

MANAGING ACROSS LEVELS OF GOVERNMENT

FINLAND

1. Institutions and authority

In recent years in Finland public services in many fields that were traditionally part of the State administration have been converted into public enterprises or companies which are no longer considered part of the State administration. Public enterprises and companies operate outside the State budgetary system, are economically self-supporting and thus are free to organise their regional activities in the most cost-effective way. The regional organisations of these new types of public enterprises are not dealt with in this chapter. The district courts and the district organisation of the military service are also excluded from this chapter.

1.1 Structures*Description of levels*

Sub-national administration in Finland comprises two systems, one being part of the State administration and the other having its basis in self-governing municipalities. Both the State and municipal sectors have organisations at the regional and local levels.

The legal basis for regional and local administration lies in the Constitution Act (article 50) which, for the purposes of general administration, divides Finland into provinces, districts and municipalities. According to the Finnish Constitution the Åland Islands have a special autonomous status in the Finnish administrative system. Thus the country is currently divided into 12 provinces (including the Åland Islands) and 455 municipalities of which 104 are towns or cities. In December 1996 Parliament decided, based on a proposal by the government, that the number of provinces on the mainland be reduced from 11 to 5. The number of districts (the regional bodies of the sectoral ministries) varies according to the ministry from 4 to 19 -- such that their boundaries do not always coincide with those of the provinces. The total area of Finland is 338 000 square kilometres and the total population in 1994 was 5 088 000.

At the beginning of 1994, a new type of regional institution (the Regional Council) with specific regional development functions, was created by the Regional Development Act.

Table 1. Number of municipalities and population distribution (1994)

Population size	Number of municipalities
up to 1 000	22
1 000-5 000	203
5 000-10 000	119
10 000-50 000	97
50 000-100 000	8
over 100 000	6

Source: Ministry of Finance.

Central government at sub-national levels

The regional administration of the State consists of a) **provincial governments**, with general authority in their areas and b) **State district administration**, entrusted with the sectoral tasks of ministries and agencies, such as the environment, labour protection, and roading. In total, 20 sectors have some 200 district units. The number of district units varies depending on the sector (in the environment administration there are 13 districts while the customs administration has 7). In December 1996 Parliament decided to adopt new legislation on the State's regional administration based on a proposal by the government. This will bring together under one roof the present district offices of the Ministry of Trade and Industry's Business Service; the offices in Finland of TEKES (Technology Research Centre of Finland); the regional units of the Finnish Guarantee Board; the regional units of the Finnish Foreign Trade Association; the labour district offices and the rural business district offices. For this purpose it is planned to set up Employment and Economic Development Centres by the autumn of 1997.

In addition the State has local representatives in many fields including the police, taxation, and labour administration. Due to the great variation of the regional divisions, the number of local units varies from sector to sector making the present State local administrative system rather complicated.. As examples, the police has some 250 local units; the number of local labour offices is 200; and in the tax administration there are some 120 local offices. The total personnel of the State local-level administration in 1993 was some 40 000.

Creation, elimination and restructuring

The decision-making authority for dividing the country into municipalities as well as its State regional divisions lies with the Council of State. And, after the agreement of the municipalities involved, the Council of State also has the authority to determine the areas of the Regional Councils. The division of the country into provinces has been decided through a parliamentary law. The breakdown was revised in a decision made by the Finnish Parliament in December 1996 which reduced the number of mainland provinces from 11 to 5.

The self-governing status of municipalities is defined in the Finnish Constitution. There are a considerable number of small municipalities despite the long-standing policy aimed at encouraging the merger of small municipalities into bigger administrative units

The Municipal Act includes general legal provisions defining the organisation of joint municipal boards and how they relate to the parent municipalities. The new legislation has given freedom to the municipalities to agree on arrangements between themselves. Joint municipal authorities are based on an agreement signed by two or more municipalities which have agreed to establish a separate body for a specific function. There are in total about 300 joint municipal boards. All municipalities are members of several of such organisations. Compulsory joint boards look after hospital care, and homes for elderly people are often run by voluntarily formed joint boards.

The Municipal Act also includes regulations concerning how municipalities can operate jointly for certain functions for which there is no legal obligation on a contractual basis. Contractual agreements are signed between municipalities, and can, for example, make one municipality responsible for certain services in the name of several municipalities.

