act on Organising Health and Social Services prescribes how the counties must organise residents' statutory health and social services

- The Act on Organising Health and Social Services prescribes on the availability of services. The content, scope and quality of health and social services must be in accordance with clients' needs. Services must form integrated packages and they must be implemented close to clients in accordance with the population's needs.
- The provision of services may be assembled into larger packages across one or more county when their availability and quality assurance require special expertise and expensive investments. This can also be done when the appropriate, cost-effective and efficient implementation of services so requires.
- For cooperation between the counties, there will be five collaborative catchment areas. The health and social services of counties belonging to a collaborative catchment area will be coordinated in cooperation agreements. A cooperation agreement will include an investment programme, which the Government will approve.
- The counties of South Karelia, Southern Ostrobothnia, Central Finland, Lapland, Päijänne Tavastia, Pirkanmaa, North Karelia, Northern Ostrobothnia, Northern Savonia, Satakunta, Uusimaa and Southwest Finland will be responsible for extensive 24-hour emergency provision of health and social services. All other counties will also arrange a

24-hour emergency service, but their emergency units will have a more limited emergency preparedness in specialised fields. This reform will begin during 2017.

- Accessibility must be promoted in the implementation of health and social services.
- Health and social services must be organised in Finnish and Swedish when a county has municipalities with different languages or at least one bilingual municipality. (see Language rights)
- If the domicile of a person receiving family care, institutional care or housing services changes and he/she moves to the area of another county, he/she may apply for the same services from the new county before he/she moves.
- The municipalities will continue to be responsible for promoting the wellbeing and health of their residents. This will also be a duty of the counties. In addition, it will be a duty of the counties to support with their expertise the wellbeing and health promotion work done in the municipalities.
- A county must organise health and social services in such a way that clients have an opportunity to select the service provider, as prescribed separately in freedom of choice legislation.
- A county will prepare a service strategy and give a service pledge (see Steering and Public service pledge).
- A county must prepare a self-supervision programme to ensure the fulfilment of its responsibility to organise services.
- A county must monitor the wellbeing and health of its area's population, the quality and effectiveness, costs and productivity of healthcare and social welfare as well as how the coordination of clients' services has been implemented.
- A county must promote residents' opportunities to participate and exert influence. Residents' views must be taken into account when a county prepares the service pledge, a counties' cooperation agreement and a collaborative catchment area's proposal to the Ministry of Social Affairs and Health on national objectives.
- A county will be responsible for developing health and social services in its area. Common development principles and mutual coordination of development activities will be agreed in the collaborative catchment areas.
- The financing of health and social services organised by a county will be determined on the basis of the Act of the Financing of the Counties. (see Financing)
- The central government's licencing and supervisory authority will supervise the health and social services organised by counties.
- A county must, in cooperation with its area's municipalities, make contingency plans for disruptions and emergency conditions. Contingency planning must ensure the continuity of services also when services are acquired from private service providers or with service vouchers.

Proposals related to provision of services

The Counties Act prescribes generally on a county's provision of services. A county may provide services itself or in cooperation with other counties or acquire them based on an agreement from some other service provider. The service provider may be the county's service

utility, a limited company, corporate entity, association, cooperative, foundation or independent practitioner.

The Act on Organising Healthcare and Social Welfare lays down the principles for the provision of health and social services. In addition to the Counties Act and the Act on Organising Healthcare and Social Welfare, also under preparation is a new Act on the Provision of Health and Social Services.

In addition, later this year a proposal will be prepared on freedom of choice legislation. This will prescribe on the content of the client's freedom of choice, the services within the scope of freedom of choice, the role of the organiser, and the criteria for compensating the service provider (see 'Client's freedom of choice').

The Act on Organising Healthcare and Social Welfare prescribes on the provision of health and social services

- In its own activities, a county must separate the organisation of healthcare and social welfare and the provision of services. A county's own service utility will be responsible for the county's own provision of services. The service utility will be a separate public law utility, led by a director and a board. The utility will also have officeholders, who will be able to make official decisions. Preparations relating to the service utility are currently under way.
- A county's service utility will also provide residents with public health and social services when they are not otherwise available. For example, if there are no other service providers in a remote area.
- A county must allow provision of services to be handled by a company or corporate entity owned by the county's service utility when the county handles healthcare and
- Social welfare duties in a competitive market environment or when services are within the scope of the client's freedom of choice (*corporatisation obligation*).
- Service providers will have many obligations. A service provider must, for example, ensure that service packages are implemented and that service chains function as agreed.
- A county is obliged to prepare an agreement with all service providers.
- In its service strategy, a county will also decide on targets for a minimum amount of services to be acquired from private healthcare and social welfare service providers. Furthermore, the service strategy must specify which part of purchases will be competitively tendered to develop new solutions for improving the innovativeness and cost-effectiveness of services.
- The healthcare and social welfare service strategy must also take into account the integration of services within the scope of the client's freedom of choice and other health and social services, so that the services needed by clients form a package that meets their requirements.
- A county will monitor the implementation of services. Service providers must also prepare a self-supervision plan.

Act on the Provision of Health and Social Services

- The Act of the Provision of Health and Social Services would prescribe on the right to provide health and social services that are a county's responsibility to organise as well as private health and social services. The Act will seek to ensure the safety of the client and patient as well as good, high-quality services. In addition, the aim is to promote entrepreneurship by reducing the administrative burden on businesses.

- Under the draft law, the present authorisation and notification practices dependent on the service provider's form of activity will be abolished. Instead, a practice of registration and effective self-supervision applying equally to all service providers will be adopted, based on trust between the service provider and the public authority.
- Service providers must be registered in a register of health and social services providers. The register will also include an open public information service on service providers. The registration and supervisory authorities will be the National Supervisory Authority for Welfare and Health (Valvira) and the Regional State Administrative Agencies (Avi).
- Providing information to the supervisory authority on, for example, personnel and operating premises will be sufficient in most cases. Only when necessary will a service provider's operating circumstances be studied in more detail and an advance inspection made.
- Service providers must fulfil the registration criteria specified in the Act. The supervisory authority will decide on whether to approve or reject a service provider. These criteria will be specified after the Government finalises its policy on freedom of choice.
- Under the proposal, service providers must ensure the quality, client-orientation, safety and appropriateness of services, and monitor their implementation. Service providers must maintain a comprehensive self-supervision plan.
- The Act will prescribe on means of ex-post supervision, mainly corresponding to present regulations.
- The new Act will abolish the present duties relating to the authorisation and supervision procedure for private health and social services.
- It is planned that the Act would come into force in 2017. The new Act would replace the present laws on private social services and private healthcare.

Draft laws:

Draft for the Counties Act

Draft for the Act on Organising Health and Social Services

Draft for the Act on the Provision of Health and Social Services

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4 Promotion of health and wellbeing in the context of the health and social services reform

Municipalities' duties in the promotion of health and wellbeing

Municipalities will continue to be responsible for the promotion of the health and wellbeing of the population. As in the past, municipalities will:

- monitor the health and wellbeing of the residents and the factors affecting the same;
- report on the health and wellbeing of the residents and the implementation of related measures to municipal councils;
- submit a comprehensive review on health and wellbeing to the municipal council once during its term of office;
- establish the objectives for the promotion of health and wellbeing and implement related measures based on local circumstances and needs;
- assess and take into consideration any effects that their decisions may have on the health and wellbeing of residents;
- monitor the measures taken in the context of municipal services;
- designate the parties responsible for the promotion of health and wellbeing.

Best placed to coordinate the duties related to the promotion of health and wellbeing is the central municipal administration, which will ensure the necessary cross-administrative approach during the period of transition. Additionally, the cooperation between municipalities and counties needs to be implemented so as to ensure that the skills and knowledge possessed by the social and healthcare services will effectively support the efforts to promote health and wellbeing in the municipalities.

