

## Local Self-Government in Finland

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**Abstract** This chapter describes how Finnish legislation follows the articles of the European Charter of Local Self-Government. In general, even though local self-government in Finland is constitutionally and legally protected, it is highly state-dependent and restricted in many ways. The current government reform challenges local self-government by establishing a new regional level of governance, altering the Finnish local government system. The burden of public services exposes local government for reforming, which has affected the relationship between central and local governments. In Finland, to follow and implement the principles of the Charter, the biggest challenges are with the municipalities' wide responsibilities, financial constraints, and strong state steering. This chapter illustrates how the role of local government as a service provider has led to a situation where municipalities are strictly steered by and financially dependent on the national government.

**Keywords:** • local self-government • history • legal foundation • European Charter of Local Self-Government • Finland

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## 1 Introduction

Local government in Finland is essential for national well-being and democracy. In Finland, the first national articles of local authorities were enacted in 1865, when municipalities separated from the church and became autonomous. The key idea was to give power to and create opportunities for citizens to manage collective tasks and develop the community. Today, the basic principles of local self-government remain: (a) representative decision-making, (b) task and service responsibilities, (c) power to plan and decide of organisation and economy, and (d) right of taxation. The Local Government Act provides the autonomy, organs, decision-making authority, and the responsibilities of municipalities (365/1995).

Finland joined the European Charter of Local Self-Government in October 1991. In Finland, the principles of local self-government have a long history and are in line with the Charter. When accepting the Charter, Finland defined “local authority” to refer to the municipalities, and local self-government is seen as municipal self-government (Ryynänen & Telakivi, 2006, pp. 14, 54). The Finnish Association of Local and Regional Authorities took part in preparing the Charter (e.g., Ryynänen & Telakivi, 2006), and Finnish local authorities are generally committed to its principles (e.g., Haveri, Stenvall, & Majoinen, 2011). However, strong state steering, the reforms of local and regional government and financial constraints challenge municipalities to follow the idea of local autonomy.

As of 2020, the Finnish local government consists of 310 municipalities, of which 107 are cities. Finnish municipalities are the basic units of services, democracy, and the sense of community for their citizens. Their field of tasks and responsibilities is wide, and their incomes come from local taxation and state subsidies. The constitution gives equal rights for every citizen to access public services, regardless of the location or wealth of the municipality. The state and ministries steer and regulate the services and economy of the municipalities and cities, and influence their financial resources by state subsidies and economic policies. Strong state steering combined with strong local autonomy represents the Nordic model of local governance (von Bergmann-Winberg, 2000).

During the last decade, local government in Finland has been at the centre of large renewals. The national renewal policy has been aimed at two main goals: merging municipalities or health and social-care organisations to encourage a deepening cooperation in service production. The general strategy is to seek benefits by economies of scale. The current reform underlines competition and open service markets. Every local and regional government reform has been highly disputed and criticized, and the parties have argued about reform strategies. Over the years, the main criticism about the reforms has been about tightening state steering and forgetting local actors and the local autonomy. The Finnish tradition of local self-government is strong, and borders in many municipalities and regions are both historical and cultural (Vakkala & Leinonen, 2016). Ideally, local identities and citizens’ rights are appreciated, and local autonomy is

considered to emanate from the citizens. In practice, Finnish municipalities are highly dependent on central steering and state subsidies, and the service tasks are highly regulated. Therefore, every new reform from the central government has raised discussions about localism and the essence of local self-government.

In this chapter, we discuss how the principles and articles of the European Charter of Local Self-Government are followed in Finnish legislation and practical implementation. We examine the problems and challenges that have risen about local self-government. We also examine articles 1–11 in order, which we precede with a history of how the local self-government was developed. Finally, we discuss the future challenges of local self-governance in Finland.

## **2 Historical development of local self-government in Finland**

As mentioned, the roots of the official Finnish local government system date back to 1865 when the first law concerning local self-government (Local Government Act 4/1865) in Finland was enacted (e.g., Haveri & Anttiroiko, 2009, p. 192). At the time, Finland was an autonomous grand duchy of Russia. Secular matters were transferred from the church to the municipalities, with the aim of transferring state-level tasks to the local level. The system created in 1865 was based on a one-tier, local self-government. In Finland, municipalities are the organisations that run the local self-government.

The guiding principles in creating a local self-government in Finland were independence from the state and local democracy (Aaltonen, 1934, pp. 228–229). These same principles continue to guide today's Finnish local government and are similar to the European Charter of Local Self-Government (66/1991).

The ideological background for the Finnish local government system stems from the 18<sup>th</sup> and 19<sup>th</sup> centuries when local levels started were seen as a counterforce for the state (Soikkanen, 1966, p. 115). Ideologically, both romanticism and liberalism emphasized the ideals of local self-government. In line with these ideals, rising nationalism paved the way to local self-government. Strong local government increased national liberty and was seen as an important pre-stage for an independent Finnish state (Kaukovalta, 1940, pp. 44–46; Soikkanen, 1966, pp. 116–118, 120). Along with the ideological changes, economic and societal changes greatly influenced the creation of a Finnish local self-government. The breakdown of a class society, emancipation of peasantry, and industrialization started the transition from an agrarian society to an industrial society (Soikkanen, 1966, p. 121).

Although the administrative basis of local government in Finland has been quite stable over the past 150 years, the role and status of municipalities have changed along with societal, economic, and ideological changes. These changes have also affected the perceptions of local government (Jäntti, 2016, p. 72.)

The first phase in the history of local government in Finland was autonomy (1865–1917). Municipalities were given extensive self-government. In the Local Government Act (4/1865), some regulations were made about the tasks and administration of municipalities, but municipalities were free to arrange the obligatory tasks in their own way. From the beginning, Finnish municipalities had the right to levy taxes (Johanson & Tattari, 1984, p. 512). Municipalities had the right to take on additional tasks other than the ones mentioned in the law. Free decision-making power at the local level was regarded as important. Thus, this phase was characterized by locality and freedom (Jäntti, 2016, p. 73). Different solutions in the various municipalities diversified local government and emphasized mutual disparity (Soikkanen, 1966, pp. 412–413.)

At times, local self-government collided with other important endeavors. For instance, the meaning of education was considered more important than local self-government. The state obliged municipalities to establish schools, which previously was a voluntary task (Soikkanen, 1966, pp. 413–414, 464). Little by little, municipalities started to be seen as a part of the state. Thus, the state had the right to decide new tasks for municipalities (Kaukovalta, 1940, p. 221). Effectivity in organizing state-controlled tasks began to be more important than the municipality freedom. The guiding principle of local-level independency started to deteriorate as the tasks for local government increased (Johanson & Tattari, 1984, p. 510; Soikkanen, 1966, p. 815–816).

The second phase in the history of local government in Finland were the first decades of Finland's independency starting in 1917. The obligatory tasks increased notably alongside state control and supervision over municipalities. Local self-government was reduced as the amount of the tasks increased (Kröger, 1997; Rönkkö, 2007a, p. 96). State subsidies were a remarkable factor in municipal economy, bringing stability and continuity. In the beginning of the 20<sup>th</sup> century, subsidies were designated to certain tasks, such as child welfare, libraries, and schools (Soikkanen, 1966, p. 565–566). The focus gradually moved toward the effectivity and productivity of municipalities, while the ideals of local democracy started to gain less attention (Soikkanen, 1966, pp. 595, 639–641).

The post-war rebuilding era launched a new phase in the history of local government in Finland (Jäntti, 2016, p. 81). The focus began to move from the administration toward the services that municipalities provided, again changing the role of municipalities (Soikkanen, 1966, p. 671). In the 1950s, the number of obligatory and voluntary municipal tasks increased in line with the requirements for efficient administration (Jäntti, 2016, pp. 81–82). Even though self-government was considered an essential part of local government, the perception of local government as a public services provider began to take over (Hannus, 1976a, pp. 13–14; Mennola, 1992, pp. 5, 8). This line of development was typical across Nordic countries, because, during the post-war period, they were building a welfare society (e.g., Page, 1991, p. 134).