The Regional Councils are based on the voluntary association of municipalities through unanimous agreement of all the municipalities in the region. The incentive for the municipalities to join a Regional Council is that by doing so they will become responsible for the regional development functions of the provincial governments. With this voluntary principle, the Regional Councils were gradually established throughout 1994. Legally the Regional Councils are in the same position as the other statutory joint municipal boards. Their administrative structure is thus defined in the Municipal Act. In this sense Regional Councils are part of municipal sector. By the beginning of 1995 all Finnish municipalities belonged to one of the 19 Regional Councils.

Control bodies

Employees throughout the public sector are bound by the principle of administrative legality. This principle has its expression in the Finnish Constitution. Control of the legality as well as the efficiency of the administration is largely based on internal control mechanisms through hierarchical supervision built into the administrative system -- from the head of an administrative unit to the Council of State and the President of the Republic.

The institutions, external to the administration, that have been given responsibility for supervising and controlling the compliance of government officials with the law, are the Supreme Administrative Court, the Chancellor of Justice (appointed by the President of the Republic) and the Parliamentary Ombudsman (elected by Parliament for a period of four years).

The government auditing system has two pillars. The State Audit Office is part of the State administration under the auspices of the Ministry of Finance, and is mandated to ensure that publicly funded government organisations operate in accordance with the law and good management practice. The second pillar comprises the five Auditors nominated by the Parliament. Their annual reports comment on the activities of various administrative authorities and receive wide political and public interest.

The municipalities have their own system for the control of the administration and of the economy. Elected bodies have traditionally played an important role in the municipal auditing system. The new legislation on municipal administration emphasizes the need to strengthen the position of professional auditing. The auditing board and at least one full-time auditor are compulsory bodies in every municipality.

In the Finnish appeal system, the appropriateness of administrative actions is examined within the administration. The Council of State is the highest decision-making body. Legal matters are dealt with by administrative courts headed by the Supreme Administrative Court.

Part of the internal control system is the use of semi-judicial bodies dedicated to legal matters and citizen's interests in specific fields. An example is the Centre for Legal Protection in the Health Services. This body handles complaints by citizens concerning health care personnel. The decisions of the Centre can be subject to further process in the Supreme Administrative Court. There are also special commissioners who assist citizens on questions of social rights. Special commissioners handle issues such as data processing protection, equal rights and consumer rights.

1.2 Powers

Nature of sub-national institutions

The provincial governments operate under the Council of State and more precisely the Ministry of the Interior. They are directed by a Governor who is nominated by the President of the Republic, and are internally organised into departments and other sub-units. The district authorities are headed by a director. They operate as central government agencies and their task is to implement national policies in their respective sectors.

The highest decision-making body at the municipal level is the municipal council elected in a direct proportional system by municipal residents for a period of four years. The size of the council varies from 17 to 85 depending on the population of the municipality. The minimum number of members is 13 in Finland, except in the Åland Islands where it is nine.

The new Municipal Act has changed the compulsory basic organisation in municipalities. In addition to a council, every municipality is now obliged to have a municipal board, municipal manager and auditors. The board, the manager and the auditors are elected by the municipal council. The composition of the municipal board thus reflects the political structure of the council and the number of members varies from 5 to 15. In addition, the municipal administration includes sectoral boards or commissions, the number and functions of which can now be decided by the municipality itself.

The municipal manager is responsible for the executive functions together with municipal officials. The new law stresses the political accountability of the manager by making it possible to decide that a manager with the same term as the council be also elected to the chair of the municipal board. In practice the municipal managers are at the head of the administrative machinery.

If the municipal council so decides, the appointment of the municipal manager can now be for a limited period (previously the period was always unlimited). The municipal manager can also be dismissed by the decision of the council on the basis of lack of confidence. This kind of decision requires the support of two thirds of the members of the municipal council. Since changes of the legislation in 1993 the scope for the municipal council to dismiss a municipal manager is rather wide. There were 12 cases of dismissal of a manager in the period 1993-94.

The highest decision-making body of a joint municipal authority is the council, nominated by the municipalities that are members of the joint venture. The executive body is the board of the joint

municipalities. Joint municipal boards have their own budgets which are financed by the member municipalities.

The Regional Councils have the same administrative structure as the other joint municipal boards. The councils are elected for a four-year term, which coincides with the period of municipal elections. Most of the council members are also members of the councils of the member municipalities. The executive body is the board elected by the council. The size of the council varies between 20 to 100 representatives, depending on the number and size of member municipalities. The number of board members is between 10 and 20. The permanent staff of the Regional councils averages about 25 to 30 persons.