Promotion of health and wellbeing in counties

The duties related to the promotion of health and wellbeing in counties will be incorporated into the county administration. The efforts to promote health and wellbeing in the county level cover the following areas:

- Strategic management of the promotion of health and wellbeing in the county organisation
 - Establishment of objectives, identification of measures and responsible parties and prospective human impact assessment;
 - Preparation of a regional wellbeing review in collaboration with the local municipalities
- Preventive health and social services
 - Preventive services refer to maternity clinics; school and student healthcare; health advice and examinations; occupational healthcare; promotion of the functional abilities of the elderly; prevention of accidents; as well as preventive and proactive action as defined in the Social Welfare Act, such as prevention of social exclusion and exclusion from the labour market and promotion of social welfare.
- Support provided by counties to municipalities for the promotion of health and wellbeing
 - Support and training for wellbeing reporting and human impact assessment

Guidance and incentives for the promotion of health and wellbeing

The objective is to encourage municipalities, counties, health and social services providers and the public at large to make decisions and choices that improve health and wellbeing. The guidance provided for the promotion of health and wellbeing will be incorporated into the overall guidance system of health and social services.

Tools for the provision of guidance:

1. Negotiations between the state and counties and cooperation agreements on the provision of services based on nationwide objectives, etc.;
2. Public comparative data on the performance of counties and service providers (e.g. cost of services, activities, outcomes and standard of quality);
3. New incentive component (for the promotion of health and wellbeing) to be added to central government transfers to counties;
4. Service strategy and service pledge of the counties;
5. Agreements between counties and service providers including incentives to be included in the compensation paid for the services (e.g. payment criteria based on the incentive for promoting health and wellbeing).

Draft legislation:

Counties Act

Act on the Financing of the Counties

Act on Organising Health and Social Services

Act on Central Government Transfers to Local Government for Basic Public Services

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5 Integration

One objective of the health and social services reform is to integrate health and social services into a client-oriented package. This integration of health and social services is one of the key elements of the health and social services reform and is aimed at improving the effectiveness of services.

The integration of health and social services means that all services will be collected under the authority and organisation responsibility of the counties. In addition, all financing will flow through the counties to service providers. The information systems of counties and service providers will also be integrated. Client and patient information will move between different providers via national registers and interoperable information systems.

Proposed Act on Organising Healthcare and Social Welfare:

- A county is responsible for the ensuring the appropriate availability of health and social services. The content, scope and quality of services must be in accordance with residents' needs. A county is also responsible for ensuring that service providers cooperate to produce integrated services to clients.
- A county's healthcare and social welfare service strategy must take into account the coordination of services within the scope of the client's freedom of choice and other

health and social services, so that the services needed by clients form a coordinated service entity that meets their requirements.

- A county is responsible for ensuring that services are integrated into effective client-oriented coordinated service entities and chains. This applies to all health and social services, both on a basic level and a specialised level, within the scope a county's responsibility to organise services.
- Guidance will be given, particularly to frequent users of services, and an extensive service needs assessment and client plan will be prepared.
- Private and third sector service providers within the scope of freedom of choice will also have obligations. Service providers must ensure that integration of services is implemented and cooperate as necessary with other service providers. In addition, providers must implement a client's services in accordance with the client plan prepared for the client.
- It will be a duty of a county to monitor the implementation of integration.

Draft laws:

Draft for the Counties Act

Draft for the Act on Organising Health and Social Services

Draft for the Act on the Provision of Health and Social Services

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6 Public service pledge

The public service pledge is a declaration of intent made to a county's residents on how healthcare and social welfare services will be implemented in practice. The services pledge cannot reduce the right of residents to different services prescribed in a number of different laws.

Under the draft law, every four years the Government will adopt national, and if necessary separately for each county, strategy objectives supplementing legislation for the organisation of healthcare and social welfare. The purpose of a county's service pledge is to promote the organisation of healthcare and social welfare in such a way that clients' views and needs are taken into consideration at the same time. The purpose of the service pledge is also to increase the transparency of activities and thereby improve the quality, effectiveness and cost-efficiency of services.

The public service pledge is prescribed in the Act on Organising Healthcare and Social Welfare:

- The publicly declared service pledge will give a county's residents information on how services will be implemented and whether they are being implemented in accordance

with the pledge. It will thereby also be possible to give feedback and make proposals that will improve services in practice.

- The service pledge may apply to all services within a county's responsibility to organise services, such as preventive, treatment or corrective and rehabilitative services.
- The service pledge will not apply more widely to social security.
- The service pledge will not be legally binding.
- In their county service pledges, the counties will give their own service pledges to residents on services that are their responsibility to organise.

Draft law:

Draft for the Act on Organising Health and Social Services

Expert:

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7 Participation of service users in health and social services

The residents of the county as well as the users of the services provided, have the right to participate and have an influence on the activities of the county. The County Council must ensure diverse and effective opportunities of participation. Matters relating to participation will be regulated by the Counties Act and the Act on Organising Health and Social Services.

- The proposed Act on Organising Health and Social Services provides that the county must take the opinions of the residents into consideration when preparing the service promise, the cooperation agreement between the counties and the proposal for national objectives of a collaborative area to be presented to the Ministry of Social Affairs and Health. Participation and input may be encouraged e.g. by organising discussions and hearings with the public, and by finding out about the opinions of the residents before taking a decision.
- To ensure opportunities for the young people to participate and have an influence, the County Council must set up a youth council or a similar group. To ensure opportunities for the older residents to participate and have an influence, the county must set up a council for elderly people. To ensure the same opportunities for people with disabilities, a council on disability must be established. These organs must have a chance to impact the planning, implementation and monitoring of the county activities that have significance in terms of children and young people, senior residents and persons with disabilities, or that affect the services needed by these groups.
- In a bilingual county, the County Council must set up an organ that can have an influence on minority language issues. The members of this organ will be selected from the minority language speakers of the county. The organ will have the task of examining, assessing and defining the minority's need of services, and it will also monitor and develop the availability and quality of the relevant services. If a county encompasses a municipality that is located in the Sami native region, the County

Council must set up an organ that can have an influence on matters relating to Sami language. The members of this organ will be selected from the representatives of Sami speakers of the county.

Draft laws:

Draft for the Act on Organising Health and Social Services
Draft for the Counties Act

Experts:

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Ministerial Counsellor for Social Affairs Viveca Arrhenius, Ministry of Social Affairs and Health, tel. 0295 163 286

8 Language rights

The new service structure created in the health and social services reform will secure citizens' language rights. Clients and patients have the right to use either official language, Finnish or Swedish, in administrative matters and to receive official documents in the official language of their choice. Language rights are provided for in the current Language Act, Sámi Language Act and Sign Language Act, and will be provided for in the Act on Organising Health and Social Services under preparation.

- Health and social services functions will be provided in both official languages – Finnish and Swedish – if the county includes monolingual municipalities with different languages or bilingual municipalities.
- If all municipalities in a county are monolingual, services and related administration will be provided in that language.
- Of the proposed counties, six will be bilingual, with Swedish as the minority language in all except Ostrobothnia.
- Under the Language Act, public authorities must ensure at their own initiative that citizens can enjoy their language rights. When services are provided, compliance with the Language Act must be ensured.
- The right to use the Sámi language in official transactions mainly applies to the Sámi homeland – the municipalities of Enontekiö, Inari and Utsjoki and part of Sodankylä.
- At present, Sámi people have the right to use the Sámi language in health and social services in the municipalities of the Sámi homeland and in the Lapland Hospital District. However, local authorities are not required by law to provide health and social services in the Sámi language. Providing a Sámi interpreter satisfies the requirements of the law.
- Participation by clients and patients must be ensured in situations where the client/patient and personnel have no language in common, or the client/patient cannot make himself or herself understood because of a sensory disability or speech impediment. This includes users of Finnish and Swedish sign language. In situations where the client/patient and personnel have no language in common, care must be taken to ensure that the client/patient understands the matter at hand sufficiently well and that he or she is able to express his or her opinion. If an interpreter is not available, this must be managed by other means.

- Citizens of the Nordic countries have the right to use their native language – Finnish, Icelandic, Norwegian, Danish or Swedish. In such a case, the county must ensure that citizens of Nordic countries are provided the interpreting and translation services they require. This right derives from the Nordic Convention on Social Assistance and Social Services.
- Speakers of other languages, including foreigners, should also be accommodated in their own language as far as possible.
- Counties belonging to a collaborative catchment area must enter into an agreement concerning the regional harmonisation of health and social services, including measures to ensure the enjoyment of language rights.
- The Government confirms the national and strategic objectives on the organising of health and social services every four years. These objectives must include objectives for ensuring language rights.