In the 1960s, Finnish municipalities were already in charge of a vast number of public services affecting people's everyday lives, with more to come. Increasing tasks meant increasing steering and supervision from the state. The significance of municipalities as local communities decreased, while service-orientation was highlighted. Municipalities were valued according to their ability to produce public services effectively. This ability required a sufficient population basis, which was apt to increase the pressure for municipal mergers (Jäntti, 2016, pp. 83, 85). These reforms were also implemented in Norway, Sweden and Denmark. The reasoning for these reforms was that larger municipalities could handle vast public services (Page, 1991, pp. 133–134). The existence of a local government was based on the role of the municipality as local executors of state-level visions (Möttönen, 2011, p. 67). Equal public services across the country were the cornerstone of welfare society. Local self-government gave way to ensure equality as these services were created. (Anttiroiko & Jokela, 2002, p. 131; Julkunen, 2001, pp. 115–116). The welfare society era gave municipalities the role of welfare distributors and public service producers. From the 1960s to 1980s, the tasks kept on increasing as municipalities produced both state-steered and voluntary welfare tasks, including social and healthcare, education, recreation, and cultural services (Rönkkö, 2007a, pp. 97–98). Furthermore, this state-centric era deteriorated the limits and meaning of local self-government (Ryynänen & Telakivi, 2006, p. 39).

In the early 1990s, Finland faced a severe recession with notable effects on the municipalities. The state reduced obligatory tasks, regulation, and supervision over the municipalities. In this sense, local self-government increased. However, due to a declining economy, the resources at the local level decreased, affecting local leeway (Jäntti, 2016, p. 89.) This phase can be described as a period of decentralization and deregulation, which was boosted because of the recession and a new public management ideology (Julkunen, 2001, pp. 117, 120; Möttönen, 2011, p. 69). Freedom as a value for local government gained some more importance. However, the main value in legitimizing local government was still effectivity. The state transferred power to municipalities, as well as the responsibility to cope with a difficult economic situation. The phase of increasing self-government lasted for only a decade, until the state began to tighten its grip on municipalities (Haveri, Stenvall, & Majoinen, 2011, p. 8).

The first decades of the new millennium can be described as a phase of reforms, recentralization, and reregulation. Since the aughts of 2000, obligatory tasks and detailed regulation have increased, weakening local self-government by reducing the opportunities for local choice in municipalities. The reason for tightening regulation on municipalities was to provide equal public services to all Finnish citizens. Fulfilling fundamental rights has again been contradicted with local self-government. In decision-making, services have been emphasized more than local self-government (Jäntti, 2016, p. 93; see also Ryynänen & Telakivi, 2006, p. 44). It can be argued that local self-government in Finland is in crisis due to the overload of tasks, increased regulation, and state-led reforms (Haveri, Stenvall and Majoinen, 2011, p. 8). The legitimacy of local

government is increasingly linked to its effectivity in organizing public services (Sipponen 2016, 111).

Recently Finland has been in the middle of the biggest local self-government reform in its history. The government of Finland is preparing for this massive reform, which will transfer social and healthcare services from municipalities to counties in 2020. If the reform takes place as planned, the counties will be responsible for employment, regional and economic development, and the environment. A crucial part of the reform is the creation of a regional self-government so that, in the future, Finland will have a two-tier self-government system. Strong economic drivers of the reform aim to save EUR3 billion by 2029. This remarkable change will have strong effects on municipal and regional administrations, economy and self-government, and the roles of municipalities and regions.

### **3 Constitution and legal foundation for local self-government**

According to the the European Charter of Local Self-Government the principle of a local self-government must be recognized in national legislation and in the constitution. However, the structures and traditions of local self-government vary in the EU member countries, which is why the Charter leaves many possibilities to formulate a local self-government nationally (Ryynänen & Telakivi, 2006, pp. 32–33).

Local self-government has a constitutional protection in Finland: the principle of local self-government is explicitly written in the Finnish Constitution. The constitution (731/1999) includes regulations on local self-government in municipalities. It also includes regulations on regional self-government. According to the constitution, Finland is divided into municipalities, whose administration is based on the self-government of their residents. Provisions on the general principles that govern municipal administration and the duties of the municipalities are laid down by the act. That is, the state can give duties to municipalities only through legislation. The right to levy a municipal tax has a constitutional foundation in Finland. Provisions on the general principles governing tax liability and the grounds for the tax are defined by act. The Sami (a native people, mostly living in northern Lapland), have linguistic and cultural self-government in their native region, as provided by act.

The constitution of Finland includes the basic regulations concerning local self-government. The implementation of local self-government and extensive rules on the legal status of municipalities are more closely regulated in the Local Government Act (410/2015) (see also Torres Pereira & Van Overmeire, 2017, p. 21). The purpose of the act is to establish the conditions in which self-government of residents in the municipalities can occur and where residents can participate and influence municipal decision-making. The act applies to the arrangement of administration, duties, and finances in local government.

The Local Government Act (410/2015) has regulations on municipal tasks. Municipalities can perform the functions that they choose for themselves by virtue of their self-governing status. They have to arrange the obligatory functions that are provided for them separately through legislation. The law also specifies when functions, such as special healthcare or rescue services, have to be arranged in cooperation with other municipalities (statutory joint responsibility). Municipalities or joint municipal authorities themselves can provide the services for which they have a service arranging responsibility. Alternatively, they can acquire these services from other service providers (other municipalities, joint authorities, or private or third sectors) on the basis of an agreement.

The relationship between the central and local governments is defined in the Local Government Act (410/2015). The Ministry of Finance monitors the activities and finances of the municipalities in general and ensures that their self-governing status is considered whenever legislation regarding local government is drafted. Regional State Administrative Agencies can investigate whether municipalities have acted in accordance with the legislation. When the state give tasks to the municipalities, the state must provide them with adequate funding to meet their duties, which refers to the principle of adequate financial resources.

Municipalities have local councils that are responsible for the municipalities' activities and finances. They also exercise the supreme decision-making power in municipalities. According to the Local Government Act (410/2015), the local council decides on:

- the municipal strategy;
- administrative regulations;
- budget and financial plan;
- ownership policy principles and corporate governance principles that apply to the local authority corporation;
- operating and financial objectives set for municipally owned companies;
- principles for managing assets and for investment activities;
- principles for internal control and risk management;
- general principles about payments charged for services and other tasks performed;
- granting of a guarantor's undertaking or other security for another party's debt;
- election of members to the decision-making bodies, unless otherwise provided hereafter;
- principles about the financial benefits of elected officials;
- appointment of auditors;
- approval of the financial statements and granting of discharge from liability; and
- other matters that are presented for the decision of the local council.

Local councillors and deputy councillors are elected to local councils in local elections. The term of the local council is four years, starting at the beginning of June in the election year. Local elections are direct and proportional, as well as by secret ballot. All eligible voters have an equal right to vote. The local council can establish sub-area local authority

committees or sub-area management boards to further the opportunities of residents in a sub-area of a municipality to exert influence. (Local Government Act 410/2015.)

To summarize the legal foundation of Finnish local self-government, the basic principle is that municipal tasks and duties are laid down by legislation. Another important feature is the right to levy taxes and the principle of adequate financial resources that enables adequate financial autonomy. In addition, the right to perform functions chosen by virtue of the municipalities' self-governing status is one of the main legislative principles of implementing local self-government, which is constitutionally and legally protected in Finland. However, many strictly regulated service tasks combined with only one sub-national self-government level (municipalities) has led to a situation where local self-government is highly dependent on the state and restricted in many ways (Haveri, 2015; Jäntti, 2016; Jäntti, Sinervo & Vakkala 2019; Vakkala, Sinervo & Jäntti (forthcoming 2020)).

#### 4 Scope of local self-government

In the Charter, local self-government is defined as “the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population. This right shall be exercised by councils or assemblies composed of members that are freely elected by secret ballot, on the basis of direct, equal, universal suffrage, and which may possess executive organs committees responsible to them” (European Charter of Local Self-Government).

Article 3 contains a restriction for local self-government by recognizing the fact that the legal right to manage public affairs needs to be, in some cases, defined more closely by national legislation. However, this article also highlights the idea of local authorities as independent actors that can function under their own responsibility not limited to acting as agents of national authorities (Explanatory Report, 1985).

A fundamental question regarding the tasks of local government is what affairs local authorities should be entitled to manage. This question remains open because it is impossible to give a clear answer. The circumstances, history, and culture differ from country to country. Also, a country might have its own huge disparities, making it difficult to decide at what level certain tasks should be managed. In addition, some tasks can be local, regional, and national by nature (Explanatory Report, 1985).

