



# Policy Advice

Report on the fiscal decentralisation and fiscal autonomy of the regional and local governments, and the fiscal impact of the reform

**Council of Europe**

**Centre of Expertise for Multilevel Governance**

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## **List of abbreviations used in the Policy advice report**

CEMG	Centre of Expertise for Multilevel Governance
CIT:	Corporate Income Tax
CoE	Council of Europe
EHDS:	European Health Data Space
IMC:	Inter-Municipal Cooperation
JMA:	Joint Municipal Authorities
LAI:	Local Autonomy Index
LFB	Local Finance Benchmarking
Mol	Ministry of Finance
NUTS:	Nomenclature of Territorial Units for Statistics
OECD:	Organisation for Economic Co-operation and Development
PAD	Policy advice document
PIT:	Personal Income Tax
SOTE:	Social and Healthcare Reform
WSC:	Wellbeing Services Counties

## 1. Executive summary

This report deals with fiscal decentralisation and the fiscal autonomy of Finland's regional and local governments, outlining the significant challenges municipalities face in the wake of the SOTE reform that aimed to reorganise the delivery of healthcare, social and rescue services. The costs associated with the latter (rescue) are negligible in comparison to the costs associated with the delivery of former (health and social services), representing approximately 0.5% of the budget dedicated for the implementation of the reform, and will thus not be specifically referred to in this report. The document also provides recommendations, in accordance with CoE standards, to address these challenges:

- Demographic shifts:
  - Finland is experiencing a demographic shift characterised by an ageing population and declining birth rates. This places significant pressure on municipalities, particularly in rural areas, to maintain service levels with a shrinking tax base. Smaller municipalities are especially vulnerable, as they struggle to provide essential services with fewer resources.
  - The migration of people from rural areas to urban centres has created disparities in resource allocation. Urban areas face overburdened services, while rural areas contend with underutilised infrastructure. This imbalance exacerbates the challenges of maintaining equitable service provision across regions.
- Economic constraints:
  - Municipalities grapple with maintaining fiscal sustainability due to the high costs associated with providing services, a heavy reliance on state transfers, and limitations on their ability to generate revenue. The chronic budget deficits and rising public debt have led to cuts in social welfare and other critical services, straining local governments' capacities.
  - The SOTE reform has significantly impacted municipal budgets, resulting in a 45% cut in overall municipal budgets projected for 2025. The reallocation of taxes and grants, coupled with the need to finance the remaining responsibilities, has created fiscal challenges for many municipalities.
- The impact of the SOTE Reform:
  - The SOTE reform transferred many responsibilities from municipalities to the newly formed Wellbeing Services Counties (WSCs). This shift has resulted in substantial

changes in municipal budgets, reducing their size and making them more rigid and exposed to risks. Additionally, the transition has led to increased costs due to higher service demands and contractual renegotiations.

- The reform has exacerbated labour shortages, particularly in the healthcare sector. The widespread use of costly hired labour, especially for doctors and nursing staff, has become a common practice due to unfilled positions and increased service demands.
  - There is a widespread view that social assistance has been neglected in the reform process, with more focus given to healthcare responsibilities. The quality and adaptability of social assistance services are critical for local communities and should be a priority for local officials to ensure immediate and effective impact.
  - The rapid pace of changes and the high degree of unpredictability have led to confusion among municipalities regarding financial calculations. This has complicated efforts to maintain fiscal balance and made it difficult for municipalities to grasp the full impact of the reforms.
- Structural and governance issues: the complexity of coordinating inter-municipal cooperation (IMC) remains a significant challenge, especially for smaller municipalities. While IMCs offer potential benefits in terms of efficiency and resource sharing, they require effective management and coordination to avoid conflicts of interest and ensure democratic accountability.

**The Recommendations proposed** are grouped under four headings:

1. Rebalance local budgets:

- The central grants reform: Reform the central grants system to reflect the new distribution of functions post-SOTE reform. This reform should aim to ensure equitable service provision across territories by equalising the cost of local services. An open and transparent process, including simulations of various scenarios, will help stakeholders understand the policy and distributional consequences. The process should be clearly defined according to the legal framework on a non-discretionary basis, allowing the municipalities to calculate in advance the amount of general grants

they will receive and to adopt their budgets accordingly, in line with CM/Rec(2000)14.<sup>1</sup>

- The financial equalisation mechanism: Recalibrate the financial equalisation mechanism to address disparities among municipalities. This should involve a negotiated process with incremental improvements and adjustments based on feedback from implementation. The funds used for the central grants and equalisation should be adjusted to reflect the new distribution of functions by tier of governance, in line with CM/Rec(2011)11, paragraph 1.i: “*when higher-level authorities take decisions which impose or could result in additional net costs for local authorities, compensation should be given by the higher-level authorities to local authorities*” but also 1.iv: “*When higher-level decisions reduce the net costs for local authorities, the principle of accountability also justifies that the local savings attributable to such decisions are transferred to the higher-level authority*”.<sup>2</sup> Enhancing tools like the Local Finance Programme will aid in generating better forecasts and balancing local economies.

## 2. Clarify competences:

- Simplify and clarify the list of municipal competences to reduce the administrative burden and improve service delivery efficiency, in accordance with one of the fundamentals prescribed in CM/Rec(2023)5 – the practice of good administration.<sup>3</sup> The government should continue discussions with stakeholders to identify which functions can be dropped or adjusted.
- Strengthen inter-municipal cooperation, particularly in small and rural municipalities. Successful experiments with joint provision of services should be scaled up and promoted. Additionally, piloting functional metropolitan zones can help manage changes in areas adjacent to large cities.

3. Develop an integrated strategy to tackle territorial disparities, balancing mandatory and voluntary municipal competences. This strategy should provide coordinated instruments for intervention, enhancing coherence and predictability of policies.

## 4. Fine-tune the WSC governance:

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<sup>1</sup> CM/Rec(2000)14 – Recommendation of the Committee of Ministers to member states on local taxation, financial equalisation and grants to local authorities

<sup>2</sup> CM/Rec(2011)11 – Recommendation of the Committee of Ministers to member states on the funding by higher-level authorities of new competences for local authorities

<sup>3</sup> CM/Rec(2023)5 - Recommendation of the Committee of Ministers to member States on the principles of good democratic governance

- **Clarify Roles and Responsibilities:** Clearly define the roles and responsibilities of WSCs and municipalities, especially regarding public health and social assistance. Establish formal mechanisms for coordination and discussion between WSCs and municipalities.
- **Stabilise Funding:** Improve the stability and predictability of WSC funding possibly through defined tax bases, in line with point 2 of CM/Rec(2005)1 which states that “local authorities are entitled, within the framework of national economic policy, to raise adequate resources of their own”<sup>4</sup> or through transparent financing formulas. WSCs being considered as local authorities, the need to ensure that “The process should be clearly defined according to the legal framework on a non-discretionary basis, allowing (the local authorities) to calculate in advance the amount of general grants they will receive and to adopt their budgets accordingly, in line with CM/Rec(2000)14,<sup>5</sup> applies as well. Consider potential mergers of WSCs in financially troubled areas to enhance efficiency.

#### 5. Stakeholder consultation:

- **Inclusive Consultation Processes:** Ensure thorough and transparent consultations with all relevant stakeholders for future reforms, including the reform of competencies and WSC governance. The standing group of "reformers for municipalities" should be actively involved in these processes.
- **Public Communication:** Enhance public communication about reform scenarios and objectives to manage expectations and mitigate public dissatisfaction. Clear and consistent messaging will help build public trust and support for the reforms. It would be advisable to follow the CoE Guidelines for civil participation in political decision making, in this process. More concretely, aligning Finnish practice with point 14 of the Guidelines “*Where necessary, co-ordinating bodies should be established or developed with a view to setting up and managing civil participation processes, subject to their roles being clearly defined, emphasised and supported*” and point 26 “*Public authorities, NGOs and civil society at large may consider establishing different platforms as a permanent space for dialogue and participation. Such platforms may include regular public hearings, public forums,*

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<sup>4</sup> CM/Rec(2005)1 - Recommendation of the Committee of Ministers to member states on the financial resources of local and regional authorities (19 January 2005)

<sup>5</sup> CM/Rec(2000)14 – Recommendation of the Committee of Ministers to member states on local taxation, financial equalisation and grants to local authorities



*advisory councils or similar structures*” should facilitate managing the general expectations of the reform in the future.<sup>6</sup>

By addressing these challenges and implementing the recommended actions, Finland can improve the fiscal health and service delivery efficiency of its municipalities, ensuring sustainable development and equitable access to public services across the country.

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<sup>6</sup> CM(2017)83 - Guidelines for civil participation in political decision making

## 2. Goals of the Project

The joint project of the Council of Europe and the EU “Delivering Good Governance and Balanced Local Economy in Finland”, implemented by the CoE’s Centre of Expertise for Multilevel Governance (CEMG), aims to contribute to the SOTE reform, including by analysing and understanding the impact of the administrative reforms carried out in Finland in 2022-2023. It considers the implications of these reforms in various sectoral areas, such as fiscal decentralisation, fiscal autonomy of the local/regional entities, or redistribution of competences at the local and regional level. Among its deliverables is the present Policy Advice Report which provides recommendations on fiscal decentralisation and fiscal autonomy of the regional and local governments in Finland based on Council of Europe standards. This report builds on other outputs, including a Peer Review Report prepared in 2023, as well as several other pieces of analytical work such as a Report on implementing the Local Finance Benchmarking (LFB), a tool of the CEMG. The project is implemented in coordination with the Regional Council of Central Finland and the Finnish Ministry of Finance (MoF).