Legislation:

Language Act (423/2003)

Sámi Language Act (1086/2003)

Sign Language Act (359/2015)

Draft law:

Draft for the Act on Organising Health and Social Services

Experts:

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9 Service Centres

Under the draft laws, common national service centres will be established for the counties. These service centres will provide centralised support services to address the needs of the counties. In addition, it will be possible for the counties themselves to establish common support services with municipalities and certain other public sector collaborators.

The service centres will be established with the objective of making savings and being able to offer the best expertise for the benefit of all counties. The aim is for the service centres to be able to maintain a consistent standard of quality for the support services in all the counties.

The preparation of the service centres is still under way.

The support services for the counties that will be organised at national level are:

1. Service Centre for Joint Procurement (contractual matters and public tendering)

The Service Centre for Joint Procurement will act as a national central purchasing body for the counties. Its role is that of a professional public tenderer, as well as an executor and maintainer of contracts, and this role will also encompass the

task of serving as a common procurement developer and expert for the counties. As a central purchasing body, the Service Centre for Joint Procurement will combine procurement volumes in order to make savings and obtain advantages of scale. The Service Centre will also streamline public purchasing and promote competition with an open procedure that capitalises on the large market potential.

2. Service Centre for Facility and Estate Management

A real estate company that provides facility services for all the counties will ensure facilities that suit their intended purposes as well as an effective utilisation of these facilities. The real estate company will also offer a well-functioning service network. The facility services come with skills and knowledge in planning, funding and investing in special premises, and this know-how will ensure that the facilities provided are appropriate for the planned activities. The knowledge will also help to take account of any future needs and developments, such as the new care-related technologies and the digitalisation process.

3. Service Centre for ICT Services (The ICT Service Centre)

The national ICT Service Centre produces information system and IT services as well as information management for the counties and governmental authorities. It can deliver services by using its own resources or, alternatively, it can outsource services. A separate report on the establishment of the centre and the centre's services is completed in September 2016. The planning and implementation of the new e-services requires that the information management is steered with decisiveness and that the counties and the state will cooperate in order to develop and refine their operations. When it comes to the production of ICT services and the implementation of digitalisation, particular attention will be paid to the planning of the transitional period: operational continuity will be ensured at the same time as new services will be developed. The tasks of the ICT Service Centre will later be laid down by regulation.

4. Service Centre for Financial and Personnel Management

The national Service Centre for Financial and Personnel Management provides the counties with integrated financial management, payments and accounting, as well as personnel and salary management and professional and support services. At the heart of the service centre are operational effectiveness and strong expertise of the personnel. At a regional level, the service centre operates through several establishments. The service centre will also act as a developer and reformer of service concepts for the counties and, in addition, it will serve as the manager of the integrated system, jointly with the other service centres.

- The service centres provide the aforementioned support services to the counties. The service centres do not provide services to the counties' production companies that are active on the market, nor will services be provided to the private sector actors subject to the freedom of choice scheme.

- The service centres can either provide services themselves, or acquire them from external service providers by procuring the services through open competition in accordance with the public procurement legislation.
- In addition to the above, the possibilities of organising shared support services will be assessed in the following areas: 1) expert reports on the quality, effectiveness and efficiency of a county's own production when compared to other production methods, 2) the coordination services for the research activities, and 3) the application and infrastructure services.

Draft laws:

Draft for the Implementing Act

Draft for the Counties Act

Draft for the Act on Organising Health and Social Services

Experts:

Director of Administrative Governance and Development Helena Tarkka, Ministry of Finance, tel. 0295 530 141 (facility and estate management)

Senior Adviser Maritta Korhonen, Ministry of Social Affairs and Health, tel. 0295 163 344 (ICT services)

Budget Counsellor Tomi Hytönen, Ministry of Finance, tel. 0295 530 279 (joint procurement services)

Director General of the Personnel and Governance Policy Department Juha Sarkio, Ministry of Finance, tel. 0295 530 031 (financial and personnel management services)

10 Governance

As the provider of financing, the central government will steer the counties' financial management. For the counties, the intention is to create a financial steering model so that the counties discharge their duties successfully and so that the growth of expenditures in health and social services can be curbed in accordance with objectives.

Steering of the counties' finances

Duties and finances will be reconciled in the General Government Fiscal Plan

- The key tools for the financial steering of the counties will be the General Government Fiscal Plan, the State Budget and legislation concerning the counties.
- In the General Government Fiscal Plan, the Government sets targets for general government finances and decides on measures to achieve these targets. The central government spending limits decision is included in the General Government Fiscal Plan.
- The duties of the counties and their financing will be evaluated in connection with the preparation of the General Government Fiscal Plan. State funding allocated to counties will be reviewed annually as provided for in the Act on Financing of the Counties.
- Negotiations between the central government and the counties will support the preparation of the General Government Fiscal Plan and the annual revisions of the plan.
- In the negotiations, the counties' finances and cost trends will be assessed, the need for any adjustment measures evaluated, and the counties' investment plans discussed. Central government steering will apply to investments that are significant for organising the service structure overall or the services of more than one county. In addition to direct investments, the central government will also steer long-term commitments comparable to investments as well as investments implemented by the counties' joint service centres.

Financing governed by the Act on the Financing of the Counties

The Act on Financing of the counties is to regulate the state financing of the counties. The aim is to establish a financial system that enables the counties to cope with the tasks that legally fall within their competence.

The counties have no right of taxation when the reform comes into force, and therefore their sources of income consist of state funding and user charges. Moreover, the counties do not have any other significant sources of income. In case of necessity, the state may grant a short-term loan or state guarantees for a county that is facing liquidity difficulties.

At the level of 2016, the net costs of the counties come to a total of approximately EUR 17.67 billion. Of this, some EUR 17.25 billion consists of health and social care costs, and some EUR 420 million consists of the costs of civil protection. The differences between the counties as well as their individual funding needs will be taken into consideration in the state funding, and in this way it will be ensured that adequate conditions are in place for each county to provide services to their residents.

At this point, the Act on Financing of the Counties covers health and social services and rescue services. The plan is to add to the draft in further preparation to cover the financing of other duties to be transferred to the counties in parallel with the preparation of those transfers. As of 2019, the Act will cover the financing of all county duties.

- The county decides autonomously on the use of its funds.
- 10% of the state funding to the counties will be directed according to the county population. 90% will be directed according to the service needs of the county residents.
- In addition to the county population, factors which influence the funding of health and social care services include the age structure of the residents, the service needs of

- healthcare, social care and the care for the elderly, population density and the number of foreign-language persons in the county.
- The counties receive state funding also for the purposes of promoting health and wellbeing of the residents. This amounts to 1% of county funding.
 - The state financing takes account of potential modifications to the tasks of the counties stemming from legislation.
 - A transitional period will be established for the state funding, covering the years 2019 – 2021. During the transitional period, a gradual transition will be made from health and social care's expenditure-based funding to needs-based funding.
 - The state funding allocated to the counties will be reviewed annually against the actual costs and changes in the estimated costs. The actual proceeds from user charges will also be taken into consideration.
 - The actual operating costs will not be taken fully into account in the review of state funding, as the overall goal is to curb health and social services expenditure by EUR 3 billion by the end of 2029.
 - State funding will be adjusted according to the resource capacity of the public finances: the portion of the actual operating costs of the counties taken into account is the cost increase according to the county index plus 1 percentage point in 2020–2021 and 0.5 percentage points as of 2022. This will result in a decrease of about EUR 2.8 billion in annual funding by the end of 2029.
 - The allocation criteria for state funding will be reviewed at least every four years.
 - The Government may separately decide on any measures needed in case sudden and temporary liquidity problems arise in a county.
 - The Service Centre for Financial and Personnel Management will make automatic monthly payments under the state funding scheme, and so there is no need for separate applications.

The Act on Financing of the counties is yet to be finalized. The draft law will be supplemented as the preparations for the delegation of the counties' tasks that do not concern health and social care or civil protection, progress.

Curbing growth of costs

One objective of the Prime Minister Juha Sipilä's Government Programme is to strengthen the long-term sustainability of public finances.