Type and degree of autonomy

The position of the municipalities has traditionally been strong in Finland. According to the Constitution the municipalities have an autonomous status -- they are self-governing. National interests have been taken care of by the regulatory system as well as by the way in which the State allocates financial resources to municipalities. Both have been changed so as to increase the operational freedom of municipalities. The new Municipal Act reinforces the autonomous status of municipalities by giving them more freedom in deciding on their own organisation and functions.

The Constitution states that municipalities have a "general authority" in their territory. This means that they themselves decide on the range of their duties. The Constitution also states that municipalities can only be given new tasks and obligations by a parliamentary law. Accordingly, the municipalities have been given specified tasks through laws including the Planning and Building Act (1958), the Social Welfare Act (1982), the National Health Care Act (1972) and the Comprehensive School Act (1983).

The municipalities are free to decide on their internal affairs and organisation, according to the principles defined in the general law on municipalities, the Municipal Act. A new Municipal Act came into force in July 1995 and gave municipalities more managerial freedom in running their daily duties and setting priorities.

The new Municipal Act also confirms the principle according to which the municipalities are free to contract out services they are obliged to provide and to decide to what extent they apply user charges.

The municipalities have the power to raise income taxes from their residents and landowners. The municipal income tax is proportional to income. The municipalities are free to define the level of taxation, but national legislation defines the types of taxes, and they are collected by the State. The provincial governments do not have the right to collect taxes.

The municipalities can issue some local regulations e.g. concerning safety and order, but they do not have full regulatory powers.

District authorities now enjoy a lot of managerial freedom and are accountable for their results to a varying degree depending on the extent to which they operate under market principles. Net budgeting is used in some fields.

1.3 Responsibilities

Distribution of responsibilities

Most of the activities of the State local authorities are connected with direct service production in their respective fields. By law the provincial government is responsible for the needs of the province, its general development and the well-being of its inhabitants. In the field of educational and cultural policy its tasks include developing the network of schools, assessing educational performance, and developing library and cultural services. The provincial government is also responsible for monitoring and assessing the development of social and health services, promoting housing production and improving housing conditions in the province.

The provincial governments have important tasks in the fields of safety and legal protection including examining complaints against local authorities. They also allocate funds for the police districts and are the electoral authority in their areas.

There has been a trend to transfer sectoral tasks away from provincial governments. This was the case for example in the reform of the environmental administration where the tasks of the district units of the Ministry of the Environment and those of the environmental departments of the provincial governments were merged under the Ministry of the Environment. The establishment of the Regional Councils has resulted in a transfer of power from the State's regional administration to the municipal sector.

The nature and functions of the districts varies: some (e.g. the labour administration districts) are of an administrative nature in that they oversee and direct local authorities. In some sectors the district organisations provide services directly to customers or undertake tasks such as road construction and maintenance. In the autumn of 1997 several existing district offices will be merged into new Employment and Economic Development Centres in accordance with a decision of the Finnish parliament in December 1996.

Municipalities, either individually or jointly, are responsible for most of the social welfare functions (basic education, vocational education, social and health care, child care). In fulfilling duties such as running big hospitals, municipalities operate jointly. Physical planning is another important municipal task. The municipalities are in many respects service production organisations, as well as political-administrative organisations.

The Regional Councils combine the tasks of the former joint municipal boards which were responsible for physical planning and those of the associations of municipalities for the general promotion of development. The new legislation has also made it possible to transfer general regional development functions to them from the provinces.

Thus the Regional Councils have two statutory functions: regional physical planning according to the Building Act, and general regional policy. In the latter role the Regional Councils co-ordinate the preparation of regional development programmes in co-operation with their member municipalities, the provinces, districts and local industries. In addition to these two statutory functions the Regional Councils also have the role of representing the interests of their regions vis-à-vis the member municipalities and the State administration.

Mandatory, optional and shared responsibilities

Although municipalities have a high degree of autonomy in executing the tasks for which they are responsible, the State and municipal levels are closely linked. The main mechanisms by which the State can steer and control the functioning of the municipalities are regulations and subsidies.

Central government is responsible for defining national welfare policy. The municipalities implement national policies and are largely autonomous in doing so. Special legislation or regulations usually cover minimum standards of services and how municipalities should handle their service provision. The number of municipal functions that are mandatory by law has gradually increased.