In the medium and long-term the project is expected to contribute to higher quality and efficiency of the public service delivery provided by the Finnish authorities in the social and health sectors, as well as an improved mechanism of local finance. The analysis and recommendations included in this Policy advice document (PAD) have been prepared in the spirit of the provisions of the European Charter of Local Self-Government, in particular Article 9 concerning financial resources of local authorities, the 12 principles of good democratic governance as listed in CM/Rec(2023)5 - Recommendation of the Committee of Ministers to member States on the principles of good democratic governance, and aligned to relevant other European standards, in particular:

- CM/Rec(2000)14 – Recommendation of the Committee of Ministers to member states on local taxation, financial equalisation and grants to local authorities
- CM/Rec(2004)1 - Recommendation of the Committee of Ministers to member states on financial and budgetary management at local and regional levels
- CM/Rec(2004)12 - Recommendation of the Committee of Ministers to member states on the processes of reform of boundaries and/or structure of local and regional authorities
- CM/Rec(2005)1 - Recommendation of the Committee of Ministers to member states on the financial resources of local and regional authorities
- CM/Rec(2011)11 – Recommendation of the Committee of Ministers to member states on the funding by higher-level authorities of new competences for local authorities

- CM(2017)83 - Guidelines for civil participation in political decision making

Preparations for this Policy Advice Document (PAD) began on 9 November 2023, with a meeting at the Ministry of Finance in Helsinki, in which all project partners were present, and the structure of the PAD was agreed. A second meeting was organised on 15 December 2023, also at the Ministry of Finance in Helsinki, with the partners and a larger group of local experts in public finance from public and private institutions, in which the challenges and prospects of municipal finance after the welfare area reform were discussed. Useful inputs were given into the process by the practitioners and analysts present. A third discussion was held online among the project partners, on 6 February 2024, to clarify the calendar of further actions and the process of consultation on the PAD drafts. In addition to these meetings, both the Regional Council of Central Finland and the Finnish Ministry of Finance (MoF) provided information and documents illustrating the latest developments in municipal finance.

### **3. The local government system in Finland before reforms**

- **3.1. Structure and functioning**

Finland's local government system comprises **293 municipalities on the mainland** and 16 municipalities in the autonomous Åland Islands; these basic units of local administration are self-governing entities with the authority to levy taxes and make decisions within the framework set by the Constitution. Until the 2022-2023 administrative reform (see

**The SOTE reform** of this report), municipalities were responsible for providing a wide range of services to their residents, including education, local infrastructure, healthcare and social services. They also had, and continue to have, a role in promoting economic development and environmental maintenance (see Annex 3. The SOTE reform: competencies transferred from municipalities in 2023 for the full list of competences). The system emphasises local democracy, with decision-making authority vested in elected councils. Starting with the launch of the SOTE reform in January 2023, the bulk of responsibilities for health care and social protection were passed up to the newly formed Wellbeing Services Counties (WSC), about which more details are provided in the following sections.

The council is the main decision-making body in each municipality, elected by residents in municipal elections held every four years. Councils set policy, approve budgets, and make significant decisions regarding services and development. The executive of the municipality has a derived legitimacy: the councils appoint executive boards and other committees to manage daily operations. Decisions are made in council meetings, based on proposals from the executive board, committees, or council members. By tradition, the Chairperson of the municipal board plays a significant role in the preparation of the proposals and in the decision-making as such. The process is designed to be transparent and participatory, with opportunities for public input. Indeed, Finland has the highest Local Autonomy Index (LAI) among European and OECD countries during the interval 2015-2020, with a high degree of local freedom in decision-making<sup>7</sup>.

All Finnish municipalities have the same service responsibilities and fiscal powers, irrespective of size. However, this size is quite uneven in terms of population, with over 40% of the 5.517 million inhabitants of the country being residents of the nine largest cities with population over 100,000 (see Chart 1 below). The territorial distribution of the population is actually one of the most imbalanced in Europe and creates significant policy challenges for the local government system, as we shall see.

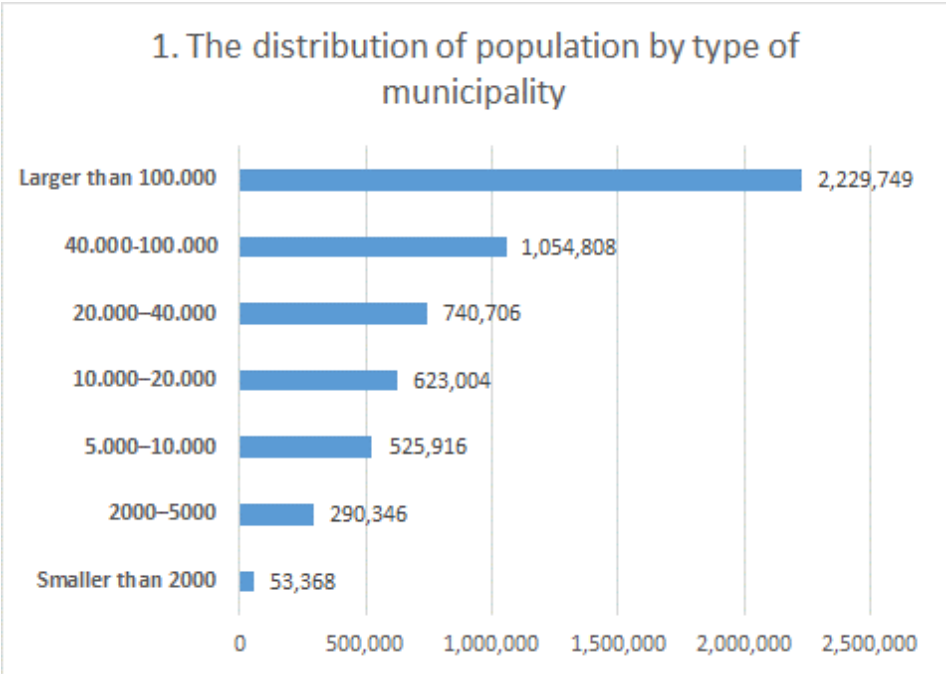
Finland is also divided into **18 regions** (NUTS 3 level), each with a regional council which is responsible for tasks which transcend municipal boundaries, such as the regional development and planning. The regional councils are not directly elected by citizens but operate as forms of mandatory municipal cooperation; their members are representatives of municipalities. Their functions include regional land use planning, business development, transport system planning, overseeing educational consortia in the respective area, and the promotion of culture and tourism. They also have attributions related to the new EU priorities to promote

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<sup>7</sup> [https://ec.europa.eu/regional\\_policy/en/information/publications/studies/2021/self-rule-index-for-local-authorities-in-the-eu-council-of-europe-and-oecd-countries-1990-2020](https://ec.europa.eu/regional_policy/en/information/publications/studies/2021/self-rule-index-for-local-authorities-in-the-eu-council-of-europe-and-oecd-countries-1990-2020)

digitalisation and strategies to mitigate the climate change. However, the real role and importance of the regional councils varies to some extent in different parts of Finland.

Finally, Finland has an established tradition of **inter-municipal cooperation (IMC)**: voluntary arrangements by which two or more municipalities jointly manage and deliver services, execute projects, or tackle regional challenges. This concept has deep roots in Finland's administrative culture, spurred by the need to enhance efficiency, improve service delivery, and address the complexities of regional development in a country characterised by a sparse population and significant geographic disparities. The national legislation defines the permissible scope of IMC, set out the governance structures, the financial arrangements, and the oversight mechanisms to ensure transparency and accountability. The sectoral national policies stimulate or even mandate IMCs, especially in the provision of social services.



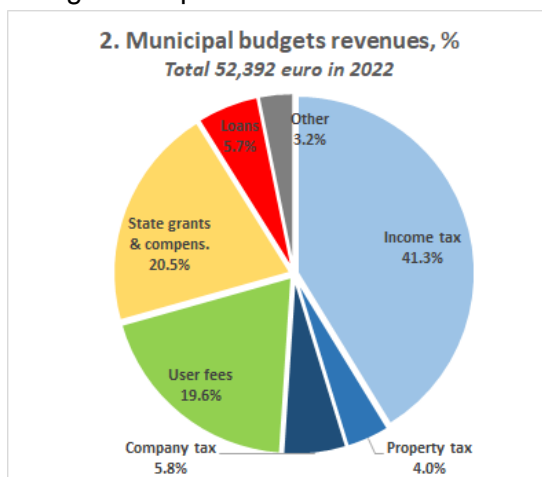
Source of data: Siv Sandberg (2023) *Background report on the Finnish local government system in preparation of the Peer Review Visit*

Various forms of cooperative arrangements exist, ranging from formal agreements and consortia to joint municipal authorities and informal networks of communities. Formal agreements detail the specific terms of cooperation, including objectives, financial contributions, and governance structures. Joint municipal authorities (JMA) are established as legal entities to manage and deliver services on behalf of the participating municipalities. More informal networks, on the other hand, facilitate knowledge sharing and best practice exchanges without binding commitments. IMCs are beneficial especially for smaller municipalities which are increasingly confronted with shortages in resources and administrative capacity, and so would find it difficult to manage complex projects. On the other

hand, they are harder to coordinate than the administration of a single municipality, may create conflicts of interest and weaken the democratic accountability and control.