- The objective of the healthcare and social welfare reform package is to curb growth of costs by EUR 3 billion. The goal is to curb growth of health and social services expenditure by approximately 1.5 percentage points per year in the period 2020–2029.
- In the Ministry of Social Affairs and Health's baseline scenario, nominal health and social services expenditure would grow in 2020–2029 by approximately 4.4 per cent per year. Achieving the savings target would require growth of health and social services expenditure to be kept below 3 per cent per year in 2020–2029.

- Growth of health and social services expenditure may be curbed by improving operational efficiency, introducing best practices, reducing service needs by timely care and prevention of illnesses as well as supporting the maintenance of health and functional capacity, increasing user fees or, ultimately, by limiting the provision of services while at the same time safeguarding the individual's right to necessary care.
- Promoting wellbeing and health will contribute to achieving this goal. This can only be achieved, however, if the counties and providers of health and social services actively introduce measures known to be cost-effective.
- The target set for curbing expenditure growth is extremely ambitious and requires that the entire reform be tuned correctly to this perspective.

Evaluation procedure

- In the evaluation procedure, the central government and the county will evaluate the county's financial capacity to discharge its duties successfully. The evaluation procedure will be preventive and its objective will be to encourage good financial management on the part of the counties.
- The Ministry of Finance will decide on the initiation of the procedure so that the criteria laid down in the Counties Act are fulfilled.
- The Ministry of Social Affairs and Health may submit an initiative to the Ministry of Finance on the launch of an evaluation procedure under the Counties Act if a county's capacity to organise health and social services is evidently compromised.

Draft laws:

Draft for the Act on the Financing of the Counties

Draft for the Counties Act

Draft for the Act on the Division into Counties

Draft for the Act on Organising Health and Social Services

Experts:

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Ministerial Adviser Tanja Rantanen, Ministry of Finance, tel. 0295 530 338

Ministerial Adviser Noora Heinonen, Ministry of Finance, tel. 0295 530 148

Economist Ilari Ahola, Ministry of Finance, tel. 0295 530 408 (focus on health and social services expenditure trends and savings)

Ministerial Adviser Marja Paavonen, Ministry of Finance, tel. 0295 530 187 (focus on health and social services expenditure trends and savings)

Senior Officer Antti Väisänen, Ministry of Social Affairs and Health, tel. 0295 163044 (focus on county calculations)

Government steering of the health and social services

Government steering within health and social care will be strengthened. This will help people to get more equal services throughout the country, and will also slow down the cost increase. The Act on Organising Health and Social Services includes several provisions relating to steering of county activities. Strong steering will ensure that the services will be more client-oriented, more integrated and more efficient in a cost-effective way.

Act on Organising Health and Social Services

- The general steering, planning, developing and supervision of health and social care will remain as the responsibility of the Ministry of Social Affairs and Health. The Ministry of Social Affairs and Health is also responsible for preparing national objectives and making sure that these objectives are taken into account in the counties' activities. For this purpose, the Ministry will have a steering unit.
- The Government confirms the national and strategic objectives every four years. If necessary, the Government may confirm individual strategic objectives for each county so that health and social care can be organised.
- The objectives will safeguard i.a. service integration, equality of access, freedom of choice, participatory rights of the residents and linguistic rights.
- If counties that form a collaborative area fail to agree on the cooperation agreement that concerns health and social care, the Government may decide on the agreement including its contents and the work-sharing between the counties. This may also be done if the agreement that has already been confirmed will endanger the equality of the residents.
- If the service structure of a county fails to assure equal availability, quality, effectiveness and productivity of services, the Government may make a binding decision on the measures necessary for further developing the service structure. In a similar vein, the Government may also decide on the implementation of far-reaching investments and information system services.
- The counties and the Ministry of Social Affairs and Health will hold negotiations each year on the implementation and the development needs of social and health services. The intention is for the Ministry and the counties to monitor the implementation together.
- The Ministry of Social Affairs and Health will prepare an annual report that concerns the equal availability and quality of services as well as the adequacy of funding. The report will include proposals relating to the necessary measures, and these measures will be taken into consideration in the General Government Finances Plan, the state budget and the strategic objectives of health and social services.
- The National Institute for Health and Welfare is to monitor and evaluate the health and welfare of the population as well as the health and social care organised by the counties.
- Counties must draw up a health and social care services strategy for planning and managing their activities and economy. The services strategy will form a part of the county strategy. The services strategy will encompass the long-term objectives for health and social care that are within the organisational responsibility of the county. The strategy will also contain the targets for the minimum amount of services to be acquired from private service providers. Furthermore, it must be defined in the services strategy, which part of the procurements will be subject to competitive

tendering to foster solutions that will improve innovation and cost-effectiveness of the services.

- When preparing the services strategy for health and social care, it is also important to ensure that the services within the freedom of choice scheme and the other health and social services will together form a whole that caters to the needs of the customers.

Draft laws:

Draft for the Act on Organising Health and Social Services

Experts:

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11 Local government funding and central government transfers for basic public services

The delegation of the health and social services tasks to the counties will have a significant effect on local government, particularly on the finances of individual municipalities. The costs of the tasks to be delegated to the counties will be entirely phased out of the local government economy as of 2019. At the same time, the system of central government transfers to local authorities for basic public services must be overhauled. The new system will need to provide sufficient for local authorities to manage their remaining statutory duties and, initially, to equalise the major impacts of the reform. This equalisation effort will continue in the following reform of central government transfers.

The transfer of funding will be implemented with a view to the finances and administration of local government and the finances of individual residents, the latter being protected against tax increases. Both residents and local authorities will be protected by ensuring sufficient funding to cover the remaining statutory duties. Managing this transition will lead to a compelling need for equalisation in the system of central government transfers in the years following the entry into force of the reform.

The law on the central government transfer system is yet to be finalised.

Funding transfer from local authorities to counties (central government)

- The costs of the duties to be transferred to the counties (estimated at EUR 17.7 billion in 2016) will be eliminated from local government finances as of 2019. There are great differences between municipalities in the costs of the duties to be transferred, as indeed in the costs of the remaining statutory duties of local authorities.
- Local government revenue equal to the costs transferred to the counties will be transferred to county finances to prevent taxes from rising and public expenditure from increasing.

- Revenue will be cut by reducing both central government transfers to local government (by EUR 5.9 billion) and local government tax revenue (EUR 11.8 billion).
- The cut in central government transfers will be determined by calculating the imputed percentage in those transfers accounted for by health and social services. An equivalent amount in supplementary transfers and compensation for loss of tax revenue will be allocated to the counties.
- Tax revenue will be reduced principally by lowering the municipal tax rate (EUR 11.3 billion). In the year in which the system enters into force, the municipal income tax rate in all municipalities will be lowered by 12.30 percentage points from the previous year. The local government share of corporate tax revenue will be reduced by EUR 0.5 billion at the 2016 level.
- Lowering the municipal income tax rate will have a significant impact on how well tax-based equalisation will function. Equalisation will no longer be possible on the basis of the current system.
- As a consequence of the transfers, the revenue structure of municipal economy will change. In spite of the reductions, the local income tax will remain as the main source of income for the municipalities. The proportional share of the property tax as a source of income will increase. The proportional share of the central government transfers as a source of income will decrease.
- The combined impact of cost and revenue transfers will cause considerable differences between municipalities: some will win, others will lose. In order to mitigate these changes, the system of central government transfers for basic public services must be overhauled. Because of the magnitude of this change, it must be implemented in stages.
- The costs of the duties to be transferred to the counties and the revenue allocated to them will be determined as close to the entry into force of the new system as possible, using the most recent statistical data.
- The proposal is based on an estimate of the costs and revenue for 2016 (modelled on the actual figures for 2014). An average of the figures for 2015 and 2016, index-corrected for 2018, will be applied in the year of entry into force. Once the statistics for actual costs in 2018 are available, the estimated costs will be adjusted accordingly.

Reform of the system of central government transfers

- The starting point for the reform is to ensure that the municipalities are properly financed and thereby will cope with the tasks that continue to be their responsibility.
- The criteria of the central government transfer system will retain its relevance.
- The imbalance between the revenues and the expenditure transferred to the counties, and the change in the way the central government transfers are balanced out on the basis of tax revenue, will both have significant and diverse economic effects on individual municipalities.
- Economic effects directly arising from the reform will be temporarily restricted with a transition limiter designed for the reform transfers. The proposed transition limiter would be 60 % of the difference between the transferred costs and the revenues. The transition limiter will allow a better-performing model structure, where the levelling related to the transfers will not dominate.