The intention of Article 3 is that local authorities should have a broad range of responsibilities to carry out at the local level (Explanatory Report, 1985). In Finland, this intention can also be seen in practice. Finland can be described as a so-called *municipal state*, where municipalities have traditionally had a big role in carrying out two-thirds of public services. The scope of local government in Finland is, thus, extensive.



Article 3 also highlights that the rights of self-government must be exercised by democratically constituted authorities, such as councils. In Finland, local council members who have the supreme decision-making power in municipalities are freely elected. Forms of participatory democracy, such as users' boards, panels, initiatives, or co-designing services, are used at the local level along with the representative system. The right to vote in a municipal election and municipal referendums is defined by the constitution.

Implementing the European Charter of Local Self-Government in the national legislation has in part strengthened the status of local self-government in Finland by affecting former legislation. This instance can be seen as an example of deregulation of the laws and norms for municipal organisations. The scope of local self-government in legislation is strong, but financially, the situation is more restricted (Ryynänen, 2003, pp. 24–25). In addition, as a side effect of the broad tasks, municipalities are strictly connected to the state, as noted by the number of obligatory tasks (Ryynänen, 2011, p. 147), which are often highly regulated. Therefore, *de facto* municipalities do not have proper decision-making power in how the tasks are carried out. This question also arose in the evaluation report by the Monitoring Committee of Congress of Local and Regional Authorities in Council of Europe (Torres Pereira & Van Overmeire, 2017, p. 24). In addition, municipalities can perform functions that they choose for themselves by the virtue of their self-governing.

Finland is committed to the principle of subsidiarity: the municipalities are mainly in charge of public tasks. Some of the tasks, such as special healthcare, are carried out by inter-municipal cooperation with joint authorities, which is argued by the nature and scope of the tasks. In special healthcare, for instance, the medical procedures require an adequate population basis for good quality services and sufficient expertise of the personnel. Other public tasks, such as urban planning, require cross-border cooperation in designing land use, housing, or public transport in metropolitan areas. The decision-making power in these cases can be transferred to the regional level, where municipal representatives decide on inter-municipal issues.

According to the Charter, the mandate of local governments should be unlimited. Other authorities should not have the right to restrict or weaken their mandate. In Finland, the restrictions are based on the rule-of-law principle and, thus, are connected with the legitimacy of municipal decision-making. Regional State Administrative Agencies have the right to investigate whether municipalities have acted in accordance with legislation. Restrictions of municipal mandates also concern citizens' right to appeal against municipal decisions. The regulations are based on the Administrative Procedure Act (434/2003) and the Local Government Act (410/2015). The appeal authority is the administrative court. An appeal can be made on the grounds that the decision was not taken in the proper sequence, the public authority that made the decision exceeded its powers, or the decision is otherwise unlawful.

Other restrictions on local self-government concern municipal boundary divisions and the financial performance of municipalities. The state has issued a decree concerning criteria for so-called crisis municipalities. The criteria is based on the financial statistics of municipalities, representing their ability to carry out their tasks. If a municipality meets the criteria, the Ministry of Finance appoints an assessment group to prepare a program to balance the financial situation in the municipality. If the municipality cannot improve its financial situation, the state can launch a special investigation for municipal mergers. This investigation can lead to an involuntary municipal merger, which is a severe restriction of local self-government.

Local authorities should be heard when planning and making decisions about issues they are involved with, as defined in the Local Government Act. Demand for hearing municipalities is seen as part of the principles of good governance (Ryynänen & Telakivi, 2006, p. 118). In Finland, municipalities and the state have a negotiation process between central and local government. The Association of Finnish Local and Regional Authorities represents municipalities in this negotiation process. Due to the vast heterogeneity between Finnish municipalities, it can sometimes be problematic to find a common policy or opinion about issues that affect municipalities differently depending on their size, circumstances, and situation in general.

Negotiations between local and central government are carried out when:

- 1) new legislation concerning local government is planned;
- 2) central government measures are far-reaching and important in principle concerning the activities, finances, and administration of local government; and
- 3) it comes to the coordination of central and local government finances (Local Government Act 410/2015).

Local self-government in Finland is protected by the constitution and controlled through the constitution committee. Overall, the principles of local self-government in Finland are taken into account quite well. The scope of local self-government is vast, in line with the principle of subsidiarity that covers most of the services that people need in their everyday life. However, the number of tasks puts municipalities in a situation where they are financially dependent on the state and their discretion is restricted through detailed legislation, which in practice restricts local self-government.

## **5 Protection of local authority boundaries**

Article 5 focuses on the right of municipalities to decide on their own boundaries: “Changes in local authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by statute.” The idea of this article follows the subsidiarity principle and addresses that, in cases of fundamental importance, decisions should be made by residents or as locally as possible (Ryynänen 2012, pp. 57–58).

Article 5 includes only one paragraph, which can be approached from three directions. First, it can be argued whether it is possible to force municipalities to merge or change their boundaries in other ways. Second, if forced mergers are possible and justified according to national law, prior consultation of local actors is needed, which leads to a discussion about how the negotiation processes and mergers are managed locally and nationally, and between these parties. Third, Article 5 includes a viewpoint of citizens' participation by referendum as a consultative process, when it is enabled in legislation (Explanatory Report, 1985).

Forced mergers have been a hot topic in Finland, especially during the last decade. For example, in regard to the core of this chapter, one question begs whether the institutional autonomy of municipalities is to their own borders. Another question seeks to determine whether the municipalities' power to decide on their boundaries is a starting point, rather than the actual objective. As Ryyänen (2012, pp. 57–59) interprets the aim of the article is that all changes in local boundaries should be made in good negotiation and cooperation between the municipalities and the state. From this point of view, the strong Finnish idea is that municipalities as autonomous institutions lose statutory groundings, when they can be forced to merge with only prior consultation needed. This idea shifts the focus to interaction between state and municipalities, especially in emerging situations of difficult financial problems.

In Finland, the law allowed the state to force mergers without the consent of involved municipalities during the years 1946–1992, if required by an important common benefit. Yet, this practice was seldom used, under 15 times and mostly in the 1960s and 1970s (Laamanen, 2007). In 2013, the Local Government Act was completed with decrees that allowed the state to force merging if a severe financial crisis occurred in a municipality. The government can start the evaluation process for municipalities in a difficult financial situation or if at least 20% of the local residents entitled to vote make a motion to cease the municipality or establish a new municipality. This decree was included in the reform of local authorities by the government of Prime Minister Jyrki Katainen, who strived to strengthen the local government structure and closely followed the economy of the municipalities. This time, forced mergers without the consent of municipalities were implemented in four cases, but the fourth merging process was repealed in the Supreme Administrative Court, and the municipalities continued autonomously. The municipality of Lavia was forced to merge with the city of Pori starting in 2015, despite both of the local authorities opposing the merger. At the same time, the municipality of Tarvasjoki was forced to merge with the opposing municipality of Lieto. Both sides accepted the merger only in Jalasjärvi and Kurikka. In 2014, the Rääkkylä municipality, which was in a difficult financial position, was forced to merge with the municipality of Kitee. However, the Supreme Administrative Court declared the decision by the Finnish Government (Antila, Asikainen & Koski, 2015).

Instead of administratively forced mergers, the Finnish Government has used other ways to support, motivate, and further mergers. Until 2013, the central government paid extra

subsidies for municipalities that merged voluntarily. The Local Government Act (478/2013) regulates voluntary mergers of municipalities, which have been implemented in all regions of Finland during the last decade. The number of municipalities has decreased from 415 in 2008 to 311 in 2018. A merger can be implemented if it strengthens locally solid structures, services, livelihood, and the functional and financial conditions of a municipality. The municipalities can evaluate the outcomes and negotiate the terms and objectives by themselves or with the help of professionals.