Municipal functions that are too extensive or expensive to be handled by a single municipality are given to joint municipal authorities (boards). These are formed either voluntarily or by legal obligation.

2. Management functions

2.1 Policy-making and co-ordination

Coherence, consultation and conflict resolution

The main steering mechanisms used by the State government are the budget and financial management system, the regulatory system, and personnel policies. The nature of the steering is different in the State and municipal sectors due to the different status of the organisations in each.

The main tool for the horizontal co-ordination of policies across sectors is the new frame budgeting and the result-oriented financial management system (performance management). In the process of defining budget frames for the next one and three years, the government (Council of State) has an opportunity to both prioritise and co-ordinate policy areas. The Ministry of Finance, which prepares the process and provides the Council of State with the budget calculations, has a key role in this process.

After the budget frames have been given to sectoral ministries, they must then implement the result-budgeting system in their own fields. Each ministry is, in principle, responsible for ensuring the vertical coherence of policies. The ministries, sometimes in co-operation with a State agency, holds "result discussions" with the agencies and sometimes directly with the regional units. These discussions provide another process for promoting policy coherence.

At the regional level the main issues of horizontal coherence are those related to regional policy and overall regional development. The State provincial government had a strong role in co-ordinating regional development initiatives in its area but this has now been largely transferred to the new Regional Councils. As yet there is very little practical experience on how the new co-ordination process between the State and municipal authorities will function and what will be the real role of the Regional Councils in this co-ordination. However, the importance of the co-ordination function of the Regional Councils is increasing with Finland's membership in the European Union (EU) since the regional development programmes now also cover projects funded by the EU.

With the recent administrative reforms, the steering system (both regulations and subsidies) of the municipalities has undergone major change. But a door has also been opened towards accepting the idea of some variation between municipalities in their service production and their selection of priorities.

Formal and informal mechanisms

The government has various permanent committees of ministers co-ordinating the most important policy issues. The guidelines which they produce are of great importance in policy-making and co-ordination between policy sectors and affect activities at all levels of government. Examples include the committee of ministers on economic policy and that on fiscal policy.

Various mechanisms of a more informal nature are also used to ensure the horizontal co-ordination of policy implementation. They vary from *ad hoc* negotiations to the everyday flow of information. Co-ordination bodies such as government commissions or working groups may be set up for this purpose with varying degrees of formality.

Frameworks (Programmes of Objectives) for regional development are defined by the Council of State and give the government an important steering and co-ordination mechanism on national policy and priorities of regional development.

The Ministry of the Interior has a steering role in the co-ordination of the funds used through regional development authorities as it decides on the allocation of those funds to the regions. Line ministries are represented in the process of preparing regional development programmes through their regional units.

The Ministry of the Interior also has a special role in the co-ordination of regional level policies as it is under its mandate that the annual result agreements are negotiated for the State provincial governments. The Ministry of the Interior is responsible at the State level for the co-ordination of municipal affairs.

Joint municipal boards are also powerful co-ordination mechanisms between municipalities. Other types of contract-based mechanisms for co-operation and the sharing of responsibilities between municipalities are also being used to an increasing extent.

2.2 Financial management

The State's regional and local units are financed by the State budget. The new frame budgeting and performance management has significantly increased the financial autonomy of the administration at the regional level which now receives the appropriation on operational expenditure as one lump sum instead of the earlier earmarked funds for various expenditure items. Legal changes have also been made to enable increased use of user charges and net budgeting in State agencies. Administrative units which have adopted net budgeting can charge clients for their services, either externally or from within the State administration and then use the funds to cover directly the costs of the services produced.

Sources of revenue

The municipal sector in Finland covers some two-thirds of the public sector consumption and investment expenditures.

Municipal income tax represents some 36 per cent of the total revenue of the municipal sector. In 1993 a new tax was introduced (replacing and combining some earlier charges) which entitled municipalities to collect a tax on real estate. Both residents and landowners pay this tax which is based on the assessed market price of property and which varies depending on the type of the property. The municipalities have the right to decide on the level of this tax within the limits defined by law.

Another important source of income for municipalities is State subsidies which represent some 30 per cent of municipal income. User charges cover about 18 per cent, selling municipal property accounts for some 7 per cent, and loans cover 6 per cent. This distribution varies considerably however between municipalities.