- **3.2. Municipal finance before the SOTE reform**

The municipal budgets in Finland rely on a balanced mix of local taxes, state subsidies, and fees for services, suggesting a situation broadly aligned with the CoE's Recommendation (2005)<sup>1</sup> on the financial resources of local and regional authorities.<sup>8</sup> Municipalities have a broad autonomy in budgeting and financial management, within the limits of national legislation: on the Financial Autonomy component of LAI index mentioned above, Finland is on the second place among OECD and European countries, after Switzerland.<sup>9</sup> The diversified nature of local revenues is a reflection of the country's strategy to ensure municipal autonomy while promoting equitable access to public services across its territories. The main sources of revenues to the municipal budgets are presented below in Chart 2.



Source of data: Siv Sandberg (2023) *Background report on the Finnish local government system in preparation of the Peer Review Visit*

Several observations should be added here, in connection with Chart 2. Firstly, although the user fees make up a significant share of the budget, they are less important as a revenues source than it may appear because most of these services are run at a loss: the fees do not cover the full cost. Secondly, the contribution of the real estate tax to the municipal budget has increased after the SOTE reform, a fact which will be visible in the budget executions for 2023. And finally, loans are not municipal income strictly speaking, since they have to be repaid, so the chart should be read with this note in mind.

Municipal Own sources:

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<sup>8</sup> CM/Rec(2005)1 - Recommendation of the Committee of Ministers to member states on the financial resources of local and regional authorities

<sup>9</sup> See footnote 7.

Municipalities in Finland have the authority to levy a local income tax on their residents. The income tax rate operates like a surcharge to the national personal income tax (PIT), is decided by the municipal council and varies between municipalities, typically ranging from 16% to 22%. This is the most significant source of revenue for most municipalities, funding a large portion of local services. There are also property taxes, which are applied to both residential and commercial properties. The rates are relatively low compared to the income tax and are set within ranges defined by national legislation. The municipalities also receive a dedicated share of the corporate tax income (CIT), which is split between the central and local budgets according to a formula based on two-year averages meant to smooth out the fluctuations created by the business cycle. Despite this, CIT proceeds still vary more from one year to the next than other income categories, and thus reduce the predictability of municipal finances.

### User Fees and Charges

Municipalities can charge fees for various services they provide, such as water supply, waste management, and certain educational and recreational services. These fees are typically set to cover a portion of the service cost, with the rest funded through taxes. Here the water-sewage companies are an exception: they must be operated independently, without subsidies from the parent municipality/municipalities. Local governments also generate revenue through fines and penalties, such as parking fines.

### Central Transfers

The government provides state subsidies in the form of a normative block grant to municipalities, in order to ensure equitable service levels across the country, as indicated in CoE's CM/Rec(2000)14 - Recommendation of the Committee of Ministers to member states on local taxation, financial equalisation and grants to local authorities, particularly for those with less capacity to generate their own revenue. These transfers are designed to support general municipal operations and specific services like education, social and health care. What is more, like in many other European countries, disparities between municipalities in terms of tax base and demographic factors (e.g., age distribution, unemployment rates) are compensated with an equalisation system. This system redistributes resources to ensure all municipalities can provide a standard level of service. The mechanism kicks in when the estimated per capita tax income of a municipality is below 91.86% of the national average, while the amount of the sum transferred is determined by a formula factoring in a centrally estimated cost for the provision of each local service, demographic factors including population density, the geographic isolation (islands, distance from main economic centres) and the unemployment rate.

### Municipal Borrowing



Municipalities are allowed to borrow money to finance capital expenditures and investments. The municipalities' borrowing authority is based on their taxing rights and the principle of mutual responsibility for each other's loans (through the Municipal Guarantee Board). Regulations and monitoring apply governing municipal debt to ensure fiscal sustainability.

### Other Sources

Some municipalities operate businesses (like utilities or public transport services) whose profits contribute to the local budget. It is current practice for municipalities to incorporate their operations and transfer them to a part of their group structure: for instance energy plants, ports, amusement parks. Additionally, municipalities can earn revenue from the sale or leasing of properties and land they own. Returns on municipal investments and endowments can also contribute to local budgets, though the scale and significance of this source can vary widely between municipalities.

#### ○ **3.3. Challenges for the local government system before the reform**

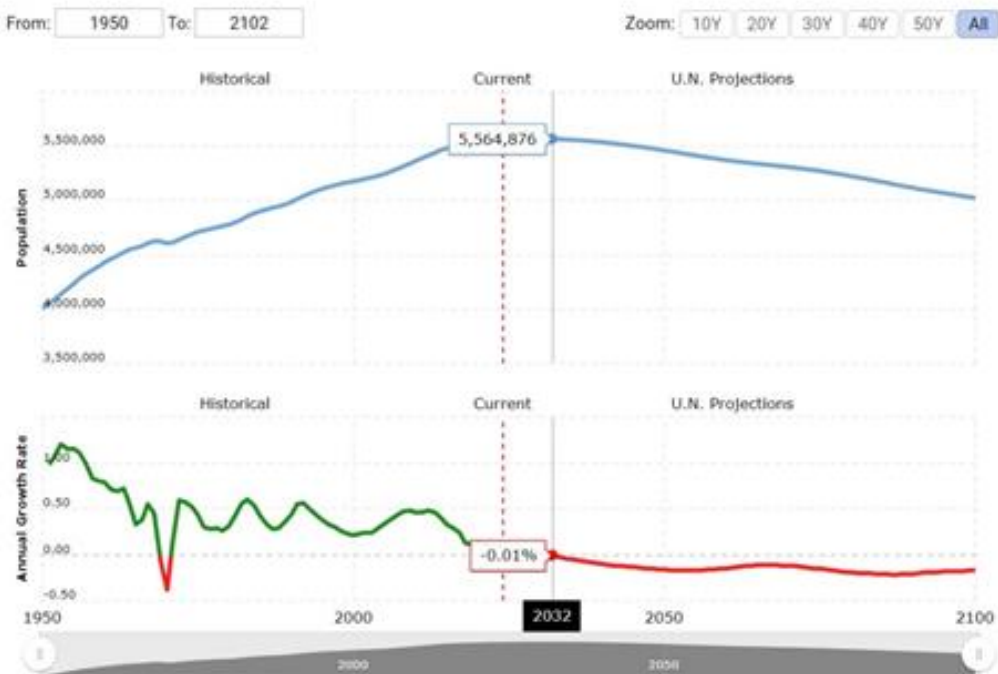
Before the Covid crisis hit the continent in early 2020, Finland was already facing a number of challenges which shaped the country's economic policies and necessitated adjustments in public spending, taxation, and fiscal management. Two factors are especially important given the magnitude of their effects and long-term impact at the local level: the demographic crisis and the steady deterioration of public finances.

Finland, like many other developed countries, is experiencing a process of population ageing and declining birth rates. This demographic shift puts pressure on municipalities, especially in rural areas and remote regions, to maintain service levels with a shrinking tax base. True, overall the population of the country is not yet decreasing: indeed the trend over the last years has been of a modest increase of around 0.1% – see Chart 3 below. But the process of ageing of the rural communities has been on-going for some time in smaller municipalities and it is now starting to affect the bigger cities and their surrounding municipalities too.

The problem with demography, however, is twofold: firstly, the decline in total population will begin around or immediately after 2030, so the current reforms of the municipalities will have to take this into account, because administrative changes take time, and the demographic trends are hard to reverse. However, according to Statistics Finland, the situation with the working age population is much more dramatic: it reached its peak in 2009. After which the working age population shrank by 136 000 people (3.8%); by 2040 it is expected to have shrunk by another 76 000 people.

Secondly, the territory of Finland is unevenly occupied, with most people grouped in the southern part of the country and around a few large cities – see the map in Annex 1. And unfortunately, the movement of the population, presently and in the near future, is likely to reinforce this pattern: the East is losing people faster (South-Savo, Kainuu, Kymenlaakso) and will continue to do so at least until 2030, while the wider Helsinki area will be benefiting most from the inflows<sup>10</sup>. In addition, another micro-trend is discernible: some regions which are not quite marginal and isolated, like Kymenlaasko and Satakunta, still experience outflows. It looks like the process of metropolitanisation will affect the areas in-between, as the more mobile citizens find it easy to relocate in neighbouring regions which are more developed. This creates important consequences for the future policy of the metropolitan areas.