In Finland, forced mergers have been an extreme measure and face severe criticism (e.g., Stenvall et al., 2015; Laamanen, 2007). According to Article 5, the process of a forced merger starts with local consultation. The municipal governments first go through negotiations to see whether they are willing to merge voluntarily (Stenvall et al., 2015). Proceeding with the negotiations, even in voluntary processes, requires open interaction and dialogue between the municipalities. In state-initiated processes, understanding of the reasons and objectives of change is even more important to the parties that are involved. However, mergers are complicated and complex processes, and the results and effects are difficult to evaluate. Complexity is also present in the management system of the municipalities. Personal interests are likely to emerge, and power struggles between political groups can take a strong role (Leinonen, 2012). Even a good, discussive and comprehensive process can end after long preparation if the majority of the local councillors decide to object. Common opinion indicates that the municipalities should be able to decide on their own future, but autonomy should not continue at any price (Pikkala, 2015). When an “own” municipality is at stake, emotional factors start affecting opinions, and criticism is stronger toward other merging processes. However, the citizens’ opinions can become more positive (Pekola-Sjöblom, 2011).

As a whole, issues about municipality borders and mergers raise strong opinions, for example, based on history, traditions, or identity. The attention is aimed at the opinions of local residents. Article 5 suggests referendums as a possible way to consult citizens. In Finland, the Local Government Act (410/2015) enables local, advisory referendums that are decided in Local Councils. However, only a few referendums have been organised in Finland, reflecting common opinions about the strength of a local representative democracy. According to the Ministry of Justice (2015), local referendums were organised 61 times during the years 1991–2014; most of them concerned mergers or other changes in the boundaries. The referendums are advisory, leaving the power to the Local Councils to decide whether they will follow the results. In the case of mergers, Local Councils have decided according to the voting result 44 times, and 11 times against the result.

Although referendums are seldom used in Finland, voting activity is usually high. Citizens wish for opportunities to vote for local issues, and more than half of the citizens think that referendums are important (Pekola-Sjöblom, 2016). Referendums are an important part of local democracy, even though most Finns have not been able to participate in them.

## 6 Administrative structures and resources for the tasks of local authorities

Democracy and political decision-making form the basis of justification and existence of municipalities. However, strong, capable administration is equally needed. Both political and administrative leaders should work actively together as partners for shared purposes (Leinonen, 2012). This complementary model emphasizes the partnership between administration and politics, addressing dynamic and active collaboration (Svara, 2007). Ideally, political leadership sets goals and strategies, and administrative management implements them, although the relationship between these tasks has become vague (Leinonen, 2012).

Article 6 addresses the role and responsibilities of administration in municipalities. According to the Charter Explanatory Report (1985), the focus of the first paragraph is on how the administrative services are organised and how local circumstances, and requirements are taken into account. The purpose is to encourage organising efficient local administration and solid structures. In addition, the second paragraph addresses the competence of personnel and managers to organise high-quality services, which are aimed at reliability and transparency. Local officers and staff must have freedom and space to exercise their duties and organise services, along with adequate financial compensation for their work (Sadioglu & Dede, 2016, p. 33).

In Finland, the Local Government Act G (410/2015, 30 §) requires all municipalities to have a council, board, audition committee, and election committee. Other political organs can be formed locally. In legislation, the political committees and their tasks are defined in detail, but the administrative structures are left open for municipalities to decide. According to the Finnish Constitution (121.2§), only the general basis of municipality administration is ordered in law, which is in line with the first paragraph of Article 6. Municipalities can create and follow their own administrative provisions, which orders locally on general management, personnel management, and financial management, in addition to other administrative issues (410/2015, 90§). Finnish municipalities have a rather wide freedom to organise (Heuru et al. 2011, p. 225), which has led to a various structural models.

The only statutory administrative post is that of a municipal manager or a local mayor (Local Government Act 41–44§). The local council appoints the municipal manager, who works under the municipal board. The municipal manager is an executive leader (CEO), working as the head of the administration and the highest municipal official. Administratively, the manager acts as a presenter in the board meetings and coordinates the implementation of decisions. In external relations, the municipal manager is a key actor in building relationships with local stakeholders and governing networks. This central role makes the municipal manager's influence and power strong in policies and strategic plans, local governance, and local well-being (Leinonen, 2012). Since 2007, legislation has enabled electing a mayor instead of a manager, as the person who is responsible for management, financing, other functions, and acting chairperson of the

board. The mayor is a political actor who is chosen by the council. However, the mayoral model has raised discussions in many municipalities, but so far only a few of them have decided to choose a mayor instead of a municipal manager.

In the majority of Finnish municipalities, organisational structures have gone through remarkable changes, due to, for example, the general goals of efficiency and cost-effectiveness, the purchase-provider model, or customer-oriented service development. Many municipalities are also interested in process organizations, where services are grouped according to the users' and citizens' needs in certain life phases, not by traditional sectors (Kenni & Asikainen, 2011). The development has been supported by the previous national reforms of local government structures, and where mergers have been implemented, organisations have been completely reorganised (e.g., Stenvall et al., 2015). Finnish municipalities have adopted varying structures, and finding two comparable organisations has become difficult and even impossible.

The second paragraph of Article 6 addresses the competence, remuneration, and development of staff in local governments. The Finnish education system has been consistently leading many rankings. All posts in municipalities have education and experience requirements, the basic level of which is defined in the collective labour agreement of the municipalities. In practice, the requirements and task descriptions are specified in municipalities when recruiting. In addition, the minimum level of financial compensation is defined in the collective labor agreement, and it is followed tightly especially in service branches that hold the largest number of employees. However, the remuneration of municipal managers and top administrative managers can be agreed locally. Here, the principles of the Charter have been followed well in legislation (Ryynänen & Telakivi, 2006, p. 92), where the main acts are the Administrative Act (434/2003) and the Act of Local Office Holders (304/2003).

Human resources management in municipalities has experienced several challenges since the Charter was implemented. An aging population and lack of workforce have impacted the municipalities that have to organize services for citizens regardless of price, which has led to outsourcing and privatizing. Some municipalities have been forced to considerably raise the salaries of key professionals, such as to attract enough doctors to healthcare centers. In addition to demographic development, mergers and other structural reforms have brought a culture of constant changes to municipalities (e.g., Vakkala, 2012). Recruiting, keeping, and motivating skilled professionals in the context of a tight economic situation and constant reforms has become a permanent challenge to local authorities. Municipalities vary widely in how well they manage human resources and development, especially during change processes (Jokinen & Heiskanen, 2013, p. 91). Yet, the idea of Article 6 is followed tightly and implemented locally within these limits.

## 7 Conditions under which responsibilities at local level are exercised

Article 7 of European Charter of Local Self-Government aims to ensure that the conditions of the office of locally elected representatives shall enable them to exercise their functions freely. This article also ensures that purely material considerations shall not prevent elected representatives from standing for office. One of the main aims of the current Local Government Act (410/2015) was to promote a representative democracy by ensuring good working conditions for elected officials and transparency of decision-making. To address workload difficulties, such as managing work-life balance, a new Local Government Act was created to allow full-time elected officials to take a leave of absence from their jobs as needed for the duration of their position. In addition, elected officials can work part-time, but they are not entitled to a leave of absence. In addition, full-time and part-time elected officials have the same rights as local government officers with rights to annual leave, sick leave, family leave, and occupational healthcare services (Torres Pereira & Van Overmeire, 2017, p. 29).

A new Local Government Act (410/2015) introduces new management models to strengthen political leaderships. These models are an attempt to clarify the position and distribution of work between the municipal manager, local council, and local executive. However, the distribution of work is linked to the distribution of obligations to municipalities in general. As mentioned previously, municipalities are seen as service providers with a massive load of tasks. If service obligations are reduced, they will result in distribution of work between the administration, local council, and local executive.

Article 7 is implemented in Local Government Act (410/2015), Section 82. Section 82 states that elected officials shall be paid meeting fees, compensation for loss of earnings, costs incurred when engaging a substitute, arranging childcare, or other similar reasons arising from the position of trust. An average meeting fee is around EUR70. Also, compensation for travel costs and a per diem allowance shall be paid. Elected officials can also be paid a fee for a fixed period and other separate fees, averaging around EUR2000 for a chairperson. In addition, on the basis of authorisation received from an elected official, the municipality can collect the elected officials charge that is referred to in Section 31(1)(5) of the Income Tax Act (1535/1992). The charge is collected from the fees that are paid to the official and then disbursed to the party or party association (a so-called *party tax*). The sum of the charges that is collected must be accounted for in the municipality's financial statements (cf. Torres Pereira & Van Overmeire 2017, p. 29).