User charges are levied mainly from services delivered by municipal enterprises such as those in charge of energy distribution and water supply. The share of user charges in the fields of social and health care or education and culture services is, as yet, minor. User charges on services produced by municipal enterprises has, in some cases, offered municipalities a means to cover deficits in their overall budgets. An example is with electricity on which municipalities have been able to overcharge. The current trend of opening up the electricity market to competition will increase transparency in pricing and significantly limit possibilities for this kind of hidden taxation.

Financing of Regional Councils and other joint municipal authorities comes from the member municipalities (as well as from State subsidies for statutory duties). The financial responsibility of each municipality is defined in the agreement made by the member municipalities when the joint board is established.

Table 2. Main revenue sources of sub-national governments (1985, 1990)

	1985		1990	
	(Mk million)	%	(Mk million)	%
Total current revenue	66 717	87.9	104 914	86.4
<i>of which</i>				
Taxes	30 188	39.8	47 881	39.4
State grants and compensations	15 098	19.9	26 399	21.7
Payments and compensations	11 703	15.4	15 996	13.2
Internal income	4 247	5.6	6 725	5.5
Capital revenue	9 167	12.1	16 562	13.6
<i>of which</i>				
State grants and compensations	738	1.0	1 568	1.3
Borrowings	2 828	3.7	5 446	4.9
Depreciations	4 196	5.5	6 632	5.5
TOTAL revenue	75 883	100.0	121 476	100.0

Source: Ministry of Finance.

Expenditure responsibilities

As shown in Table 3 the two largest sectors of municipal expenditure are social welfare services, and education and culture, each accounting for about 25 per cent of total current expenditure. As the table also shows, the largest increase in expenditure between 1985 and 1990 was in social welfare services, which more than doubled.

Table 3. Main expenditure patterns of sub-national governments (1985, 1990)

	1985		1990	
	(Mk million)	%	(Mk million)	%
General administration	2 681	3.6	4 307	3.5
Public order	1 294	1.7	2 166	1.8
Public health care	10 047	13.4	16 451	13.4
Social welfare services	12 183	16.3	24 648	20.1
Education and culture	16 044	21.4	25 899	21.1
Community planning and public works	3 831	5.1	5 738	4.7
Real estate	3 131	4.2	5 086	4.1
Business and services	11 464	15.3	15 018	12.3
Finance	1 674	2.2	2 686	2.2
Total current expenditure	62 349	83.3	102 001	83.2
<i>of which</i>				
Wages and salaries	21 208	28.3	34 848	28.4
Other personnel expenditure	5 114	6.8	9 427	7.7
Imputed interest expenses and depreciations	6 423	8.6	9 921	8.1
Shares	7 117	9.5	11 909	9.7
Grants	2 373	3.2	5 607	4.6
Capital expenditure	12 546	16.7	20 548	16.8
<i>of which</i>				
Acquisitions fixed assets	10 441	13.9	16 746	13.7
Repayments on loans	1 596	2.1	2 831	2.3
TOTAL expenditure	74 884	100.0	122 549	100.0

Source: Ministry of Finance.

Balance between discretion and control

During the past five years Finland has implemented major budget reforms, the core of which was completed in the 1995 budget. The reform has introduced a system whereby administrative units and their management are given more operational freedom and their accountability for results is emphasised. The State subsidy system was also reformed, as from the beginning of 1993. In contrast to the earlier system where allocations from the State budget were largely earmarked to specific municipal functions and heavily regulated by the State authorities, the new system is based on lump sums. This gives municipalities more room for manoeuvre in deciding on the use of State subsidies. The aim of the reform was to encourage municipalities to improve their economies and their effectiveness.

In May 1995 the Council of State set up a project and appointed a one-man committee charged with drafting a proposal for a Government Bill to overhaul the system of State subsidies to municipalities, to come into effect at the beginning of 1997. This would change the basis for deciding on State subsidies for specific functions. Additional proposals were made aimed at clarifying and rationalising the division of labour and costs between the State and municipalities. In October 1996 the government put a Bill before Parliament which proposed a complete reform of the State subsidy system. From 1st January 1997, function-specific State subsidies would become based on average expenditure per resident, student, age group etc. and on the municipality's own contribution to funding. The grounds for deciding the level of

State subsidy would take into account specific cost factors such as low density of settlement, a bilingual population, and if located in the archipelago.

In the State budget there is an appropriation for "funding through regional development authorities". The Regional Councils decide on how to use this funding to support local industries and other economic activities after the Ministry of the Interior has allocated it to the regions. In the 1995 budget this appropriation amounted to some 125 million Mk. Most of the State financial support for the regional development is, however, allocated through the line ministries and their regional representatives from their own funds. When deciding on the use of their regional development funds, the State authorities use the regional development programmes, co-ordinated by the Regional Councils, as a guideline.