- As a result of the funding transfer, the amount of central government transfers distributed to municipalities will decrease to about one third of what it is now. Moderate adjustments to the criteria for central government transfers are proposed in order for the criteria to reflect more equitably the remaining statutory duties of local authorities and their cost structure.
- As part of the overall solution, the proposal includes a change to the equalisation limits for central government transfers, and the coverage of the equalisation is to be increased by including 50% of property tax under the equalisation.
- Considering the scale of the reform, the municipality-specific impacts caused by its entry into force will be mitigated. The new funding model will be introduced through a transition-period equalisation, defined as the difference between a local authority's new equilibrium and the equilibrium prior to the reform. The transition equalisation will progress by +/- EUR 25 per resident in the years 2020 to 2023, though by no more than +/- EUR 100 per resident overall.
- Freezing the baseline situation to the level prior to the reform highlights the importance of municipal financial management in the years before the reform enters into force.
- Reforming the system of central government transfers is a long-term process. The equalisations created in this reform will need to be addressed in the next reform too.
- The next reform of municipal basic services must be based on comprehensive research and experiences since the entry into force of the present reform concerning the functioning of the system. These parameters mean that the next reform could enter into force no earlier than towards the end of the next electoral term.

Impact of property arrangements on local government finances

- The starting point for property arrangements is that the overall tax rate will not increase as a result, and that the tax payer will pay for the property only once.
- As for the tasks that will remain under the responsibility of the municipalities, the principle of financing will continue to be observed, and the property arrangements will not jeopardise this.
- The municipalities that become members of a county must cover the deficits of the joint municipal authorities subject to transfer before the transfer takes place.
- The property arrangements will not affect the amount of debt the municipalities have.
- The rents paid by the counties will boost the revenues of the municipalities.

Temporary restriction of local authorities' taxation rights when the reform enters into force

- In the year of the entry into force of the reform (2019), the municipal income tax rate will be reduced by the same percentage in all municipalities to avoid the overall tax rate or taxation of labour increasing as a result of the reform. This reduction is specifically related to the reform and can only be implemented for a limited period according to the constitutional law evaluation, since the right of taxation is one of the cornerstones of independent local government.
- In addition to a reduction in tax rates across the board in 2019, a ceiling on tax increases will be enacted for a transition period (2020–2021) to limit pressures towards raising taxes as a result of the reform.

- The tax increase ceiling will mean that local authorities would be allowed to raise their income tax rate by no more than 0.5 percentage points per year on average. This ceiling is set so that local authorities can balance their finances under normal circumstances.
- An exception will be provided for to safeguard municipal funding, applying to situations where a local authority's solvency is threatened and cannot be remedied by other means or revenue-driven measures. In this specifically defined case, a municipal council could decide on a tax increase greater than the above limit. The decision would have to be thoroughly justified after exploring all other possible avenues.
- The major measures to safeguard local government finances and the stability of individual municipalities will be undertaken in the reform of the system of central government transfers and in the local government finances portion of the General Government Fiscal Plan and in local authorities' decision-making.
- The government considers that limiting the right of taxation for a fixed term as proposed will not infringe on the capacity of local authorities to fulfil their financial obligations.

Draft laws

Draft for the Act on Central Government Transfers to Local Government for Basic Public Services

Draft for the Government Decree on Central Government Transfers to Local Government for Basic Public Services

Draft for the Implementing Act (ceiling on municipal tax increases)

Experts:

Senior Financial Adviser Jani Pitkämäniemi, Ministry of Finance, tel. 0295 530 494

Senior Financial Adviser Markku Nissinen, Ministry of Finance, tel. 0295 530 314 (focus on municipal calculations)

Senior Adviser, Legal Affairs Minna-Marja Jokinen, Ministry of Finance, tel. 02955 30820 (focus on the Act on Central Government Transfers)

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12 Taxation

In connection with the health and social services and regional government reform, healthcare and social welfare as well as rescue service duties will be transferred from the municipalities to the counties. Under the draft law, the intention is to reduce municipalities' revenue to correspond with the costs of the duties transferred from the municipalities to the counties. Municipal income tax and corporate tax revenue will be reduced. Correspondingly, central government taxation will be increased, because the central government will finance the duties of the counties. The reform will be implemented in accordance with the Government policy line, such that taxation on labour will not be increased and the overall tax rate will not rise.

Reduction in the municipalities' tax revenue

- Under the proposal, municipal income tax revenue will be reduced by approximately EUR 11,340 million.

- The municipal income tax percentages of all municipalities will be reduced by the same amount in 2019.
- According to current estimates, the municipal income tax percentages will be lowered by 12.3 percentage points.
- Changes to municipal income tax percentages will also be restricted in 2020 and 2021.
- The municipalities' share of corporate tax revenue will be reduced by EUR 500 million as at the 2016 level.
- Without this change, the corporate tax share of municipalities' revenue will increase too much when the municipalities' revenue falls from its current level.
- Corporate tax revenue might fluctuate strongly in accordance with cyclical changes in economic conditions, and for that reason corporate tax is not very suitable as a source of funding for municipalities' expenditure. On the other hand, the share of corporate tax revenue received by the municipalities encourages the municipalities to promote business activity and employment in their own areas.

Increase in central government tax revenue

- In principle, central government taxation will be increased to the same extent as municipalities' tax revenue is reduced.
- The increase will be implemented by changing the parameters of the current tax system (so-called tax band model).
- The most significant change will be that the central government income tax bands will start from a significantly lower level than at present, and the number of bands will be increased.
- In addition, the earned income tax credit and the basic deduction as well as the pension income deductions in municipal taxation and central government taxation will be changed.
- The central government's share of corporate tax revenue will grow by EUR 500 million as at the 2016 level.

Impacts on taxpayers

- The reform will be implemented in such a way that it has a minimal impact on taxpayers' level of taxation.
- In principle, the municipal taxation will be reduced to the same extent as central government taxation is increased. After the reform, taxpayers will pay less municipal tax and more central government tax than at present, but the overall level of taxation will remain almost unchanged. Very small changes in the level of taxation are possible, however.
- In the final preparation, the tax parameters will be set so that taxation of employment will not increase at all.

Other matters

- With regard to transfers of assets, no tax consequences will arise in income taxation and capital transfer taxation when the assets of the joint municipal authorities are

transferred in the manner outlined in the implementation act to the counties and further to a national limited company.

- Value-added taxation provisions will be prepared separately, and a Government proposal will be given on them in due course.

The calculations have been made using 2014 base data increased to the 2016 level and with 2016 tax criteria. The calculations will be updated as preparations advance, and in 2018, before the reform comes into force, the tax parameters will be updated using the latest available tax base data and tax criteria.

Draft laws:

Draft for the Act on the 2019 Income Tax Schedule

Draft amending the Income Tax Act

Draft amending and temporarily amending the Act on Assessment Procedure

Draft amending section 12 of the Act on Tax Settlement

Draft amending section 30 of the Act on the Tax Administration

Experts:

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Senior Adviser Panu Pykönen, Ministry of Finance, 0295 530 225

13 Financing the local government pension scheme

The health and social services reform will also affect financing of the local government pension scheme. Individuals transferring to the counties from the service of municipalities and central government will come within the scope of the local government pension scheme.

- In the future, in the local government pension scheme the employer's pension contribution will consist of three elements: an earnings-related pension contribution, a disability pension contribution and an equalisation payment. The equalisation payment will replace the present pension expenditure-based payment. The purpose of the payment is to cover those costs of the local government pension scheme that are higher than the costs of the private earnings-related pension scheme. The higher costs result from, among other things, a female-dominated workforce, the age structure of personnel, and the supplementary pension cover of older personnel.
- The equalisation payment will be paid only by municipalities and counties, not by companies. In the counties and municipalities, the equalisation payment will remain exactly the same, irrespective of whether they organise services themselves, by corporatisation or as purchased services.