Article 7, Section 3, states that any functions and activities that are deemed incompatible with the holding of a local elected office shall be determined by statute or fundamental legal principles. In Local Government Act (410/2015), Chapter 10 deals with elected officials and their eligibility. It states that persons who are eligible for election to a position of trust in a municipality are those:

- 1) whose municipality of residence is the municipality in question;

- 2) who, in the year when local councillors are being elected or when an election is being held for some other position of trust, have the right to vote in local elections in one of the municipalities; and
- 3) who have not been declared legally incompetent.

In local councils, eligibility restrictions apply to persons who are employed by local government in a senior position within an area of responsibility of the local executive, of a local authority committee, or in a comparable position. This restriction also applies to persons who are in a comparable position in a municipal corporate entity or foundation and to public servants in central government who perform supervisory tasks directly related to local government administration. Persons in these employment relationships are eligible for election as local councillors if their employment relationship ends before the local councillors' term begins.

Persons who are eligible for local councils are also eligible for local executive. Justifications in the Local Government Act (410/2015) indicate that it is generally seen problematic if the members of a local executive are employees of a local government or its entities, weakening the local executive's ability to act. In addition, it is highly problematic for unbiased decision-making if the chairperson of a local executive is employed by a municipality. In a few cases in Finland, local councillors have had dual roles where they were in the position of trust for a local executive while being employed by municipal corporate entities.

## **8 Administrative supervision of local authorities' activities**

Municipalities primarily supervise their own financial activities. Article 8 of the Charter deals with supervision of local authorities' activities by other levels of government. Issues regarding this supervision are implemented in the national legislation, precisely in Chapter 3 of the Local Government Act (410/2015), where the relationship between central and local government is considered. As mentioned previously, the negotiation process between the central and local governments is a tool to coordinate public finances as whole. At the same, this coordination provides a way to control public finances and financial resources. It is also required in the Stability and Growth Pack (SGP) of the European Union. The SGP is a set of rules that ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies. The SGP defines rules for a national budgetary framework in each member state. The SGP applies to the government in general, but it is required to have a separate national budgetary framework for each sub-sector. These comprise of central and local governments, as well as social security funds (Matikainen, 2015). Thus, local government as a part of public finances is more closely monitored and guided. A statute regarding a plan for public finances (120/2014) is included in national legislation.

The Local Government Act (410/2015) defines the relationship between central and local government in the sense of monitoring municipalities and oversight legality of their



actions. Supervision over the legality of municipal activities is mainly exercised by the administrative courts in individual cases. Any municipal resident who has a standing in cases regarding general competence of the municipality can submit an appeal against a municipal authority decision to the (Regional) Administrative Court. Such an appeal can be made on the grounds that: (a) the decision was not taken in accordance with proper procedure; (b) the body exceeded its powers; or (c) the decision was otherwise unlawful. Further appeals can be lodged with the Supreme Administrative Court. Regional level authorities control municipalities formally only through the supervision of legality, which is performed by Regional State Administrative Agencies. Economically and functionally, the regional level does not control municipalities in any way (Torres Pereira & Van Overmeire, 2017, p. 30).

While overseeing matters of the legality of the municipalities' actions, two important institutions, the Ombudsman and the Chancellor of Justice (with a constitutional position since 1809), must be recognized. Municipalities can file complaints with the Chancellor of Justice. The Chancellor of Justice checks the lawfulness of decisions made by the government and the President of the Republic prior before they are implemented. Such decisions also apply to matters that are connected with municipalities, such as decisions about municipal mergers. The Chancellor of Justice receives a considerable number of complaints from citizens concerning municipal administration. Most often these complaints are related to corruption regarding the administration or to social, healthcare, and educational services. Finland does not have regional or local ombudsmen, but it does have ombudsmen for patient and social concerns (Torres Pereira & Van Overmeire, 2017, pp. 30–31).

The Ministry of Finance monitors the activities and finances of municipalities in general and ensures that their self-governing status is taken into account whenever legislation about local governments is drafted (Local Government Act 410/2015, chapter 3). Monitoring also involves the negotiation process between the central and local government and a specific program for local government finances. The plan for public finances and programs for local government finances are both part of European Union (EU) regulations for member countries. While both of these policies ensure long-term financial sustainability of the public sector, they also place municipalities under tighter supervision by the central government.

As defined in the Local Government Act (410/2015), the preparation of the program for local government finances is a part of the preparatory work of general government fiscal plan and budget proposal for the central government. This program ties the local and central governments together more closely when it comes to governing public financial resources as a whole in a more sustainable way. As stated in the Act, the program for local government finances shall include the part of the general government fiscal plan that deals with local government finances. Provisions on the general government fiscal plan are defined as part of the Act on the Implementation of the Treaty on Stability, Coordination, and Governance in the Economic and Monetary Union and on Multi-annual

Budgetary Frameworks (869/2012). The preparation of program for local government finances is under the Ministry of Finances. It is also part of the Ministry of Social Affairs and Health, the Ministry of Education and Culture, the Ministry of the Environment, the Ministry of Transport and Communications, the Ministry of Employment and the Economy and, if necessary, other ministries. The Ministry of Finance prepares the economic forecasts and assessment of the trend in local government finances, which form the basis for the program for local government finances. The Association of Finnish Local and Regional Authorities shall participate in the preparation of the program for local government finances (Local Government Act 2015/410, chapter 12).

The program for local government finances deals with the issues of adequate financial resources. This principle for financial resources is defined in Article 9 of the European Charter of Local Self-Government. In previous local government acts, this principle was not defined. However, it could be interpreted from the rulings of the Constitutional Law Committee of Finland. The current Local Government Act (2015/410, chapter 12) is the first one to include a provision on this principle (e.g., Matikainen, 2017, p. 86): “The program for local government finances shall include an assessment of the adequacy of funding for meeting the duties of municipalities (*principle of adequate financial resources*).” In preparation of the new Local Government Act, the Constitutional Law Committee strongly urged for the principle and especially the assessment of adequacy to be statutory, which resulted in defining the principle in the Local Government Act.

The program for local government finances currently contains an assessment of changes in the municipalities’ operating environment and demand for services, and in the functions of local authorities. It also provides an estimate of the trend in local government finances, which are assessed as a whole: as a part of general government finances, and in terms of different groups of municipalities. The assessment distinguishes between the statutory functions and other functions of municipalities and assesses the cost-effectiveness of municipal activities. Trends and the impact of the central government’s budget on local government finances are all assessed in connection with the central government’s budget proposal.

In Finnish national legislation, the principle of adequate financial resources is tied to the *assessment* of adequacy even though the idea of the principle is to *ensure* adequate financial resources for municipalities, not merely to assess their adequacy (e.g., Harjula & Prättälä, 2015, p. 217; Matikainen, 2017, p. 87). In addition, Finland does not have a specific mechanism to assess adequate resources. The program for local government finances is a tool to monitor than manage local government finances as a part of public economy in a financial sustainable way. However, this program lacks the concrete measures and means to achieve the aim of adequate finances.

In Finnish legislation, the financing principle is closely tied to the program for local government finances and, therefore, to the SGP. This principle defines the rules for the central government, which must provide local authorities adequate financial resources for

their statutory responsibilities, where the SGP sets rigid budgetary frameworks to the member states of the EU. Within those budgetary frameworks, a member state must ensure local authorities adequate financing for their statutory responsibilities as required by the financing principle, which begs the question of public sector responsibilities in general, making the principle highly political. From the point of view of public finances, the financing principle can be interpreted so that the public sector cannot take on more tasks than it can afford (Matikainen, 2015; Sinervo & Meklin, 2017).

The central government monitors the financial position of the municipalities in Finland (Local Government Act 410/2015, 118§) with an assessment procedure for difficult financial positions. According to the Act (410/2015, 118 §), a municipality is in a difficult financial position when it has not covered the deficit in its balance sheet within four years (planning period). A difficult financial position can also be when the latest financial statements of a local authority corporation show a deficit per resident of at least EUR1,000 and the preceding financial statements show a deficit per resident of at least EUR500. Financial difficulty can also occur when the key financial figures for finance adequacy or solvency of the municipality and the local authority corporation have reached the following limits for two successive years:

- 1) the annual contribution margin of the local authority corporation is negative without a discretionary increase in central government transfers to local government granted under Section 30 of the Act on Central Government Transfers to Local Government for Basic Public Services (1704/2009);
- 2) the rate of local income tax for the municipality is at least 1.0 percentage point higher than the weighted average rate of the local income tax of all municipalities;
- 3) the debt per resident of the local authority corporation exceeds the average debt for all local authority corporations by at least 50%; or
- 4) the relative indebtedness of the local authority corporation is at least 50%.