**3. The demographic trend in Finland, current and projection<sup>11</sup>**



The other important structural factor is represented by the tight budget and fiscal constraints at the national level, determined by both domestic and global factors. These challenges have impacted the country's economic policies and required adjustments in public spending, taxation, and fiscal management. Such painful decisions with impact on local governments were taken throughout the year 2023<sup>12</sup>. The chronic deficit in central and local government finances has led to a rapid increase in public debt over the last ten years or so. Chart 4 shows

<sup>10</sup> Eero Laesterä, 2023. The municipalities after the creation of the Wellbeing Services Counties. Foundation for Local Government Development

<sup>11</sup> <https://www.macrotrends.net/global-metrics/countries/FIN/finland/population-growth-rate>

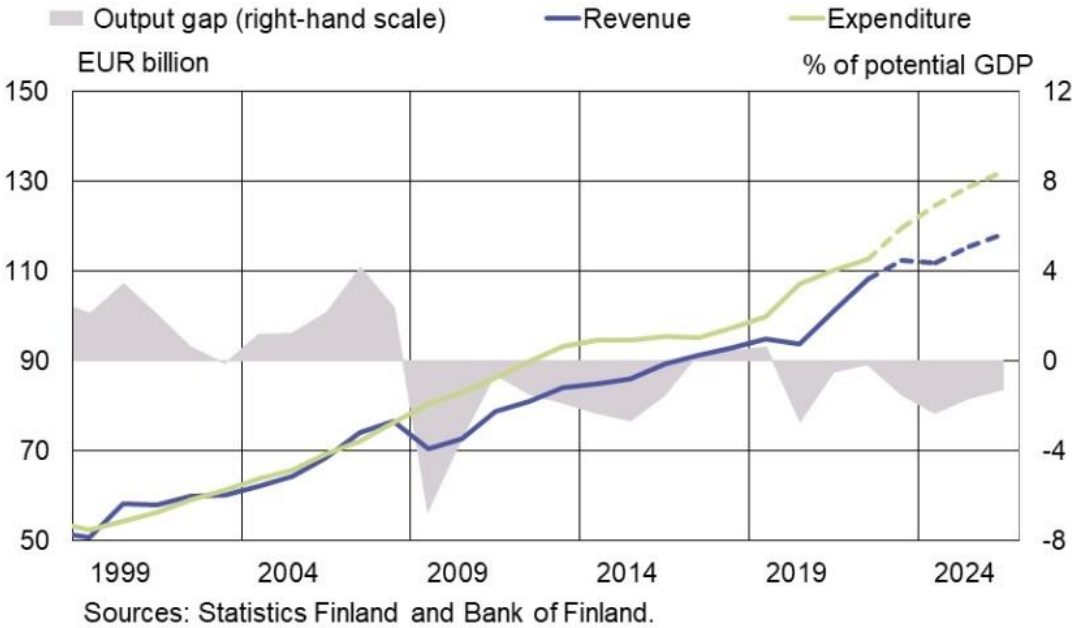
<sup>12</sup> <https://www.kuntaliitto.fi/blogi/2023/kuntien-black-friday>

that according to the calculations of the central bank, the gap between public expenditure and revenues will continue to grow.

Although Finland’s general government debt-to-GDP ratio has so far remained below the euro area aggregate average, it is above the average of countries with lower-than-average public debt from its vicinity. The Ministry of Finance appointed a working group to help consolidating the public government finances, with the aim of improving the budget balance by 6 billion euro by 2027<sup>13</sup>. The 2024 budget includes cuts to social welfare payments, early childhood education, and services for refugees and asylum seekers. All in all, these are bad omens for the capacity of the central government to increase the budget support for the local government system in the near term, beyond what it has already provided to the Wellbeing Service Counties in the 2024 budget.

#### 4. Gap between public revenue and expenditure will not be closed

General government revenue and expenditure (excluding earnings-related pension providers)



To summarise, even before the introduction of the WSCs in 2023, Finnish municipalities were confronted with a number of structural problems with no easy solutions. Most of them originate in the long-term demographic shifts, the process of urbanisation, and the need for greater economic efficiency.

<sup>13</sup> <https://www.reuters.com/markets/europe/finland-eyes-taxes-austerity-reduce-budget-deficit-2023-11-21>

- Demographic change: ageing population and declining birth rates. Which means additional pressure on municipalities, especially in remote and rural areas, to maintain service levels with a diminishing tax base.
- Urbanisation: the movement of people from rural areas to large cities creates disparities in resource allocation and service demand, leading to overburdened services in growing urban centres and underutilised infrastructure in rural areas.
- Economic efficiency: the need for efficient use of resources is increasingly crucial, given the financial constraints many municipalities face. Ensuring high-quality public services with limited budgets will be a constant challenge.
- Fragmentation: the existence of a large number of small municipalities, each with their own administration, can lead to inefficiencies and duplication of services. Inter-municipal cooperation can help in solving the problem to some extent but requires flexibility and capacity for complex management.
- Fiscal sustainability: many municipalities struggle with fiscal sustainability due to the high cost of providing services, dependency on state transfers, and limitations on their ability to raise revenue.

Apart from these structural problems, there are increased concerns about the quality of some municipal services, which were showing signs of stress even before the major changes occurring in 2023. For instance, a UN report says that there has been an overall decline in the performance of the school system, which is usually considered one of Finland's strengths<sup>14</sup>. Average output indicators are in decline (PISA scores), there is a worrying increase in students' needs for support and a shortage of qualified teachers to fulfil this need; these are manifest especially in the early childhood education and care, as well as special needs education. The principle of equality, a core value of the Finnish education system, faces challenges from segregation and divisiveness in urban areas and between schools. The UN report also points out the crucial need for strong measures for in-service teacher training to cope with new challenges and changes in legislation. All these trends are worrying because after the SOTE reform, education (including day care and pre-school) is today the most significant municipal function in terms of spending.

Furthermore, Finland's response to Russia's invasion of Ukraine introduced additional budgetary pressures. The country is committed to assisting Ukrainian refugees, including by compensating municipalities for the services provided to these individuals. The budget

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<sup>14</sup> <https://www.ohchr.org/en/press-releases/2023/11/finland-un-expert-says-education-system-must-address-new-challenges-continue>

allocated initially around 0.3–0.8 billion euro per year for additional immigration expenditure, covering reception, education, and integration costs<sup>15</sup>. This expenditure was to be covered outside the spending limits, acknowledging the exceptional nature of the situation and its inherent uncertainties.

Starting with 2025, municipalities will also take over the employment service, a function which will be decentralised from the national level. All these structural and managerial challenges underscore the need for strategic planning and adaptation by local administrations in Finland to navigate the shifting economic and social landscapes. Balancing fiscal prudence with the provision of quality services will be key to sustaining growth and addressing the broader demographic and economic shifts facing the country in the medium and long term.

Municipalities are still waiting to see the effects of the SOTE reform and the concrete shape of the new economic structure. The official annual accounts for the first full year under the new system of subnational competences will be published in summer of 2024. There have been significant changes in structure, functions, cuts in revenues and expenditures, and reallocations of taxes and grants. All municipalities are now focusing on children-related services, even in depopulated areas. Not all municipalities have fully grasped the magnitude of these changes. After many years of waiting for reforms, they must now become proactive in maintaining a good fiscal balance. This is challenging due to the confusion surrounding the calculations of reform finances, including transfer periods and the undesirable effects of negative state grants.

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<sup>15</sup> [https://commission.europa.eu/system/files/2022-04/general\\_government\\_fiscal\\_plan\\_en.pdf](https://commission.europa.eu/system/files/2022-04/general_government_fiscal_plan_en.pdf)

## 4. The SOTE reform

### ○ 4.1. The new WSC system

The most significant political-administrative reform in Finland in recent years has been the SOTE reform (healthcare, social and rescue services). This initiative was a response to the challenges faced by municipalities in providing healthcare and social services, as indicated in the previous section, particularly in the context of demographic decline and persistent budget constraints following the global economic crisis that began in 2007. The reform is the culmination of over a decade of debates, preparations, and unsuccessful attempts to overhaul the system. This extended period was necessary to reach a compromise and achieve political consensus at the national level for what is now the most noteworthy administrative reform in Finnish history, with profound implications for the country's politics, democracy, and territorial governance structure.

A second tier of local government was created, the Wellbeing Services Counties, with elected councils and hence direct legitimacy derived from citizens, to take over most of the responsibilities of the municipalities in the domains of health care, social services, care of the elderly and fire and rescue services (see Annex 3 for the full list). The responsibility for financing these functions has moved to the national level, since WSCs do not have the power to raise their own taxes, have expenditure ceilings imposed by the government and need approval for borrowing and investments; in other words, they are not independent operators. In turn, this raises doubts as to the alignment of Finnish policies with the CM/Rec(2005)1 on the financial resources of local and regional authorities which states that “Local authorities should, within the framework of the national economic policy, be entitled to their own resources, which should be adequate, and of which they may freely dispose, in the exercise of their powers and responsibilities, within the limits of the law (financial autonomy)”.<sup>16</sup> Even more guidance from the centre in terms of performance and results is expected in the future.

For better coordination, each WSC belongs to one of five “collaborative areas” organised around five major university hospitals. The collaborative areas centralise the organisation of tertiary-level services provided in the university hospitals, and coordinate the assistance in university hospitals for narrowly specialised care, such as the treatment of rare diseases. Apart from that, WSCs manage autonomously the primary and secondary care (health centres and district hospitals).

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<sup>16</sup> CM/Rec(2005)1 - Recommendation of the Committee of Ministers to member states on the financial resources of local and regional authorities

Elections for the councils of WSCs were held in 2022 and the whole structure became operational in January 2023. Today there are 21 WSCs in Finland, corresponding more or less with the territories of the Regional Councils, with some modifications in the southern part of the country; the city of Helsinki and Åland Islands remained outside the system and exert functions similar to them. A map with this structure is to be found in Annex 1.

The main goal of the SOTE reform was to revitalise Finland's healthcare and social services. A number of important objectives were highlighted in the government's documents, such as:

- To enhance the equality and accessibility of the services by ensuring that high-quality health and social services are available to all citizens, regardless of their location or financial situation.
- To improve the integration of services: the reform seeks to create a more cohesive system where healthcare and social services are integrated, providing a holistic approach to individual and community care.
- Increase efficiency: by streamlining processes and structures, the reform aims to deliver services more efficiently, ensuring that resources are utilised effectively.
- To ensure skilled labour is available in the two sectors, by facilitating the recruitment and retention into public systems which are confronted with increasing shortage of personnel<sup>17</sup>.
- Stabilise costs: manage and stabilise the rising costs associated with healthcare and social services, making the system financially sustainable in the long run.