- Between the municipalities, the equalisation payment will be determined in relation to tax financing.
- Between the counties, the equalisation payment will be divided in relation to their central government financing. In practice, the central government will be responsible for costs arising from the counties' personnel.
- The Ministry of Finance will confirm the total amount of the equalisation payment on the proposal of the Local Government Pensions Institution (Keva).

Draft law:

Draft amending the Local Government Pensions Act

Expert:

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14 Implementing the reform

Status of personnel

Under the draft law, the health and social services reform will result in the transfer of a total of more than 220,000 employees from the service of the municipalities and joint municipal authorities to the service of the counties. They will therefore be employed by a county in the future. Most of the employees to be transferred will be health and social services personnel. At the time of transfer, the rights and obligations of the employees will be maintained.

- The municipalities' and joint municipal authorities' health and social services personnel will be transferred to the service of the counties and the counties' service utilities. Each employee will be transferred to the county that is responsible for managing the duties in which the employee was engaged before the transfer, or to a company or institution owned by that county.
- With regard to the municipalities' joint support services, an employee will be transferred to the service of the counties or the counties' service utilities if at least half of the individual's present duties are devoted to a municipality's health and social services.
- To the counties will be transferred rescue service, agriculture relief service, environmental healthcare and regional council personnel as well as approximately 5,000 employees from the regional state administration.
- Transfers will take place in accordance with the principles of transfer of business with the employees maintaining their current terms of employment, i.e. retaining their existing rights and obligations at the time of transfer. This will also apply to pension benefits. The principle of transfer of business will be applied irrespective of the order in which the counties' organisations are established.
- Local government officeholder, employment and civil servant collective bargaining legislation will also be applied to employees in the future, and its scope will be extended so that it also applies to the employees of the counties.

- Local Government Employers KT will also act as the counties' employer representative in the future. The name of the employer organisation will be changed to Local Government and County Employers KT. In the new employer organisation, the counties will have a status corresponding to their employee numbers and financial significance.
- The counties and the county service utilities will become members of the Local Government Pensions Institution (Keva). Keva will be responsible for the pension security of the counties' and county service utilities' personnel. (see Pensions)
- Companies of the counties may choose whether to join the local government pension scheme as well as local government and county collective bargaining agreements.

Draft laws:

Draft for the Act on Civil Servants in Local and Regional Government

Draft for the Act on Collective Agreements for Local and Regional Government Officials (Draft amending the Act on Collective Agreements for Local Government Officials)

Draft for the Act on Collective Agreements for Local and Regional Government Employees (Draft amending the Act on Collective Agreements for Local Government Employees)

Draft for the Act on Cooperation between Employers and Employees in Local and Regional Government (Draft amending the Act on Cooperation between Municipal Employers and Employees)

Draft amending the Local Government Pensions Act

Draft for the Act on Organising Employer Representation in Local and Regional Government

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Assets

The objectives set for the health and social services reform must also be realised in asset-related solutions. Through the implementation of the reform, the goal is to achieve in the long term EUR 3 billion in public spending savings and to help manage the sustainability gap. Asset-related solutions will not jeopardise the municipalities' capacity to discharge their remaining duties successfully.

- Under the draft law, the assets required by a county in its duties will be ensured for the county's use partly by asset transfers and partly by leasing.
- Under the proposal, the statutory joint municipal authorities will be transferred with their assets and liabilities to the counties.
- The buildings of the municipalities and voluntary joint municipal authorities will not be transferred; the counties will lease premises in accordance with a joint lease agreement template.
- During the transition period, a county will lease all premises used by activities falling with its responsibility to organise. After the transition period, a county will assess its need for premises.
- Movable assets of municipalities related to activities falling within the counties' responsibility to organise will be transferred to the counties. Further preparation of the

reform will identify the number of premises that may be underused in the future and will explore means by which the impact of unused premises on local government finances will be alleviated.

- A joint professional real-estate company providing premises services will be established for the counties. This will ensure the provision of premises that support activities, an effective service network and a good utilisation rate of premises. Premises services will have expertise in special premises planning, financing and investment, so that premises will support activities and take into account future needs, for example new care technologies and digitalisation. (see Service centres.)

Draft law:

Draft for the Act Implementing the Counties Act and the Act on Organising Health and Social Services

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Digitalisation, ICT services and steering of information management

The goal of the health and social services reform is to improve the availability and equality of services. This requires an operational change, in support of which new processes and harmonised operating practices crossing organisational and regional boundaries will be built. Digitalisation and electronic services are important, particularly for the inclusion of clients. Access to client and patient information must also be possible when patient care or a service so requires this. Provision of the counties' ICT services will be centralised in a national ICT service centre. Central government steering as well as cooperation between central government and the counties will be strengthened in the development of information management and ICT services.

The draft Act on Organising Healthcare and Social Welfare proposes:

- A county must ensure client-related information is transferred efficiently between different providers.
- The cooperation agreement of counties belonging to a healthcare and social welfare collaborative catchment area must also agree on the development of healthcare and social welfare information management and electronic services, the coordination of access to client and patient information, and the specification of a regional enterprise architecture in the collaborative catchment area.
- The Government may decide on the implementation of large-scale healthcare and social welfare investments and information system services that are binding on the counties.
- The Government may decide on changes to existing systems and the requirements to be adhered to in acquiring new systems. The objective is the cost-effective and efficient implementation of information system services and information management. The above-mentioned technical and financial requirements will be specified in more detail in a Government decree.

- Each county will be the controller of client and patient information. A health and social services provider must, when providing services in accordance with the Act on Organising Healthcare and Social Welfare, save client and patient information in a county's client and patient information register. National information system services in accordance with the Act on the Electronic Handling of Client Information in Healthcare and Social Welfare (159/2007) will be used to support the maintenance of the register and in transferring information to other service providers.
- The strategic healthcare and social welfare objectives adopted by the Government every four years will also include general guidelines on areas of information management requiring development.
- Operational planning and management will utilise regional and national information relating to the quality, effectiveness and costs of operations as well as the implementation of services integration, other research-based information, and information based on the experiences of clients and personnel.

The draft Act on Organising Healthcare and Social Welfare and the Act on Implementing the Counties Act propose that:

- The counties will have a joint service centre for information and communications technology services (*ICT service centre*). The service centre will provide information management, information system and information technology services to the counties and central government authorities. To implement this task, the ICT service centre may provide services with its own resources or it may acquire services from external service providers. The ICT service centre's duties will be prescribed in the more detail in a decree. A study on the establishment of the ICT service centre and related duties is under way and it is due to be completed in autumn 2016.
- The Ministry of Social Affairs and Health and the Ministry of Finance will support municipalities and joint municipal authorities as well as the counties to be founded in preparing and implementing the reform.

Draft laws:

Draft for the Act on Organising Health and Social Services

Draft for the Act Implementing the Counties Act and the Act on Organising Health and Social Services

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Provisional governance

The Counties Act and the Implementation Act are due to come into force on 1 July 2017. The counties will be established from this date. After a county is established, it will be possible to carry out legal acts in the county's name and to hire officeholders for the county. The counties are intended to begin operations in stages during 2018. They will have fully assumed responsibility for the transferred duties and personnel by 1 January 2019.

- According to the draft proposal, the first county elections will be held together with the first round of the presidential election in January 2018. The elected county councils will appoint the county executives, whose term of office will begin immediately. County executives will be responsible for the practical preparation of the establishment of the counties and for managing its implementation. County councils also decide on the appointment of other administrative bodies in their respective counties and on when they will begin their operations.
- Decision-making powers concerning the discharging of counties' duties will not be transferred from the current competent authorities to county authorities until county services go live, i.e. on 1 January 2019.

Provisional preparatory body

A provisional preparatory body will be created for the preparation of the healthcare, social welfare and county government reform will be established on 1 July 2017. This body will be responsible for preparing the launch of the county's activities and governance until the county council has been elected and the county executive selected by the county council has started its work.