The evaluation of a difficult financial position leans heavily on one indicator, and an assessment procedure might be started based on the deficit only. The reasons for the deficit and interpretation of the indicator is not within the focus of assessment procedure. However, deficits can accumulate for different reasons, and a municipality could have a balanced economy even with a deficit (Kärki et al., 2006; Sinervo, 2014). In the assessment procedure, the municipality and central government together must examine the municipality's opportunities for securing the services for its residents that are required by legislation and must take measures to ensure the preconditions for the services are in place. The examination shall be performed by an assessment group, of which one member is appointed by the Ministry of Finance and one is appointed by the municipality. After hearing the views of the municipality, the Ministry of Finance appoints as the group's chairperson a person who is independent of the municipality and the ministry. The group formulates proposals for the measures that are required to secure the services for the municipality's residents. The local council must consider the group's proposed measures and inform the Ministry of Finance of its decision on them for the purpose of any further action. Based on the group's proposed measures and the local council's decisions, the

Ministry of Finance decides on the need for a special report. This report is referred to in the Act on Local Authority Boundaries (2009/1698, amendment in 2013) for the purpose of amending municipal boundary divisions.

Based on a difficult financial position, the municipality might be forced to merge with a bigger municipality that has a more solid financial position. The criteria for a difficult financial position and the assessment procedure might have severe consequences for the local self-government. As mentioned in Section 4, forced mergers have been made twice in Finland, highlighting the importance of financial autonomy in local self-government. Without adequate financial resources, a municipality might literally lose its self-government.

## **9 Financial resources of the local authorities and the financial transfer system**

Autonomy of the local government requires citizens to have the right to decide on the finances and economy of the local government. The key financial goal of the public sector and local government is financial sustainability. Fundamentally, local government exists to ensure adequate well-being for its citizens by organizing good quality public services for tax-paying residents.

This basic idea of the public sector creates two fundamentals of public financial management. First, the public sector and its organisations must have its economy and finances in balance in the long run. In a municipality, incomes that it receives from its residents should be adequate to organize services for them. There should not be a need to collect too many or too few taxes than needed. Secondly, tax incomes must be used economically, efficiently, effectively, and equally (e.g., Pollitt, 1986), giving value to tax payers' money (e.g., Martin, 2000, cf. McKevitt & Davis, 2016). Financial sustainability deals with the issues of financial resources commensurate with responsibilities, which eventually ensure financial autonomy and, thus, a local self-government.

The Constitution of Finland (731/1999) states that municipalities have the right to levy a municipal tax. Thus, the basis of one's *own* financial resources for local government in Finland is on the municipal tax income as required in Article 9. The local council determines the municipality's rate of taxes in the approved municipality's budget (Local Government Act 410/2015). This municipal tax meets the requirement of Article 9, paragraphs 1 and 3 of the European Charter of Local Self-Government and implementation in the national legislation. However, the right to levy taxes or tax incomes does not guarantee the adequacy of financial resources. Therefore, paragraph 2 of the same article addresses the principle for adequate financial resources.

The financial resources of Finnish municipalities consist of different types of incomes. Municipalities have the right to levy taxes on earned income, real estate, and other sources. According to the Local Government Act (410/2015), a local council decides on the rates of local taxes with no restrictions. Municipalities are also entitled to a portion of

corporation tax that laid down by a specific act. On average, tax incomes make up half the incomes of municipalities. For example, in 2019, municipalities and joint municipalities pulled in 48%. A significant source of income for local authorities are grants from central government (18% in 2016), charges from customer and service fees, and sales incomes (20% in 2016). The remaining income come from borrowing (9%) and other incomes (5%).

Central government grants are a notable part of municipality incomes. The principles and criteria for the grants are defined in the Act on Central Government Transfers to Local Government for Basic Public Services (1704/2009). The basic public services are social services, healthcare, education, and cultural services, which are organized by the municipalities. Grants are mainly block grants, leaving local authorities to freely exercise policy discretion within their own jurisdiction. Grants are accounted for on the estimated operating costs of basic public services. The Act (1704/2009) has defined a criteria for socio-economic and demographic factors. For instance, some municipalities have massive demographic development. If they are densely, scarcely, or insularly populated or have Swedish, Finnish, and Sami speaking populations, they receive increased grants. The various basic public services have a different criteria for accounting in regard to the grants. In healthcare services, health, unemployment, and disability indexes are accounted in for defining the amount of the grants.

The point of focus in the adequacy of financial resources is the question of adequate for *what*. The Constitution of Finland (731/1999) indicates that public authorities must guarantee equal opportunity for everyone to receive basic educational services and the right to social security. They must also guarantee adequate social, health, and medical services for everyone and promote the health of the population. Moreover, they must support families and others who are responsible for providing for children so that they have the ability to ensure the well-being and personal development of the children. Public authorities must also promote the right of everyone to have housing and the opportunity to arrange their own housing. These constitutional rights are mainly the responsibility of the municipalities, because they are the public authorities that arrange these services.

The Local Government Act (410/2015), among many other Acts, lays down specific service obligations. The principle for adequate resources should ensure the financial autonomy of the local government and, therefore, the local self-government. The principle underlines the role of the central government in proving adequate resources, especially for *statutory* responsibilities. In practice, municipalities might be forced to cut down voluntary services if financial resources are inadequate for the tasks and obligations as a whole. The question of *what* is highly political and requires a shared understanding of the tasks and obligations of the municipalities, including the statutory and voluntary services. In 2019, nearly half of the costs of municipalities and joint municipalities as a whole came from social and healthcare services (48%). Less than one-third was from educational and culture services (31%). The rest was from other services-related tasks,

such as infrastructure, planning, and land use (Association of Finnish Local and Regional Authorities, 2020).

In recent decades, local governments in Finland have been struggling with the adequacy of financial resources for tasks and obligations. One factor is the steady year-by-year increase in the numbers of tasks and obligations that municipalities have. For instance, in 2013, municipalities had 535 obligatory/statutory tasks defined by 135 different acts. Most of the new obligatory tasks were prescribed during the decades of 1991–2000 and 2001–2010 (Hiironniemi, 2013). While municipalities have the freedom to determine expenditure priorities, in practice, they can organize only the statutory services. The difficulties in following the principle of adequate resources are the focus of the Charter evaluation by Torres-Pereira & Van Overmeire (2017, pp. 34–36). Ryyänen and Telakivi (2006, p. 105) indicate that despite the importance and significance of the principle, in Finland, most of the challenges in implementing the articles are defined by this principle.

The imbalance between obligations and financial resources can be easily detected from the financial statements of the municipalities. In 2006, the level of loans per person was EUR1464, whilst in 2019, it was EUR3342 per person. The relative indebtedness was 42.1% with an equity ratio of 67.5% in 2006. More than a decade later, the relative debt was 62% and an equity ration of 57.9%. The tax rates on earned incomes have also increased. For example, they were 17.53% in 1988, 18.54% in 2008, and 19.86% in 2018. However, interestingly surpluses have accumulated in balance sheets in municipalities and joint municipalities, perhaps taking the focus away from increasing indebtedness of Finnish local government.

The Finnish Local Government Act (410/2015) includes requirements for municipalities to ensure adequate resources in their management of finances. By the end of each year, local councils must approve a budget for the municipality for the next calendar year, taking into account the financial responsibilities and obligations of the local authority corporation. In connection with the budget approval, local councils must also approve a financial plan for three or more years (planning period). The budget year must be the first year of the financial plan. The budget and financial plan must be drawn up to put the municipal strategy into effect and to secure the preconditions for performance of the municipality's functions. The operating and financial targets of the municipality and the local authority corporation must be approved in the budget and financial plan. The financial plan must be in balance or surplus. A deficit in the municipality's balance sheet must be covered within no more than four years from the start of the year following adoption of the financial statements. In its financial plan, the municipality must decide on the specific measures for covering the deficit during the stated period. The obligation for covering deficits must also apply to joint municipal authorities. The central government monitors the financial position of the local government and of single municipalities. As mentioned previously, if severe financial difficulties occur, municipalities can go through an assessment procedure (Local Government Act 2015/410, 118 §).