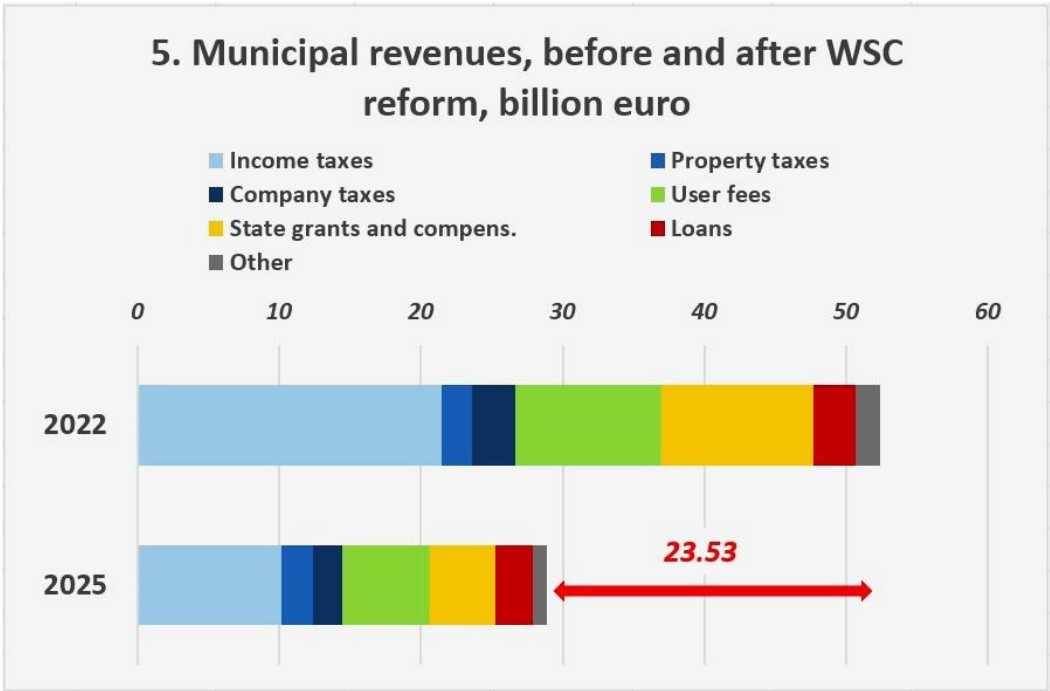
This reform led to certain transitional costs and required adjustments in funding allocations. Approximately EUR 21.4 billion was earmarked for the universal funding of the Wellbeing Services Counties in 2023, financed by central government transfers, compensation for tax revenue losses, and significant cuts in municipalities' tax revenues.

When all the changes are implemented, the situation will be the one illustrated on Chart 5: the revenue structure of the municipalities will not change much in terms of the main categories, and as a result the financial independence of local governments should not deteriorate much. Indeed, there is a slight reduction in the relative weight of the main source, the personal income tax (PIT), and a corresponding increase of the importance of other local taxes (on property and corporations). However, a significant reduction by 23.53 billion euro in absolute sum is

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<sup>17</sup> EU Commission. 2023 Country Report, Finland. Brussels, June 2023.

projected for 2025 in comparison with 2022, which is equivalent to a 45% cut in the overall municipal budgets.



Source of data: Siv Sandberg (2023) *Background report on the Finnish local government system in preparation of the Peer Review Visit*

○ **4.2. The impact on local finance**

Judging the impact of these structural changes on local finance is complicated by a number of factors. On the one hand, 2022, which was the last budget cycle with the old local government structure, was unusual in the sense that the exceptional Covid measures continued; at the same time the war in Ukraine has started and the presence of refugees created new obligations for the local governments (although the costs with refugees were compensated by the state). On the other hand, the price of energy and the interest rates increased, which affected those administrations with high levels of debt: while a negative interest rate a few years ago created a situation where borrowing for current expenditure seemed economically efficient, today unprotected loans became a headache for those who used them.

An issue of skewed incentives appeared during the Covid crisis: in the midst of uncertainty there was little desire to adjust the municipal budgets and the generous central subsidies contributed to a “wait-and-see” attitude at the local level. Today, with the Covid crisis over and



the SOTE reform implemented, funds are much more scarce and the scope of adjustments is significantly more limited.

There were one-off sales of social security facilities which boosted the profits of municipalities, but such sources of revenues will likely recede in the future. The economic recovery after the Covid crisis, manifest throughout Europe, led to revenues from local taxation higher than anticipated. In fact, the whole period after 2019 was characterised by wild fluctuations in the financial position of many municipalities, impacted by factors with influence in opposite directions; how each local government was affected depends very much on local context and inherited structural variables of the kind discussed before in section 3. As anticipated, large cities have more possibilities to increase their revenues, either from property sales or dividends from the companies in which they have ownership stakes.

The process of differentiation between municipalities has gained speed, and as a result the differentiation in terms of revenues is today greater than before the successive crises of the past years. This happens mainly because the main source of the local budgets, the personal income tax, was cut across the board by a fix percentage, but since the rate in municipalities was different according to decisions in the local council, the effect is that today the ratio between the lowest and highest local rates is proportionally much bigger (see table below). The annual budget surplus decreased by and large in all municipalities, but the drop appears to have been smaller in bigger cities than in other types of communities. The most significant deterioration of financial position occurred in mid-sized municipalities, but this is also an average result shaped by geography: a few well-positioned cities skewed the data towards strong results, while the rest, in particular in less favoured regions, with negative flows of population, closed their budget with significant losses.

<b>Rates of PIT in municipalities, before/after<sup>18</sup></b>	<b>2022</b>	<b>2023</b>
Halsua	23.5%	10.86%
Kauniainen	17.0%	4.36%
Ratio highest / lowest	1.38	2.49

After January 2023, the municipal budgets decreased in size and became more rigid and exposed to risks, and at the same time the central transfers which tended to over-compensate them for the Covid expenses were terminated. The municipalities which were above average

<sup>18</sup> Source of data: Eero Laesterä, 2023. *The municipalities after the creation of the Wellbeing Services Counties*. Foundation for Local Government Development

and used to finance the functioning of others have seen their revenues from central transfers substantially cut. The overall level of borrowing has decreased after the transfer of the hospital system to the WSCs, but nevertheless indebtedness went up in some places, in parallel with a reduction of the possibilities to service these debts. Some local governments were left in possession of the fix assets of the health care and social assistance systems, and had to continue to cover their costs, including the service of debt, although the function had moved to the upper administrative level. If at some point the WSCs decide to stop leasing the facilities from the municipalities, the latter would face serious problems.

With the health care and social assistance functions gone, the role of municipalities after the SOTE reform became more focused on public education and ensuring the viability of the local communities through investments in infrastructure and the retention of the workforce. Having lost the costly and complex tasks to administer hospitals and take care of the elderly, municipalities today are left to focus more on the younger population – pupils of school age and families – and the other functions serving the general population: leisure, the promotion of wellbeing etc. Both the list of competencies (see Annex 3) and the financing formulas for state transfers stimulate them to do so. A whole discussion is now unfolding about the possibilities to further reduce the burden of competencies placed on the shoulders of municipalities, or at least allow for a more pronounced differentiation of their role, to match the existing capacity and resources.

The municipalities, in particular the small ones, are still to some extent confused by the fast pace of change and the high degree of unpredictability over the past few years, with the reallocations of the local tax base (Chart 5) overlapping with exogenous crises. The change related to the creation of WSCs generated costs in terms of money and effort at the local level: for instance, severance arrangements for staff, or the termination of pre-existing joint cooperation structures. The state grant for basic services turned negative in many municipalities, especially smaller ones. The dominant feeling at the local level today is that they cannot control much their own circumstances and that the resilience of the local budgets has declined. This creates concerns for 2024 and the following years, when the one-off effects of the financial stimuli and the temporary compensations for reforms offered by the state will dissipate.

- **4.3. The impact at the WSC level**

It is probably too early to judge if the SOTE reform has achieved its medium and long-term objectives such as the reduction in territorial gaps in wellbeing and access to health services, or a better retention of qualified staff in the systems of hospitals and social assistance.

However, it is legitimate to begin assessing if there is progress towards the stated goal of **controlling the cost of services**. Here the picture is mixed: while the long-term projections of the government offer a positive perspective of reducing the operating deficits from 2025 on and entering positive territory, the reality is that in the first two years after the change the **WSCs spent more money than anticipated and needed additional support from the central budget**.