2.3 *Performance management*

Mechanisms

All levels of government have recently been, or are currently being, subject to restructuring as part of the overall public management reform. The major characteristics of this are a move to a result oriented management and increased use of market discipline and market-type mechanisms. Result orientation has meant a new emphasis on performance as well as a continuing process of devolution of decision-making powers both within organisations as well as between levels of government. In accordance with this trend the role of the State Audit Office in performance auditing is being strengthened.

The district units of the State administration now operate under the result-management system. This means that their managerial freedom has been increased together with their accountability for results and requirements on the quality of their services. In the frame budgeting and result management system the district authorities usually negotiate and agree on the performance targets for the local units. The district authorities monitor the result targets and report to the respective ministry or State agency. As part of the State administration, the provincial governments are now result-budgeted units, reporting to the Ministry of the Interior.

No general framework for monitoring local government performance has been developed. There is, in fact, a strong view that this is not necessary, given the high degree of electoral and financial autonomy of local governments.

Quality standards

There is considerable interest in both auditing and service standards projects. A working group with representatives of the Ministry of Finance, the Ministry of the Interior and the Association of Finnish Local Authorities has been set up to investigate the roles of different levels of government in service quality and the possibilities for replacing existing norms regulating the service production with service standards and consumer rights. The three organisations are also jointly examining possible new forms of service production, particularly those which might increase consumer choice and producer competition such as vouchers.

No national service quality standards have been established (with the exception of child care services) and it is unlikely that any will be developed. Similarly, there is no national established charter

for services. There are however examples of charters at the municipal level, for example in the city of Hämeenlinna.

2.4 Human resource management

Statutory distinctions

Separate laws define the status of the personnel in the State and municipal administrations. In both administrations the personnel may be either civil servants or operate under individual agreements, as employees. In the State administration the main type of service relationship is as a civil servant -- a status which has been made more flexible in recent years. One aim is to transfer all personnel in the new public enterprises to the category of employees. Legal provisions concerning employees both in the State and the municipal administrations are covered by the general labour legislation.

The rights and obligations of municipal officials are defined in the Municipal Act. Their legal status is in principle similar to the status of State civil servants. The new Municipal Act also favours the status of employee in municipal administrations.

The following table shows the distribution of employment by level of government since 1980.

Table 4. Public sector employment by level of government (1980,1985,1991-1994)

	1980	1985	1991	1992	1993	1994
State administration	122 443	141 300	145 877	145 100	140 000	133 000
Municipalities ⁽¹⁾	337 000	427 000	458 000	448 000	411 000	400 000 ⁽³⁾
TOTAL GOVERNMENT ⁽¹⁾	459 443	568 300	603 877	593 100	551 000	533 000 ⁽³⁾
State enterprises	76 937 ⁽²⁾	71 956 ⁽²⁾	64 958	60 299	53 000	23 000
TOTAL PUBLIC SECTOR	536 380	640 256	668 835	653 399	604 000	556 000 ⁽³⁾

1. Including municipal public enterprises.

2. Not formally State enterprises.

3. Preliminary figures.

Source: *Public Management Developments: Update 1995*, OECD, 1995.

Managerial autonomy

A new State Civil Servant Act came into force in 1994. It has increased the managerial freedom of individual administrative units in the areas of staffing, remuneration and dismissal. At the same time the tasks of the State Employer's Office (the Personnel Department of the Ministry of Finance) are now more directed towards policy questions and general guidelines rather than the detailed steering of personnel management in the agencies. In the public enterprises in particular, State controls have been relaxed to a large extent. In the State sector, staffing levels are decided (until 1997) in the annual budget process.

There has been a centralised collective agreements system for determining salary levels in the public sector since 1970. Before then the State and the municipalities each determined the salaries and other terms of employment of their employees. The 1970 legislation gave the organisations of public

employees both negotiation and contract rights similar to those in the private sector. Public employees (including civil servants) have the right to strike.

According to the Collective Agreement for State Civil Servants Act and the similar law for municipal officials, the bargaining system is to a large extent the same as in the private sector, although some issues fall outside the agreements and are defined by law. These include establishing and reorganising public posts, obligations and responsibilities.