Finnish municipalities have different financial positions. Finland has 310 municipalities in different parts of the long, narrow and scarcely populated country. The location of a municipality is the key factor in explaining the differences in financial resources of Finnish local governments. If the location of a municipality is unfavourable when it comes to employment and education possibilities, it eventually shows in the demographic development. In Finland, people are moving from the scarcely populated north and northeastern parts of the country to the southern municipalities and bigger cities (Kytö & Kral-Leszczynska, 2013). While, municipalities receive their financial resources from their residents directly through tax incomes and indirectly via grants, the location and migration affect the incomes, expenditures, and the possibility of receiving more income and organized services.

The adequacy of financial resources should be considered from the perspective of financial autonomy in local self-governments. Municipalities might have a broad self-government, but in practice, it is limited by the scarcity of financial resources. The question is how municipalities can affect to their financial resources themselves. To analyze this, we look at the possibilities of gaining more financial resources and managing those resources (Meklin & Vakkuri, 2011). *Managing financial resources* refers to the use of those resources in the organization of services. The national legislation outlines the responsibilities of the municipalities. The number of tasks for statutory responsibilities that municipalities have is remarkable in the sense that few opportunities are available to influence that number. Municipalities that are in a good financial position have more room to manoeuvre compared to municipalities that are in a poor financial position. There is also the question of the level of service quality. Minimum requirements are legislated for municipalities above the minimum municipalities can choose the level of service quality. In addition, municipalities can freely decide how to organize services, for instance, outsourcing, public-private-partnership, within their own organizations, etc. Within the statutory responsibilities and requirements, municipalities can manage and control the use of their financial resources. (Meklin & Vakkuri, 2011, pp. 288–290).

In terms of influencing incomes, municipalities have the right to levy local taxes and can determine the tax rate without restrictions. However, the constitution (731/1999, 121 §) outlines the provisions for the general principles governing tax liability and the grounds for the tax. The legal remedies that are available to citizens or entities that are liable to taxation are also defined. That is, decisions on the grounds of taxes are made by the Finnish Parliament, and single municipalities have no ability to effect those decisions. Municipalities have indicated an extension on grounds of taxes, including proportions for environmental, vehicle, fuel and transportation, and capital taxes (Meklin & Vakkuri, 2011, p. 291).

Municipalities decide the local tax rate, but in practice, the possibility to increase rates depends on current tax rates compared to the average rates. If a municipality already has higher than average tax rates, financial autonomy is quite narrow when it comes to receiving more tax incomes. While tax rates on earned incomes do not have any ceilings,

taxes on real estate do have ceilings. Municipalities must abide by those ceilings, leaving less room for autonomous decisions. The central government and parliament also have a say in the level of tax incomes in practice. Decisions about tax allowances diminish the actual amount of tax incomes without input from municipalities. The effective local tax rate (14.45%) illustrates that the actual level of tax incomes is significantly lower than the average local tax rate (19.86%) (Association of Local and Regional Authorities, 2018). The central government also makes decisions about the division of corporate tax incomes. A single municipality has only limited possibilities to try to influence those decisions.

The purpose of the grants from the central government is to equalize the differences in incomes and expenditures in local governments and ensure that different municipalities have the ability to meet the service requirements. Through the grants, the central government finances part of the public services that it offers. Today, grants are calculated based on an estimation of the average operating cost, in consideration of the socio-economic and demographic criteria. In practice, municipalities have little to no ability to influence the amount of grants they receive. One part of the grants is the equalization of tax incomes (cf. Article 9, paragraph 5). That is, municipalities that have good taxpayers and, therefore, a high level of tax incomes, have to pay an equalization amount to municipalities that have lower tax incomes. Equalization of tax incomes ensures that all municipalities in Finland have at least 92% of the average tax incomes per inhabitant. Equalization can have an incentive for passive trade and employment policies in municipalities when the increase in their tax incomes decreases the equalization grants they receive (Meklin & Vakkuri, 2011, p. 292).

Municipalities have little ability to increase their incomes through service charges because of ceilings for charges in national legislation. Municipalities can collect charges that are lower than the ceilings. The Finnish Parliament decides on the ceilings of charges for public services.

Municipalities have unlimited access to loan finances (cf. Article 9, paragraph 8). In many countries, loan finances are restricted for investment purposes only. However, Finland does not have any judicial restrictions for what municipalities can borrow money nor for the level of borrowing.

Altogether, on paper, municipalities have real control over their finances, and they can control their revenue base (cf. Torres-Pereira & Van Overmeire 2017, p. 32), but in reality, municipalities have a restricted autonomy in terms of their financial resources. The level of financial resources are in the hands of the central government and parliament. If a municipality needs to increase its income, it can only do so by raising taxes and collecting more service charges, at least in the short run. However, both possibilities have restrictions (Meklin & Vakkuri, 2011).



## 10 Local authorities' right to associate

Article 10 of the European Charter of Local Self-Government emphasizes the right of municipalities to cooperate and associate locally, nationally, and internationally. The article is divided into three paragraphs that steer municipalities cooperation: (a) municipalities can cooperate with other local authorities in producing services and other tasks; (b) municipalities can belong to associations to protect and promote common interests; and (c) municipalities can cooperate across borders in other EU states.

The cooperation of Finnish municipalities is provided in Local Government Act (2015/410, Chapter 8). Finnish legislation forces and supports intermunicipal cooperation, the depth of which varies between compulsory hospital districts, joint authorities, cooperative societies, foundations, merged services, and task-based agreements. Municipalities can establish joint authorities with many member municipalities, for example, to organise basic healthcare services, and every municipality belongs to a hospital district. In Finland, the interests of municipalities are promoted in one large association, The Association of Finnish Local and Regional Authorities (Suomen Kuntaliitto).

During the reforms of the last decade, cooperation between municipalities has been one of the main themes, but in different ways. In 2005, the reform of Prime Minister Vanhanen was aimed at forming authorities that have at least 20,000 inhabitants, by merging or forming cooperation areas. In some cases, municipalities were able to appeal to difficult circumstances, such as long distances, archipelagos, or languages of minorities. Small municipalities that wanted to stay autonomous were forced to cooperate, which was problematic, because municipalities' freedom to choose was limited to two options. Although the reform did not treat municipalities equally and increased tensions between them (Stenvall et al., 2009), it raised the number of mergers, and many cooperation areas were launched. However, in 2011, the reform of Prime Minister Katainen put cooperation aside with the goal of creating strong municipalities through mergers.

Following the idea of recentralization, the current reform—if accepted in the Finnish Parliament—will establish 18 large regional organisations. The biggest change is aimed at healthcare and hospital districts. The contracts of 21 joint authorities in hospital districts and the cooperation of organisations in basic social and healthcare would be dissolved. Approximately half of the municipalities' tasks, staff, and budgets will move to the new regions. The legislation is currently being prepared. Still, the legislation related to cooperation between municipalities is valid for arranging those tasks that remain as part of their responsibility.

Article 10 also addresses the ability for local authorities to cooperate with municipalities in other states. Cooperation between neighbor municipalities across national borders has a different context. In Finland, cross-border cooperation has a long tradition, especially

between Sweden and Norway. To support cross-border cooperation, Norway, Denmark, Sweden, and Finland have agreed on a treaty between nations (2/1979), where they agree on cooperation from municipalities in border areas, as long as they follow national legislation. Beyond the treaty, many EU programs have also supported cross-border cooperation in northern countries. Although cooperation in programs and in regional development has been fruitful and cooperation concerning security, safety, and healthcare tasks has been developed, especially after recent immigration developments, border-area municipalities have rather limited abilities to cooperate in providing services. In Finland, this issue has been raised regularly, especially in Lapland, a region of long distances and scarce population. Few municipalities in border areas have been actively cooperated such as the twin cities of Haparanda (Sweden) and Tornio (Finland). The differences of national legislation limit the depth of cooperation.

In Finland, municipalities have been more or less active developers of networks and cooperative connections in their area. Compared to the traditional local administration system, the change has been remarkable and has forced them to consider the scope of autonomy in their own decision-making (Ryynänen, 2008, pp. 100–102). In addition to their internal processes, municipalities have coordinated and joined a large variety of networks in their interests. The right of municipalities to cooperate and associate is generally well-enabled in Finland. Yet from municipalities' point of view, the governments are wished to hold a more persistent line in their reform targets.