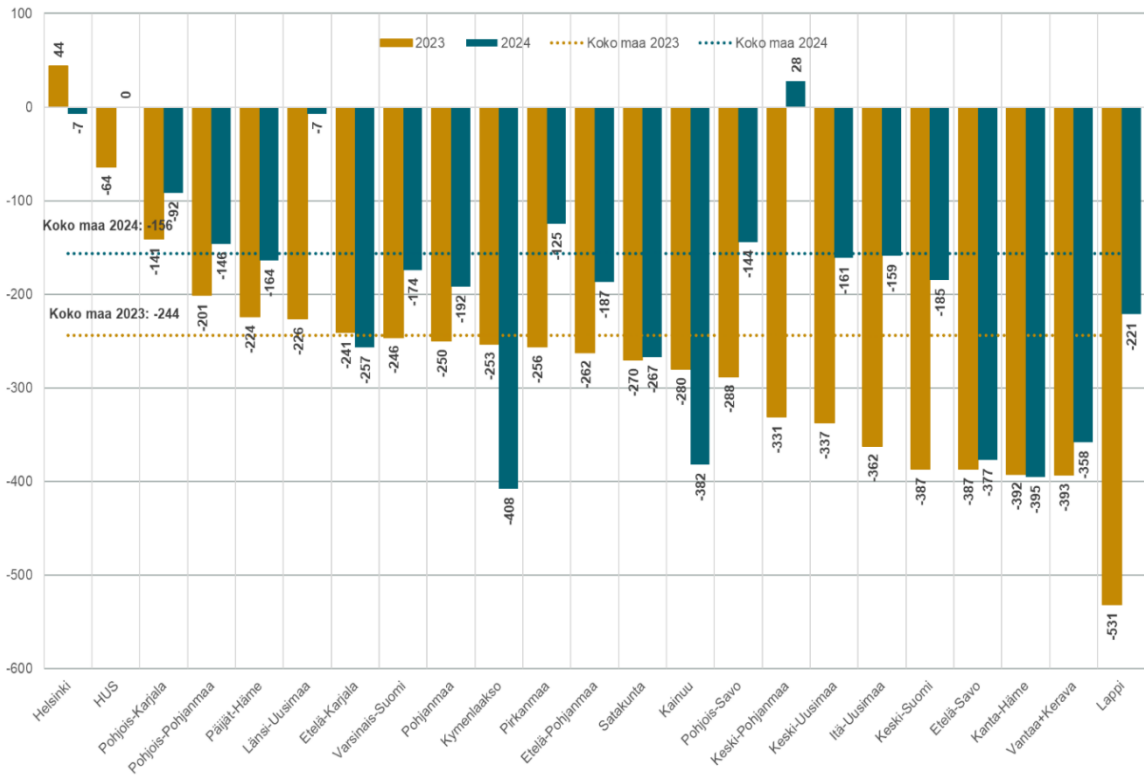
This happened because the transitioning of services, in particular in health care, from one tier of administration to the other, was also an opportunity for the contractors to increase prices, the staff to press for higher wages, and all sorts of other costs creep up in the process of “harmonisation”. As pointed out by interlocutors during the preparation of this document, a certain strategic game of expectations may also have taken place, with municipalities pushing up the costs before 2023, and the WSCs after that, in the expectation of being compensated from the central budget.

When the change became effective in 2023, this was a period marked by rapid inflation and significant salary increases. Additionally, SOTE companies terminated existing contracts to negotiate higher prices in new agreements with welfare areas. The labour shortage has resulted in the widespread use of costly hired labour, particularly for doctors and increasingly for nursing staff. Consequently, there are many unfilled positions in the public social and welfare sector today. The moral hazard which appeared was a one-off situation, but the past costs increases are already built into the system.

On the other hand, local experts indicated that the ‘game’ also worked the other way around: the financing model of SOTE encouraged municipalities to spend as little as possible on social and welfare services before 2023, so that their state grants would not be cut. The consequence is that the Wellbeing Services Counties were allocated in the first cycle of operation less money than the municipalities had used for financing the same services. This will most likely be corrected in the upcoming state grant reform.

The aggregate result is shown in Chart 6 below, based on government data available in the beginning of this year: there was an overall financial deficit estimated to almost 1.5 billion euro in 2023, and a budgeted deficit of 865 million euro in 2024. There is also an obvious discrepancy between the situation of individual WSCs, with some – mostly the well-off ones in the south – being close to balance their books this year, while others having little prospect of improvement in the near future; in two constituencies the situation is even likely to worsen in 2024 compared with last year. The WSC areas with positive demography are better placed to deal with such financial constraints, against a background of increased demand for services. In aggregate, the gap between counties is likely to increase.

## 6. Per capita deficits by WSC in 2023 and 2024 (budget) - Government data



The projection of the authorities is that the balance books will turn positive sometime in 2025 and the cumulative financial deficit will be covered on average across WSCs by the end of 2026. However, this depends on the optimistic assumption that most WSCs will be able to control costs by implementing the expected internal reform programs, and in general manage their budgets pro-actively. This will be difficult to do when their space for decision is limited: currently they only control a small part of their income (customer and service fees).

Another big question mark lingers on the governance structure of the WSC, which is more centralised than the previous arrangement but also creates conflicts of competences, with the same persons acting simultaneously as decision makers in municipalities, representatives in inter-municipal joint structures, and executives at the WSC level.

## 5. Recommendations

Based on the findings and observations above about the situation of municipalities before and after the establishment of the WSCs, and taking also into account the list of conclusions formulated in the Peer Review Report after the visit organised in this project in 2023, a number of priority areas can be defined in which the efforts of the Finnish authorities should be concentrated in the near future, to complete the reform of the local government system.

- **5.1. Rebalance the local budgets by addressing the increased divergence in the financial position of municipalities**

The SOTE reform undoubtedly takes inspiration from the principle of “looking for cost effectiveness of services provided to the community”, but it is also important to follow the principle of “establishing and ensuring financial stability of local and regional authorities.”<sup>19</sup> To some extent, this differentiation is a spontaneous, organic development triggered by the structural changes described in section 3 above, but also one that has been accelerated by the SOTE reform. The government has established a task force with the mission to formulate proposals, and when they are ready, a thorough consultation process should take place to discuss and negotiate the possible scenarios with all stakeholders interested. Two directions of action are urgent:

- a) The reform of the central grants system, which should reflect the new distribution of functions by tier of governance after the SOTE reform, as well as the socio-economic dynamics in territories. The process should be open, transparent and clearly defined according to the legal framework on a non-discretionary basis, allowing the municipalities to calculate in advance the amount of general grants they will receive and to adopt their budgets accordingly, in line with CM/Rec(2000)14,<sup>20</sup> while aiming to equalise the cost of local services. Preferably alternative scenarios will be developed for the system of normative grants, and simulations of the mechanism would make clear for the public what the policy and distributional consequences would be from the inclusion / exclusion of different variables in the formulas (social and age groups, geographic conditions, etc.), i.e., what are the crucial trade-offs implied by this reform. Very sophisticated formulas could be conceived to factor in various mandatory costs

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<sup>19</sup> CM/Rec(2004)1E - [Recommendation of the Committee of Ministers to member states on financial and budgetary management at local and regional levels](#)

<sup>20</sup> CM/Rec(2000)14 – Recommendation of the Committee of Ministers to member states on local taxation, financial equalisation and grants to local authorities

imposed on local communities as an effect of new national legislation (for example, regulations related to the green transition).

- b) In connection to (a), the financial equalisation mechanism must be discussed and re-calibrated, both in terms of the total size of the envelope and distribution rule. Since the normative state grants system (a) is likely to change significantly, space should be created for a negotiated process in which improvements are operated incrementally and subsequent adjustments are made based on feedback from implementation. The total pool of funds used for (a) the central grants and (b) equalisation should be adjusted to reflect the new distribution of functions by tier of governance, in line with CM/Rec(2011)11, paragraph 1.i: “*when higher-level authorities take decisions which impose or could result in additional net costs for local authorities, compensation should be given by the higher-level authorities to local authorities*” but also 1.iv: “*When higher-level decisions reduce the net costs for local authorities, the principle of accountability also justifies that the local savings attributable to such decisions are transferred to the higher-level authority*”.<sup>21</sup>
- c) (a) and (b) together should form the basis of a sound and transparent arrangement of horizontal equity for local communities. The mechanisms used in the process should be based on existing tools like the Council of Europe’s Local finance benchmarking, which is capable to generate better forecasts, identify in advance the needs to adapt to changes and help balancing the local economy. In the same vein, the municipal distress procedure should be improved to allow faster amalgamation and eliminate the problem of the duplication of reports. In general, more accurate and reliable data is necessary to assist decision-makers and municipalities alike.
- d) The own tax base of the municipality could also be re-discussed, in connection with points (a) and (b) above. A reform of the property tax is already envisaged by the government and negotiations with the stakeholders should continue to make it more buoyant and adapted to the changes in the tax base. Such an approach would be aligned with CM/Rec(2000)14.<sup>22</sup> The local taxation policy should be better coordinated with other sectoral measures in order to avoid unintended effects, or at least anticipate and mitigate them. The shift to market-based valuation of property, often discussed, should avoid the risk of steep increases in taxation in prosperous cities, coupled with a dramatic loss of revenues in rural areas where the value of properties is low.