- The composition of the provisional preparatory body must be agreed by the Regional Council, the municipalities, the hospital district, the special care district, the rescue services, the Centre for Economic Development, Transport and the Environment and the Employment and Economic Development Centre. The Regional Council will lead the agreement negotiations and will establish the provisional preparatory body in accordance with the agreement reached in the negotiations. If the provisional preparatory body has not been appointed by the end of August 2017, it will be appointed by the Government.
- The provisional preparatory body will lead preparations for the launch of the county's activities and governance and will exercise the decision-making power associated with this until the beginning of the county council's term of office. The preparatory body may establish sections from among its members to handle separately specified duties and may transfer the decision-making power associated with these duties to the sections.
- The preparatory body will be responsible for:
 1. reviewing the personnel to be transferred to the county and preparing for the county council proposals for personnel transfer plans and contracts.
 2. participating in a review of the movable and fixed assets to be transferred to the county.
 3. participating in a review of the agreements to be transferred to the county and the rights and obligations associated with them.
 4. participating in a review of the information and communications technology systems and solutions supporting the handling of the administrative and service duties to be transferred to the county.
 5. preparing the organisation of the county's activities and administration.
 6. deciding on the county's 2018 budget.
 7. participating in the organisation of the first county elections.
 8. preparing other matters directly related to the launch of the county's activities and administration.
- Those public authorities from which duties and personnel will be transferred to the county will cooperate with the preparatory body.

- The provisional preparatory body must inform the area's residents, service users, municipalities, organisations, and other entities about the progress of preparations, and extend to them an opportunity, if necessary, to be consulted on significant issues involved in the preparations.

Draft laws:

Draft for the Counties Act

Draft for the Act Implementing the Counties Act and the Act on Organising Health and Social Services

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15 Freedom of choice

Preparation of legislation on the client's wide freedom of choice is still under way. The Government has outlined general principles concerning freedom of choice. In addition, rapporteurs have made their own proposal on what a freedom of choice model might be like. The Government has not yet decided what kind of freedom of choice model will be introduced.

On 29 June, after talks in the ministerial working group on the reform, the Government agreed on further preparation of the legislation on freedom of choice. The aim is to base the Finnish freedom-of-choice model on residents' differing service needs. Four different means of freedom of choice are under consideration for inclusion in the model: a health and social service centre offering a wide range of basic services; a care team or health and social service unit providing a more limited range of services; a service voucher; or personal budgeting. The preparation also involves evaluation of how the freedom-of-choice model would perform vis-à-vis constitutional law, its financial impacts and variation in the service offering in different parts of the country.

The Ministry of Social Affairs and Health has initiated the preparation of legislation. It has not yet been decided whether there will be a separate act on freedom of choice or whether provisions on freedom of choice will be entered in the Social Welfare Act, the Act on the Status and Rights of Social Welfare Clients, the Healthcare Act and the Act on the Status and Rights of Patients.

The Government's previous policies

The Government has previously outlined that the existing multisource financing of healthcare and social welfare will be simplified and that clients will be given more freedom of choice.

- In the future, the client's freedom of choice will be the main principle at the basic service level and, where appropriate, the same principle will also be applied in specialised health and social services.
- The client may choose a public, private or third sector provider.
- The purpose of freedom of choice is to create more robust services, especially at the core level, and safeguard swifter access to care and services.
- The intention is that legislation simplifying multisource financing and increasing freedom of choice will enter into force on 1 January 2019.

The draft for the Act on Organising Health and Social Services has general provisions on the customer's freedom of choice:

- A county must arrange healthcare and social welfare services in such a way that clients have an opportunity to select the service provider.
- A county must ensure on a wide-ranging basis the identification of client groups and clients who need integrated services, the description of service chains and service packages, and the utilisation between different providers of client-related information.
- The healthcare and social welfare service strategy must take into account the coordination of services within the scope of the client's freedom of choice and other health and social services, so that the services needed by clients form a package that meets their requirements.
- In addition, a county must attend to the communication of clients' rights and benefits, advice relating to access to services, preparation of a service needs assessment and client plan, and guidance in these matters.
- The Administrative Procedures Act and the Act on the Openness of Government Activities will be applied to the activities of companies and corporate entities when they are providers of a service within the scope of the freedom of choice system.

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16 Draft government proposal impact assessments

Several impact assessments have been conducted on the health, social services and regional government reform, as studies and under official duties. The impact assessments were published in the annexes to the request for statements on the alueuudistus.fi website.

The general preamble to the draft government proposal includes a summary of the impact assessments. The reform was evaluated from several perspectives: impacts on clients and patients and on service production; administrative and economic impacts; and impacts on personnel, taxation and property. Language rights, gender impacts and the potential for residents' participation were also evaluated.

The following is a summary of the principal findings of the impact assessments.

Impacts on health and wellbeing and on health and social services

- Statutory health and social services duties will be transferred from the current municipalities and joint municipal authorities (slightly fewer than 200 in all) to 18 autonomous regions (counties). Also, in the transfers of duties outlined in the draft Counties Act, the duties of some 200 local and central government authorities will be transferred to the counties. The draft bills thus involve the centralisation of the duties and resources of about 400 authorities to 18 autonomous counties.
- Compared to the present situation, the reform will significantly increase the population base, resource capacity and resources of the authorities organising health and social services. This will enable a clear improvement in **equal access to services**. Patient safety and service effectiveness are also estimated to improve.
- The service and funding system outlined in the draft bills removes the incentives for under-resourcing of primary health care and local social services, thus enabling the **strengthening of basic public services and local services**. Services that are rarer or require special expertise will be concentrated at a smaller number of units. On the whole, the service system will be more equitable and therefore estimated to reduce differentials in health and wellbeing. This will require, however, that uniform criteria for treatment and service needs are applied across the board.
- The draft bill adds to the requirements for **promoting health and wellbeing**. Local authorities and counties will be allocated a total of nearly EUR 250 million per year on the basis of criteria for promoting health and wellbeing. This, together with client steering, is likely to decrease differentials in health and wellbeing.
- The draft bills provide for clearly more potential than before for producing basic and advanced services and social services within one uniformly managed corporation. The provisions require the counties and service providers to harmonise the services into integrated entities. The draft bills therefore enable an improved **service integration**.

Economic impacts

- The draft bills provide potential for curbing the growth of health and social services expenditure in real terms. However, costs will continue to outpace general price increase trends. The potential curbing of **expenditure growth** found in the impact assessment amounts to EUR 3 billion. Achieving this requires a perfect track record in the operational reforms. Some of the curbing of expenditure growth will be due to other reforms to be implemented in this electoral term, such as the specialist medical care and A&E reform.
- The potential for improving efficiency depends on how far the new counties and the various service providers in the multi-producer model will be able to implement the required procedural reforms.

- At present, health and social services funding is cost-based. The draft bill for the Act on the Financing of the Counties introduces a funding system based on needs-based health and social services expenditure needs and the population base. Expenditure growth will be taken into account in funding only to a limited extent: the funding system defines a funding growth restriction of about EUR 2.8 billion by the end of 2029.
- Implementing the reform will cause **restructuring costs** amounting to tens of millions of euros, and in addition certain investment needs will be brought forward. Some 220,000 employees will be transferred to the county administrations and their public service utilities with subsidiaries. Wage harmonisation at the median level will increase overall pay expenditure by about EUR 75 million. The reform will require an acceleration of ICT system replacement projects. The total costs for new ICT systems comes to almost EUR 1 billion. This involves system replacements that local authorities and joint municipal authorities would have to carry out anyway, even if the current service model were to remain in place. If carried out systematically and uniformly in connection with the reform, tens of millions of euros could be saved in ICT updates, and substantial operational benefits could be achieved. The operational benefits are included in the aforementioned expenditure growth restriction of EUR 3 billion.
- Local government tax rates will be reduced by 12.3 percentage points in 2019. The loss of tax revenue will be compensated through central government income taxation. However, the overall taxation of earned income will not increase due to changes to be made to the income tax schedule and tax deductions.
- The **change in the financial balance** of local authorities is restricted in the draft bills to a decrease or increase of no more than EUR 100 per resident. This will secure for local authorities the potential for managing their remaining statutory duties and for municipal councils the power to decide on municipal finances and operations.