Agreements are made at both the State and local levels. Collective agreements for the public sector, fitting into the general framework of central collective agreements, previously determined both minimum and maximum pay and benefits. With the new result-oriented management system the collective agreement no longer has a maximum level as since 1992 the result-budgeted agencies may decide on individual pay which exceed those of the collective agreement. Each authority concludes agreements on personnel employed on a contract basis.

In the municipal sector each municipality has the authority to decide on its staffing level. This authority has also recently been widened since the new State subsidy system no longer allocates State financial support for certain posts and functions.

The salary bargaining system of the municipal sector functions in roughly the same way as in the State sector. The Commission for Local Authority Employers negotiates with the unions representing the municipal employees. Negotiation power has also to a large extent been transferred from the State level to the local level in line with the general trend to devolve authority.

2.5 *Regulatory management and reform*

The regulatory system comprises acts of Parliament and lower level legislation adopted by the President, the government, a ministry or a central government authority. Although legislative and regulatory power is spread across government bodies, ministries have the key role in the Finnish regulatory system. Authorities under the ministries play a much more restricted role in regulatory management in Finland than, for example, in common law countries. Regulatory power is also very limited at the regional and local levels. Ministries are responsible for drafting government bills to be presented to Parliament and for issuing ministerial resolutions that take the form of administrative regulations. An act is often accompanied by either by a decree or government resolution. Ministries also prepare presidential decrees as the President does not have an agency or staff for that purpose.

Most regulatory reform in Finland started in the 1980's. The Ministry of Finance initiated a project in the mid-80's to reform the delegated legislation issued by ministries and other central government bodies and to decrease the amount of lower level legislation. This "Norm Project" was the first ever aimed at subordinate legislation. It can be considered a success given that the 7 500 norms existing in 1987 were reduced to about 5 500 by 1991 -- although some were transformed into recommendations or guidelines.

At the end of the 1980's the government initiated a Licence Reform Project aimed at cutting down the number of administrative permissions, licences and approvals. This initiative has been less successful numerically, with a drop from 1 700 to 1 600 between 1989 to 1993, but procedures have been rationalised and simplified.

Despite these efforts, regulatory inflation accelerated in 1992-94 due to European integration as Finland had to adapt its national legislation to meet the requirements of membership of the Agreement on the European Economic Area (since 1994) and the European Union (since 1995).

Regulatory management reforms by the Ministry of Justice also started in the early 1980's. It aimed at improving the preparation of legislation in ministries, but further reform was needed in the mid 1990's due to widespread concern about the declining quality of legislation. This took the form of a joint initiative by the ministries of justice and finance which led to the approval by the government, in May 1996, of a programme comprising 33 measures to improve law drafting and regulatory management in ministries.

The government does not have any overall deregulation policy, but there has been notable economic deregulation in areas such as telecommunication, financial markets and energy markets, and some deregulation in the road transport sector.

The number of regulations issued by the State government on municipalities was significantly reduced and the quality of regulations was improved at the end of the 1980s. The number and detail of regulations issued by the State government remains an important State government mechanism for guaranteeing coherence in the implementation of policies that are implemented by the municipalities. In addition, reform of the State subsidy system in 1991 made some significant changes to the relationship between the State and the municipalities.

3. Trends in redistributing authority across levels of government

3.1 *Evolving tendencies*

Due to the many recent changes in the Finnish public administration, the whole system of management across levels of government is in a considerable process of change. Decentralising authority from the State administration to local and regional levels has been a trend in Finland for a long time. Major steps were taken in the 1993 reform of the State subsidy system and the simplification of regulations. This trend is likely to continue, although the level of local autonomy is subject to constant debate. These questions will be dealt with in the large new project set up by the government to review State-municipal relations and especially the existing State subsidy system.

The latest developments in the Finnish public administration have also changed the tasks and the functioning of the provincial governments -- and reduced their number from 11 to 5. Notably reforms such as that of the State subsidy system which have increased the authority of municipalities, have changed the role of the provincial governments from supervising the functioning of municipalities towards promoting development and improving general conditions in the area.

Major structural changes have taken place at the regional level. As from 1994, with the emergence of Regional Councils, there is a new level of administration. On the other hand the new regional units have been created on basis of the former structures in the sense that they now combine functions such as physical planning, which were previously undertaken by joint municipal authorities. The process of establishing the new Regional Councils is also evolving as the division of powers between them and the State has not yet been completed or generally agreed.