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<sup>21</sup> CM/Rec(2011)11 – Recommendation of the Committee of Ministers to member states on the funding by higher-level authorities of new competences for local authorities

<sup>22</sup> CM/Rec(2000)14 – Recommendation of the Committee of Ministers to member states on local taxation, financial equalisation and grants to local authorities

- **5.2. Clarify the list of competences of municipalities**

The principle of uniform / symmetric assignment of competencies by tiers of government is entrenched in the administrative tradition of Finland and unlikely to change. However, many representatives of municipalities feel they are overburdened with functions they find difficult to fulfil, and that the regulations applicable in all these domains are increasingly complex. The government has received more than 600 proposals to ease this burden by shortening the list of local functions, but consensus is difficult to reach about what exactly to drop, because interests are also divergent. The radical solution of merging municipalities also seems to be off the table after a previous wave of voluntary amalgamation has taken place after 2000 and already resulted in a significant reduction of the number of units. The alternatives contemplated now should therefore be:

- a) Reinforcing, possibly by using financial stimulants, the practice of inter-municipal cooperation (IMC), which already has a strong tradition in Finland. This should target with priority small rural municipalities and those from regions with sustainability problems. Successful experiments (voluntary joint provision of services) should be scaled up and promoted, especially in territories where amalgamation is difficult in the short run. However, the solution of amalgamation should remain on the table in areas where it is feasible, in conjunction with advanced local specialisation. An area of special interest for joint management at the local level is the green transition. In rural areas, increased cooperation between municipalities would allow employees to better focus on specific tasks and specialise. Currently, in many small municipalities, one person is often responsible for multiple tasks. In the education sector, as the number of children decreases<sup>23</sup>, cooperation in terms of facilities and personnel becomes increasingly necessary. Additionally, new employment areas will likely enhance cooperation between municipalities on labour-related and business attraction policies. However, the long distances between small localities in sparsely populated areas will continue to pose a challenge for this type of inter-municipal cooperation.
- b) Several functional metropolitan zones could be piloted and encouraged, as opposed to voluntary arrangements based on current political-administrative borders, as a solution to better manage change in the hinterland of the large cities. These cities attract

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<sup>23</sup> <https://www.kuntaliitto.fi/tiedotteet/2024/kunnat-haastavassa-tilanteessa-kun-perusopetuksessa-olevien-lasten-maara-vahenee>

businesses and population from adjacent regions (see comments in section 3.3 above) and currently there is no mechanism to control this process<sup>24</sup>.

○ **5.3. Create an integrated strategy to deal with territorial problems**

Combining the measures suggested above at 5.1 and 5.2, it would be advisable to begin a consultative process which is to be finalised with an integrated policy to address the problem of territorial gaps and differentiation. This strategy will take into account the particular circumstances of municipalities and provide instruments for intervention such as those discussed before, but in a coordinated manner, increasing the coherence and predictability of policies and facilitating the integration of these instruments into the national and European financing and sectoral programs. The balance between mandatory and voluntary competencies of municipalities can vary accordingly. The possible classification of municipalities and the types of responses to the challenges they face are exemplified in the table below.

**Types of intervention based on the classification of municipalities**

	Do not have resources	Have resources
<b>Population outflows</b>	Mergers and / or mandatory IMCs Tailored services EU funding	Pro-active attitude, courting, businesses, community work Housing support Targeted service support
<b>Population inflows</b>	Service network & housing balance, community work, courting businesses Investment support for education and daycare	Reform internal organisation for efficiency, investment control Stimulative employment policy

<sup>24</sup> For more details about metropolitan zones see the report in this project, *Policy Advice on metropolitan governance, inter-municipal cooperation and spatial planning. City of Turku and Turku City Region. Feb 2024.*



- **5.4. Fine-tune the functioning and governance of WSCs**

The SOTE reform should be finalised by fine-tuning the functioning of the newly created WSCs.

- a) The separation of functions between WSCs and municipalities should be completed, by clarifying the details currently left in suspension and related to the competencies transferred: for instance, who has concrete obligations in matters of public health and prevention and how are these coordinated vertically among the two tiers of administration<sup>25</sup>.
- b) In general, as the Peer Review Report also suggested, WSCs and the municipalities on their territory should establish a formal and permanent mechanism to discuss and coordinate in relation to the services transferred up but which continue to have an impact at the local level. For example, there is a widespread view that social assistance was neglected in this reform, with WSC decision-makers focusing much more on the takeover of healthcare responsibilities. However, the quality and adaptability of social assistance services to meet specific local needs will have an immediate impact on communities, making it a political priority for locally elected officials.
- c) Important aspects on the structure of WSCs should be addressed, following a process of public consultation. Should the current territorial design remain as it is, or mergers between WSCs can be considered given the financial problems they face in some parts of the country? CM/Rec(2004)12, point 28 suggests that when the population is not uniformly distributed across the territory and economic conditions vary, asymmetric solutions may be considered<sup>26</sup>.
- d) Can the WSC revenue base be made more stable and predictable, by defining an own tax base in line with point 2 of CM/Rec(2005)1 which stipulates that “local authorities are entitled, within the framework of national economic policy, to raise adequate resources of their own”?<sup>27</sup> Alternatively, can more transparent financing formulas be created to reduce the current ad-hoc money allocations? Should the overlapping of roles in decision-making be eliminated, by banning one person to work simultaneously at the municipal and WSC level?

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<sup>25</sup> For more details see the Council of Europe [Peer Review Report](#) on revision of competences and operational mechanisms at the local and regional level, 2023.

<sup>26</sup> CM/Rec(2004)12 - Recommendation of the Committee of Ministers to member states on the on reform of boundaries/structures

<sup>27</sup> CM/Rec(2005)1 - Recommendation of the Committee of Ministers to member states on the financial resources of local and regional authorities (19 January 2005)

- e) The process of fine-tuning the WSC system needs to be coordinated with the relevant EU strategies and available support. Regarding information flows, the new European Health Data Space (EHDS) regulation establishes new patient rights concerning personal electronic health data, including access rights. WSCs and healthcare providers should be aware of and integrate these new obligations into their strategies and operations. In terms of funding, Finland's Recovery and Resilience Plan earmarks 372 million euros to address issues related to waiting lists, equality of access to health services, and the digitalisation of the health system. This is in line with paragraph 1.ii of CM/Rec(2011)11, which says that when such obligations arise as a result of supra-national regulations, "compensation to local authorities should preferably be given by the higher-level authority taking part or represented in the structure or negotiation".<sup>28</sup>

These issues are complementary to those listed at 5.1. and would ensure the necessary degree of vertical equity in the Finnish sub-national governance.

- o **5.5. Implement changes after a thorough process of consultation with the relevant stakeholders**

To advance the reform of the municipal grant system, the government has established a task force of independent experts. This task force conducts in-depth consultations with relevant ministries at both political and executive levels, the Association of Municipalities, and economic research organisations. Once the government has developed the scenarios, there will be another round of consultations with relevant stakeholders before the proposal is submitted to the Parliament. There, formal hearings will take place once again. This consultation mechanism should be replicated for all other proposed changes listed above, for instance the reform of competencies or WSC governance reform, in line with CM/Rec(2011)11.<sup>29</sup> In particular, the standing group of "reformers for municipalities" established by the Association of Municipalities should be involved.

Intense public communication about these reform scenarios and objectives is necessary in order to avoid misunderstandings or false hopes among the public, and thus avoid the situation with the SOTE reform when a discrepancy appeared between expectations and actual reality, which created a public dissatisfaction with the reform<sup>30</sup>. In this sense, it would be useful to follow the CoE Guidelines for civil participation in political decision making, for ensuring

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<sup>28</sup> CM/Rec(2011)11 – Recommendation of the Committee of Ministers to member states on the funding by higher-level authorities of new competences for local authorities

<sup>29</sup> Ibid.

<sup>30</sup> See report in this project, *Finnish health and social services reform: economic, administrative, and political challenges*. 2024.

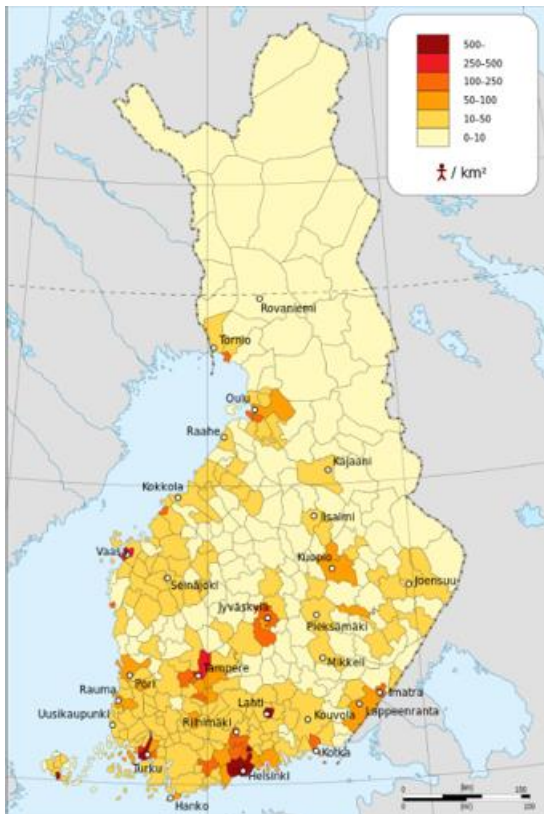
dialogue at a broader level. More specifically, attention should be paid to certain fundamentals, such as point 14 which states: “*Where necessary, co-ordinating bodies should be established or developed with a view to setting up and managing civil participation processes, subject to their roles being clearly defined, emphasised and supported*” and point 26 “*Public authorities, NGOs and civil society at large may consider establishing different platforms as a permanent space for dialogue and participation. Such platforms may include regular public hearings, public forums, advisory councils or similar structures*” with the aim to present widely the follow up reform plans and collect broad feedback. Such an approach should have a beneficial effect towards managing the general expectations of the reform in the future.<sup>31</sup>

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<sup>31</sup> CM(2017)83 - Guidelines for civil participation in political decision making