## 11 Legal protection of local self -government

Even though local self-government in Finland is protected by the constitution, many of the core questions concerning the relationship between the state and municipalities are not mentioned in the constitution (Oikarinen, Voutilainen, Mutanen, & Muukkonen, 2018, p. 26). Legal protection of local self-government in Finland is mainly handled by the legislation process, where the constitution committee controls the legislation related to local self-government and other principles that are defined by the Constitution. Legislation cannot contradict the Constitution. Another crucial aspect is the entity that is composed of all the legislation concerning municipalities. An entity as a whole can restrict local self-governments even though the individual laws did not contradict the Constitution (Ryynänen, 2009, p. 71). As described in Section 2, the Ministry of Finance monitors the performance and finance of municipalities in general and ensures that local self-government is taken into account when preparing legislation concerning the municipalities.

Constitutional protection has both institutional and practical dimensions. *Institutional dimension* means that administration in Finland is organized so that municipalities form their own self-governmental tier. The *practical dimension* refers to single municipalities in that the basic principles of local self-government, such as the self-government of the residents, actualizes in every municipality (Oikarinen et al., 2018, p. 36).

Local self-government cannot be scrutinized solely from the perspective of municipalities. In Finland, municipalities are an important part of public administration and society and have an inseparable relationship with the state. In addition, the financial performance of municipalities is connected to a broad regional cooperation networks with other municipalities and local and regional enterprises and communities. A main feature that affects municipalities and their local self-government is the role of municipalities in allocating public resources and providing public services. The tasks that municipalities are responsible for are crucial in terms of the economic, social, and cultural rights of their citizens (Oikarinen et al., 2018, p. 38).

State authorities do not have a general jurisdiction to rule on administrative decisions that bind municipalities, nor do they have the right to interfere with the decision-making of single municipalities. Municipal decisions cannot be subjected to be verified by state authorities. In some cases in Finland, state actions have been directed to local self-government. In these cases, municipalities have applied for legal protection from the Supreme Administrative Court. In addition, in some situations, state decisions have been made against the constitution (Oikarinen et al., 2018, pp. 16, 39).

Despite the legal and constitutional protection of local self-government, some risks are apt to restrict local self-government. One risk is the financial situation and capacity of municipalities. Municipalities that are financially dependent on the state affects their level of self-government. Another risk is related to the broad tasks that municipalities are responsible for. The obligatory tasks concern mainly the economic, social, and cultural rights. They are regulated only by the state, which leads to a situation where municipal discretion and local self-government are somewhat restricted.

## **12 Future challenges of implementing the European Charter of Local Self-Government in Finnish legislation**

Among EU members, Finland has a good reputation for following the European Charter of Local Self-Government. In this chapter, we have discussed how the principles and articles of the European Charter of Local Self-Government are followed in Finnish legislation and implemented. As a whole, implementing the Charter in Finland has strengthened the status of local authorities by affecting legislation and supporting the idea of local self-government and local democracy. Although Finland follows the European Charter of Local Self-Government relatively well, the principles are visible in national legislation and Finnish municipalities are generally committed to them (e.g., Haveri, Stenvall, & Majoinen, 2011), a few problems exist. These aspects and future challenges are all bound within local self-government through its definition, restrictions, and actualization.

Besides legal protection, the financial aspects are essential to accomplish authentic local autonomy and local self-government. Local self-government has a constitutional and legal protection in Finland. However, a vast number of strictly regulated tasks combined

with only one sub-national self-government level has led to a situation where local self-government is highly dependent on the state and restricted in many ways (Haveri, 2015; Jäntti, 2016; Jäntti, Sinevro & Vakkala, 2019; Vakkala, Jäntti & Sinevro, incoming 2020). This situation aims the discussion toward the relationship between the state and municipalities, which set limits and boundaries on local self-government (Ryynänen, 2011a).

Implementing the Charter, and local self-government as a whole, has three main challenges. First, the role of local government as a service provider in Finnish welfare society affects local self-government. Secondly, the financial circumstances of municipalities create constraints to local self-government. And, thirdly, the recent and current administrative reforms that are led by the central government have influenced local self-government and the relationship between the state and municipalities. These three intertwined challenges are connected to the idea of local self-government and how the principles of the Charter are understood.

In Finland, every municipality, regardless of size or location, has the same service responsibilities as defined by legislation. The principles of the Charter, such as subsidiarity, actualize well from this perspective. However, vast responsibilities, such as social and healthcare services, have put local governments under strict control by central government (Haveri & Majoinen, 2017, p. 45; Nyholm & Niiranen, 2017, p. 123). The government and ministries have gradually reinforced controls to ensure equality and service availability to all citizens. These good intentions of equality and service availability have effected local autonomy. It has been estimated that the fundamental idea of local government has been buried under the overload of tasks (Haveri, 2015, p. 126; Jäntti, 2016, p. 209).

In this situation, the municipalities are obliged to arrange services, despite facing severe financial difficulties, while the costs of welfare services as a whole are constantly increasing. The central government has not sufficiently compensated the municipalities for the overload of tasks (e.g., Meklin & Vakkuri, 2011; Matikainen, 2017), which has created a structural imbalance between service responsibilities and financial resources. This imbalance and inadequacy of financial resources have forced municipalities to raise tax rates and increase the borrowing level. Some municipalities have faced a financial crisis, which can lead to the assessment procedure and possibly a forced merger. From the perspective of local self-government, these situations are highly problematic. What needs to be discussed is whether forced mergers can be avoided by ensuring sufficient financial resources for the municipalities in scarcely populated areas, for instance, to tackle their ever-growing tasks or diminishing tax incomes. If the reform takes place, discussion is also needed regarding the distribution of responsibilities and the allocation of resources between the central government and local authorities, both municipalities, and the new counties.

Over the last decade, the steering role of the central government has been mounting along the national local government reforms. State-led reforms have attempted to solve the problems regarding municipalities' tasks, financial difficulties, and growing service needs, but the concrete means have changed according to the leading political parties in the parliament. The common factor for these recent reforms is how municipalities are seen, valued, and evaluated. Following the idea of the Nordic model (e.g., Ryyänen, 2012), the reforms have concentrated on the ability, or lack of it, of municipalities to provide public services. Other means of local government, such as local self-government, subsidiarity, and local democracy, have been put aside to ensure that the basic rights regarding public services would be fulfilled (Jäntti, 2016). The Charter, as well as Finnish legislation, includes all of these principles, but in the reform context, they have become contradictory.

From this foundation, it can be stated that the biggest challenges in implementing the Charter have been caused by the Finnish central government. Its inability to follow the principle of adequate financial resources has resulted in imbalanced economies of municipalities, which have been used as drivers for nation-led reforms. In addition to the main problem of leaving local autonomy aside, local and regional features have not been taken into account because the central government has been stuck with one reform model throughout the country (Jäntti, 2016; Vakkala & Leinonen, 2016; Torres-Pereira & Van Overmeire, 2017). Municipalities have raised this message to the central government. It might be possible to answer the needs of the municipalities to be more independent from the state by loosening regulations regarding services and by assuring adequate financial resources. One of the challenges is that the state does not adequately recognize the heterogeneity of municipalities but treats them more or less as a whole. This approach threatens the ability of local governments to effectively make local decisions by taking into consideration local circumstances.

Finnish municipalities are waiting to see how the current reform is implemented, what it will mean to local self-government, and how the new level of regional government will find its place. This is the major challenge for local self-government in the near future. The reform means that the municipalities must give up remarkable number of their duties and finances, reform their structures and processes, and reconsider and reformulate their role and identity. If the planned reform comes into force, municipalities must also understand how they can use local self-government for the good of the community. They need to argue their significance to both their residents and the state.

According to current plans, regional self-government will be restricted financially, thus not supporting local decision-making power (cf. Torres-Pereira & Van Overmeire 2017, p. 36). A completely new self-government level is about to be created in Finland, and yet, it is difficult to estimate the effects and consequences of this massive reform.

Along with the changes on local level, it would be highly beneficial if the role of the central government toward the local level was reconsidered and reformed as well. Having

discussions about the definition of local autonomy and local self-government would be a good start. This would strengthen the ideas and principles of local self-government that are included in the Charter. Municipalities would no longer be seen, valued, and evaluated mainly as service providers, but more as active local, self-governmental actors.

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