Issues relate to the role of the Regional Councils in the process of financing regional development projects that will get funding from the European Union. It is likely that this will be organised in the same way as the present sectoral development funding, in other words by giving the State authorities the final decision.

In the State regional administration two trends can be recognised: on the one hand there is a trend towards merging regional organisations in some sectors; for example the number of regional offices of the State road administration decreased from 13 to 9 in 1994. On the other hand there are attempts to merge horizontally those organisations with similar fields of expertise, notably in the environmental area. A law has been passed which combines the State district units of the Ministry of the Environment and the departments of environmental affairs that existed within the State provincial governments.

The rationale behind these trends is primarily financial, given the current severe budgetary constraints. This has led, in many instances, to pushing forward attempts to rationalise organisations and to minimise administrative costs.

In the State regional administration the developments mentioned above are closely linked with the major reform of public enterprises. State functions that were earlier organised as traditional administrative agencies are now functioning as public enterprises with much more operational and managerial freedom than before. The public enterprise reform has radically changed the nature and organisation of State regional units and decreased the number of personnel there.

Increasing managerial freedom means that the central organisations of these new public enterprises, as well as corporations, have also been given more freedom in organising their functions internally. To fulfil the requirement of functioning profitably in the markets, there has also been a call to reduce administrative costs by merging or abolishing regional units.

A gradual merging of local units has taken place in the State local administration. In the tax administration, for example, between 1992 and mid 1995 the number of local tax offices was reduced from over 200 to some 110. There is a determined plan to continue this trend so that the target number of local tax offices is close to the number of State local districts, i.e. about 90.

The present government's Programme includes the objective of decreasing the number of administrative units at the regional level and will strengthen the trends that have already started in the State regional and local administration. The number of provincial governments on the mainland will thus be decreased from 11 to 5.

Before the changes to the general municipal legislation and the reform of the State subsidy system, important steps were made in the Free Municipalities experimentally started in 1989. This gave the pilot municipalities participating in this project exemptions from obligations to submit certain municipal decisions for approval by the State authorities and was less restrictive regarding the ways in which municipalities organised their internal administration. This experiment ended in 1993 and has had an important impact on the reforms that have now given municipalities more operational freedom.

An important project was recently launched to examine the scope for reviewing the relationship between the State and municipal governments. As a first stage, the economic responsibilities and a redefinition of the basis of State subsidies to municipalities will be on the agenda. The second phase of the project will cover other policy questions related to the duties and tasks of each sector.

3.2 *The current debate*

The new government since April 1995 is a coalition of five parties. The present government programme reflects the need to clarify administrative structures and the roles of various organisations. There is an emphasis on improving the structures and functioning of the regional and local levels of government, in particular the need to clarify the role of the Regional Councils as the general authorities for regional development. The government programme also refers to abolishing overlaps and decreasing the number of organisations at the regional level.

Recent initiatives seek to develop a State local administration on the basis of the present 95 local districts. According to some plans these local administrative units would combine functions of the local police, prosecution, and registrations. One controversial issue of this reform is whether the new local organisations should operate under the auspices of the Ministry of the Interior or the Ministry of Justice. As of 1st December 1996, the local State administration was re-organised on a "local district" basis, the country being divided into 90 districts for policing, public prosecution, and registration purposes. These "local districts" replace the previous rural police districts and population register districts of the Ministry of the Interior, and the city prosecutor and bailiff's departments of the Ministry of Justice.

Finland's recent accession to the European Union (EU) has had a great impact on regional policies. Questions to be resolved include: who will have the right to negotiate with the EU on subsidies from regional funds; how will the decision-making process in Finland be organised; and which organisations, the State provincial governments or the new Regional Councils really represent the Finnish regions *vis-à-vis* the European Union?

3.3 *Driving forces*

The present economic situation in Finland has raised new issues for debate. These include in particular the number of administrative units at the regional level. Merging or abolishing regional or local units is often severely opposed by the local community and local authorities as it is seen to weaken local economic prospects as well as to increase unemployment.

Clearly the State's downsizing policies will continue to have effects on municipal economies. The debate on by how much and where municipalities need to cut their expenditure and how cuts affect municipal services are on the current agenda. As municipalities have been given much more operational freedom with the recent reforms, the priorities given to different services is subject to much social and political debate.

The present government's programme guarantees the basic services of the welfare State, but the need to raise productivity in the public services has also provoked arguments about the risk of lowering service quality and equity in the access to publicly provided services