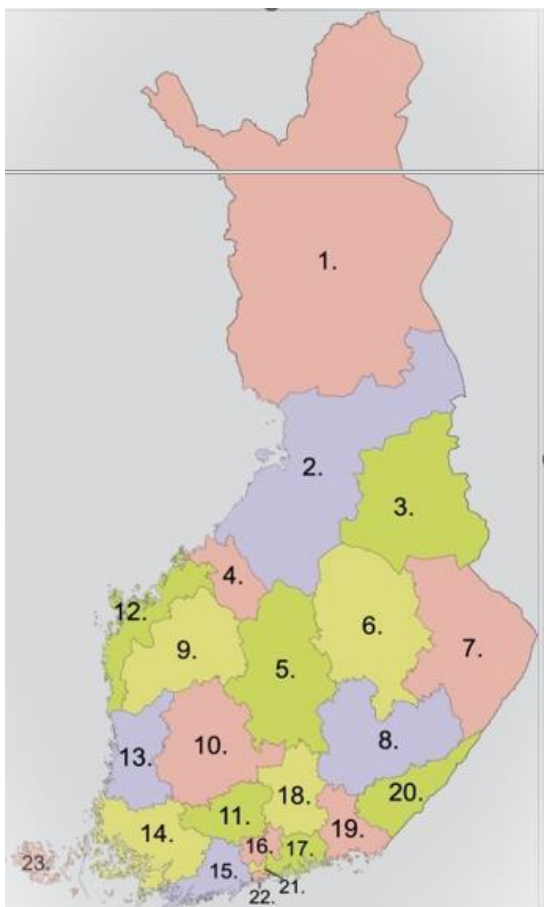
## 6. ANNEXES

### o Annex 1. Regions and the distribution of population in Finland



The density of population. Source

[https://en.m.wikipedia.org/wiki/File:Population\\_map\\_of\\_Finland.svg](https://en.m.wikipedia.org/wiki/File:Population_map_of_Finland.svg)



The Wellbeing Services Counties (WSC):

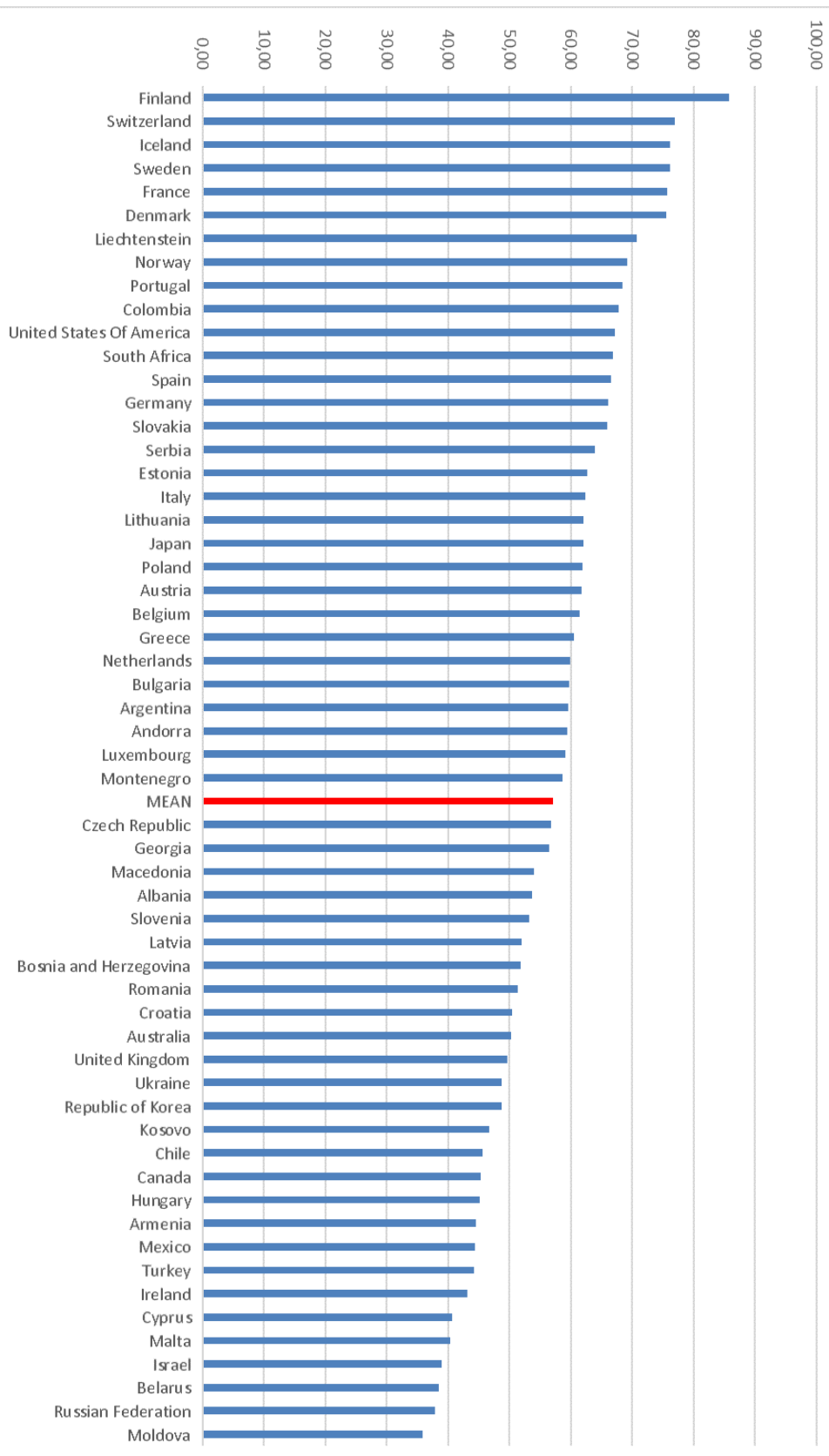
[https://en.wikipedia.org/wiki/Wellbeing\\_services\\_counties\\_of\\_Finland](https://en.wikipedia.org/wiki/Wellbeing_services_counties_of_Finland)

- |                                    |                                       |
|------------------------------------|---------------------------------------|
| 1. <a href="#">Lapland</a>         | 12. <a href="#">Ostrobothnia</a>      |
| 2. <a href="#">North</a>           | 13. <a href="#">Satakunta</a>         |
| 3. <a href="#">Kainuu</a>          | 14. <a href="#">Southwest Finland</a> |
| 4. <a href="#">Central</a>         | 15. <a href="#">West Uusimaa</a>      |
| 5. <a href="#">Central Finland</a> | 16. <a href="#">Central Uusimaa</a>   |
| 6. <a href="#">North Savo</a>      | 17. <a href="#">East Uusimaa</a>      |
| 7. <a href="#">North Karelia</a>   | 18. <a href="#">Päijät-Häme</a>       |
| 8. <a href="#">South Savo</a>      | 19. <a href="#">Kymenlaakso</a>       |
| 9. <a href="#">South</a>           | 20. <a href="#">South Karelia</a>     |
| 10. <a href="#">Pirkanmaa</a>      | 21. <a href="#">Vantaa-Kerava</a>     |
| 11. <a href="#">Kanta-Häme</a>     |                                       |

The City of [Helsinki](#) (22) and the autonomous Region of [Åland](#) (23) are not part of WSC system

- **Annex 2. The Local Autonomy Index (LAI): Country Ranking, average for 2015-2020**

[https://ec.europa.eu/regional\\_policy/en/information/publications/studies/2021/self-rule-index-for-local-authorities-in-the-eu-council-of-europe-and-oecd-countries-1990-2020](https://ec.europa.eu/regional_policy/en/information/publications/studies/2021/self-rule-index-for-local-authorities-in-the-eu-council-of-europe-and-oecd-countries-1990-2020)



○ **Annex 3. The SOTE reform: competencies transferred from municipalities in 2023<sup>32</sup>**

<b>Municipal competencies after reform</b>	<b>Municipal competencies transferred to WSC</b>
GENERAL ADMINISTRATION SERVICES	SOCIAL WORK and HEALTH and FIRE and RESCUE
Community planning	Institutional and family care in child protection
Building inspection	Child protection outpatient services
Environmental maintenance	Other outpatient services for children and families
Transport routes	Residential care for the elderly
Parks and public areas	Residential care services for the elderly providing 24-hour care
Holiday services	Other services for older people
Premises and rental services	Residential care for disabled people
Support services	Residential care services for people with disabilities on a 24-hour basis
Promoting the economy	Other services for people with disabilities
Water supply	Home care
Waste management	Employment support services
Public transport	Specialised services for substance abuse
Energy supply	Outpatient primary care
Port activities	Oral health care
Agricultural and forestry holdings	Primary care inpatient care
Other activities	Specialist care
EDUCATIONAL AND CULTURAL ACTIVITIES	Environmental health
Day care for children	Other social work and health activities
Pre-school education	Fire and rescue
Primary education	
Upper secondary education	
Vocational education and training	
Free cultural activities in civic schools	
Basic arts education	
Other educational activities	
Libraries	
Exercise and outdoor activities	
Youth activities	
Museum and exhibition activities	
Theatre, dance and circus activities	
Musical activities	
Other cultural activities	

<sup>32</sup> Eero Laesterä, 2023. *The municipalities after the creation of the Wellbeing Services Counties*. Foundation for Local Government Development

The member states of the European Union have decided to link together their know-how, resources and destinies. Together, they have built a zone of stability democracy and sustainable development whilst maintaining cultural diversity, tolerance and individual freedoms. The European Union is committed to sharing its achievements and its values with countries and peoples beyond its borders.

<http://europa.eu>

The Council of Europe is the continent's leading human rights organisation. It comprises 46 member states, including all members of the European Union. All Council of Europe member states have signed up to the European Convention on Human Rights, a treaty designed to protect human rights, democracy and the rule of law. The European Court of Human Rights oversees the implementation of the Convention in the member states.

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