Human impacts

- The counties will be larger than municipalities in terms of population and geographical area, and they will have better potential for allocating resources and expertise in accordance with the service needs of various population groups and client groups.
- In a less fragmented service system, residents will have more equal access to health and social services. The quality of the services and patient safety can also be better ensured. The counties may be expected to have good potential for homogenising treatment and service practices.
- In some individual cases, the distance between residents and a service location may increase. Services may have to be concentrated into larger units in order to guarantee access to them. In areas with negative migration, such a trend would be highly likely even without the present proposed reform.
- The counties will be better than small municipalities at producing new kinds of **local services**. Services provided by special experts can be taken to local service points. Services taken to the homes of clients and patients will develop towards providing more demanding treatment and care. Such services include electronic services, virtual services and mobile services.
- The services provided for a client requiring multiple services can be better harmonised when one organisation holds the ultimate responsibility for the entire service chain. However, in the practical implementation of the system it must be taken into account that the multi-producer model will lead to an increase in service providers. Client information must pass swiftly between providers.

- The proposal provides at the level of legislation for new kinds of participation and influence of residents and clients in health and social services.
- The reform will basically have no impact on **language rights** (see the Constitutional Law assessment and Language rights).
- The reform will have gender impacts. There are differences in men's and women's health and wellbeing and in the way they use services. This is why the reform may impact men and women differently. In addition, the majority of personnel in health and social services are women, which means the HR effects of the reform impact women in particular.
- Men use health services less than women. At the population level, men suffer worse health than women and have a shorter life expectancy. Single parenting and ageing are a poverty risk for women and thus detract from wellbeing.
- The reform may help equalise the differences in wellbeing between women and men and to improve the health and wellbeing of men in particular. However, this requires strengthening core level basic services so that the most vulnerable people would have access to services sufficiently and in a timely manner.
- The fact that women use services more actively than men may indicate that women will be more eager than men to draw on the possibilities of the extended freedom of choice. This may result in the differences in service use between women and men growing substantially if the decisions made in the context of the freedom of choice do not make choices sufficiently easy.
- Public health and social services are sectors dominated by women, and the **HR impacts** of the reform affect women in particular. The most significant change is the change of employer. The majority, however, will retain their job duties.
- In the future, the status of personnel and the terms and conditions of their public service employment relationships may be affected by the partial incorporation of a county's own service production and the potential increase in private service production in health and social services. This may lead to employees' collective agreements being replaced and may affect the terms and conditions of their employment relationship and women's pay.
- The reform may lead to workplaces being relocated, which in turn may complicate the reconciliation of work and family life. Because the majority of employees are women, the impacts will primarily affect women.
- The Act on Equality between Women and Men will apply to counties too. Except for the county council, the council's administrative bodies should have at least 40% both men and women, unless compelling reasons require otherwise.

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17 Evaluation from the perspective of enactment procedure and the Constitution

The draft government proposal has been examined from the point of view of the Constitution. A constitutional law assessment is included in detailed consideration of the draft government proposal.

- It is the considered opinion of the Government that Parliament may debate the proposal according to the enactment procedure for ordinary acts. However, some of the content of the proposal includes points that are subject to interpretation. The proposal impacts a number of basic rights and it formulates new legislation that enacts the scope of autonomy of the residents over areas larger than a municipality. It is justifiable to request a statement from the Constitutional Law Committee on the proposal.
- What is particularly subject to interpretation vis-à-vis the Constitution is how **democracy** will be exercised between a county and its public service utility and also in the services concentrated in collaborative catchment areas, and whether the counties will have sufficient funding to safeguard the fundamental rights of citizens.
- The execution of the multi-producer model and the content of the **freedom of choice** will have a crucial impact on what the accessibility of services will actually be. The details of the freedom-of-choice system are included in a separate proposal under preparation. For this reason, it is as yet difficult to assess the combined impact of the reform as a whole, as it consists of various stages.
- The supreme decision-making body in a county will be the county council, to which residents elect members. Thus, the administration of a county is fundamentally rooted in self-government by its people. The right to participate in and influence the operations of the county and the development of its services will be specifically provided for by law for the residents of the county.
- For **election-based democracy** to work, the autonomous area must be an economically and functionally viable entity. The county division fulfils the requirements of the Constitution in this respect.
- The number of health and social service organisers will decrease substantially from the present, and resource capacity will increase. The **number of service organisers** will, however, remain in some respects too large as regards equal access to health and social services. Some counties will be weak in resources and in the expertise required for organising services at the early stages of the reform, and this will undermine the attainment of equal access.

- For this reason, under the proposed model it will be necessary to bring services together on a rather broad base, across county boundaries. This is particularly the case in specialist medical care. **Centralisation of services** so that only some counties provide them undermines democracy in the other counties as far as these services are concerned. However, centralisation of services has been considered vital to secure equality in patient safety and the quality of services.
- The county's responsibility to produce services and responsibility to organise services will be distinguished from one another. The county's own production will be the responsibility of a **public service utility and its corporate subsidiaries**. The proposed legislation will significantly narrow the decision-making powers of the public service utility. The county will be responsible for ensuring that the residents' rights to sufficient health and social services will be guaranteed, and the county council will decide on the operational goals and financial framework of the public service utility.
- In practice, a public service utility may gain a powerful status if the county does not have sufficient resources or expertise in that field. In the proposed model, a significant percentage of the decision-making powers and expertise covered by the present responsibility to organise services would be actually transferred to the decision-making domain of the public service utility.
- The Constitution stipulates that assigning duties of the public administration to any other body but an authority is an exception, and that the principal rule is that duties of the public administration shall be managed by the authorities. From this aspect, the **multi-producer model** outlined by the Government is challenging. For instance, evaluating a client's service needs may constitute an exercising of public power. With regard to this, an impact assessment cannot be conducted until the legislation concerning freedom of choice is completed.
- It is the considered opinion of the Government that the division into autonomous counties based on the current regions and the provisions included in the government proposal will guarantee the **language rights** enshrined in the Constitution. These provisions do not change the status of those rights at the legislative level.
- However, language rights must be monitored when operations are reorganised in the counties. For example, there are five collaborative catchment areas with several counties, and three of these contain bilingual counties. The hospital network and A&E services are also being reformed. In these in particular, accessibility to services in both Finnish and Swedish must be ensured.
- The proposal states that county funding would rely on **central government funding** and the counties would independently decide on how to spend their funding. The funding principle means that when assigning duties to counties the government must also ensure that the counties have sufficient financial resources to execute those duties. The central government will have the right to limit and steer public spending in the counties. Limits will be set through legislation on the annual growth of operating costs.
- According to the impact assessment, the potential for the counties to adjust their finances while executing their statutory duties is quite limited. By law, citizens are entitled to receive those health and social services that they need according to the assessment of a professional. Counties can influence their expenditure to some extent by enhancing production.
- In order to ensure sufficiency of funding, a careful assessment of basic rights must be conducted in connection with preparing the public finances plan. The Act on the Financing of the Counties will also provide for situations where the funding is inadequate for securing sufficient health and social services in the county. The expenditure exceeding the funding will be taken into account insofar as it is necessary to ensure the availability of basic services.

- Tax regulation would be employed to reduce temporarily the right of the local authorities to determine their **income tax percentage** freely. It is the considered opinion of the Government that this does not violate the key content of the local authorities' right of taxation – their right to decide on their finances independently. The purpose of this measure is to guarantee equal treatment of citizens; no one's tax rate will change when the new funding model is introduced.
- The reform will principally impact on the **operational finances of local authorities**, in which the structure of both income and expenditure will change radically as 57% on average of expenditure in operational finances is eliminated. The reform will result in the removal of a substantial amount of expenditure for which local authorities are liable and which local authorities have so far been able to influence only in a limited manner. The reform will not correct any existing imbalance in municipal finances but will not exacerbate it either. Therefore, the reform will basically not infringe on a local authority's potential for independent decision-making regarding its finances.
- However, the reform will significantly affect the tax revenue based equalisation of central government transfers to local government. Therefore the government proposal provides that **property tax** be partly reinstated within the scope of equalisation.
- The **assets** proposed to be transferred to the counties are public assets intended for the management of the statutory duties of local authorities, the procurement of which was financed with tax revenue from local residents. From this perspective, the transfer of assets does not infringe upon the rights of local authorities.
- However, it is possible that as a result of these asset transfers some municipal facilities in the health and social services and the rescue services will fall out of use. This has financial implications for local authorities. On the other hand, with the population migrating to growth centres and services becoming digitalised, the need for facilities will change in any case.

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