

ANNEX 2

Approved at informal cabinet meeting 1 September 2016

Government decision concerning measures to boost employment

The Government is committed to the goal of a 72 per cent employment rate set in the Government Programme. Employment has so far been promoted by means of tax concessions, unemployment security reforms and the Competitiveness Pact. The employment and entrepreneurship packages introduced in the spring will also support achievement of the goal. The same applies to the measures for promoting competitiveness.

If the goal of increasing the number of people in employment by 110,000 set out in the Government Programme is to be achieved, further measures will be required.

Boosting employment and shortening the duration of unemployment – dialogue with the labour market organisations

As part of the 2017 Budget process, the Government, in dialogue with the labour market organisations and with due respect to the Competitiveness Pact, will begin preparations for increasing employment and shortening the duration of unemployment. The Government is ready to set up a tripartite working group for this preparatory work and has proposed this to the labour market organisations.

The deadline for the tripartite working group proposal is the end of September. Changes required on the basis of the proposal will be issued by means of finance acts or in connection with such acts. Such changes must, in principle, enter into force on 1 January 2017.

The aim of the work is to draw up a single joint proposal that boosts employment by at least 10,000 people, based on the assessment of the Ministry of Finance, and which consists of the following five elements:

- Reform of earnings-related unemployment security to encourage more rapid entry to employment so that the number of people in employment rises by 8,000 and the impact of this on central government finances is neutral.
- One-off pension subsidy for older people
- Use of the earnings element of earnings-related unemployment security as a wage subsidy and start-up grant
- Promotion of employment among young people who are neither in work nor in training or education by means of, for example, a competence programme for young adults, outreach youth work, and youth workshops
- A new earnings model within the sphere of collective agreements and assistance to complement earnings for those who have been unemployed for a long period and for those with a weak employment history

Alongside this package the Government is making preparations for reorganising employment services so as to encourage users to be more active.

If one area produces savings in general government finances, these savings must be allocated to other parts of the system in a manner that supports employment. Overall, the proposal's static effect must be neutral at the level of central government finances and of general government finances as a whole. The proposal must not weaken the financial position of the Unemployment Insurance Fund, which would mean pressure for new increases in unemployment insurance contributions.

The chair of the working group preparing the proposal will be Permanent Secretary Martti Hetemäki of the Ministry of Finance. The group's other members to be invited will be one representative from each of the central labour market organisations and one member from the Ministry of Education and Culture, the Ministry of Social Affairs and Health and the Ministry of Economic Affairs and Employment.

New decisions in support of employment

More effective employment services provision and increased use of private service providers

The service activities of the Employment and Economic Development Offices will be reformed by introducing regular interviews with the unemployed at three-month intervals, without exception. Progress with the implementation of binding individual employment plans will be monitored effectively and the penalties laid down for offences will be fully. The Government's strategy session will monitor compliance with the system on monthly basis. Implementation will be ensured as necessary by means of a result-based outsourced service, and the largest cities' responsibilities for labour market policy will be increased in the pilot schemes to be put in place.

The effectiveness of employment services will be enhanced by expanding the role of private providers in the provision of services. This will establish a base for the business and TE services systems that are being integrated to become growth services in connection with the regional government reform, and for the transfer to a multi-provider model in service provision. Social, health and employment support services for those who are difficult to employ will be integrated. The question of whether duties of public authorities concerning unemployment security can be transferred to become the responsibility of the Social Insurance Institution of Finland (Kela) and possibly also the responsibility of the unemployment funds will be investigated.

Changes to day care fees

Fees for early childhood education and care will be reduced. As part of the measures to increase incentives to work and to dismantle incentive traps, the Government decided not to implement increases in the fees for early childhood education and care. However, the fee reductions targeted at low income families of 2–3 persons, included in the government proposal submitted to Parliament, will be implemented. This will improve the possibilities particularly for single parents to accept work. It is estimated that the fees for early childhood education and care will be cut by a

total of EUR 10 million. Based on this, the Ministry of Education and Culture will formulate a new government proposal for an act on client fees in early childhood education and care.

Reduction in the delays concerning payment of unemployment benefits arising from taking up work

Kela will alter its payment practice for unemployment benefits in such a way that accepting part-time or temporary work during which adjusted unemployment benefit is paid will not result in transferring the date of payment of the unemployment benefit. This will be achieved by extending the handling period for applications by the fully unemployed, so that the per diem allowance is always paid on the same day irrespective of whether the applicant has had work occasionally or not.

Increase in the use of work trials

Opportunities will be increased for offering work trials to unemployed job seekers by removing statutory restrictions. The aim of removing the restrictions is to increase work trials in sectors where part-time work is typical. After the removal of restrictions, employers that have made work trial agreements would continue to be responsible for their obligations under the Employment Contracts Act in relation to their own workers in the case of redundancies, for example.

Work incentive traps related to debt enforcement will be dismantled

Work incentive traps related to debt enforcement will be dismantled. Debt enforcement relief will be granted as an incentive to finding employment and to ease the position of those on low incomes who are overburdened with debts. The preparatory work will include assessment particularly of the scope for increasing the protected portion in debt enforcement, and its impact.

ARA housing and additional housing construction

It is estimated that the following measures to support housing production will boost housing construction by about 1,000 homes. The measures would increase investment by more than EUR 200 million and their employment impact would amount to more than 2,000 person-years.

Approval authority for short-term interest-subsidised loans will be added as part of the general approval authority for interest-subsidised loans

The separate EUR 80 million approval authority concerning interest-subsidised loans will be discontinued and instead combined with the general approval authority for interest-subsidised loans. This will improve flexibility in the use of the approval authority for interest-subsidised loans. The exercise of this authority will be guided by means of an allocation scheme approved by the Government at the start of the year, when more information is available about the demand for different forms of production.

Production of right-of-occupancy housing will be increased by raising the approval authority for interest-subsidised loans by EUR 160 million

The approval authority for long-term interest-subsidised loans will be raised in respect of right-of-occupancy housing by EUR 160 million, bringing the approval authority to a total of EUR 1,410 million (also taking into account proposal 1).

Further to this, with the aim of reforming the right-of-occupancy system, a legislative project is under way at the Ministry of the Environment regarding the funding, resident selection and application process.

Proportion of interest payable by the borrower on long-term interest-subsidised loans will be reduced in respect of rental dwellings

to 1.7% up to the end of 2019, and a change in loan repayment plans to make them more front-loaded will begin.

The reduction in the proportion of interest payable by the borrower in the case of interest-subsidised loans, to 1.7%, will apply to new construction of rental dwellings and to renovation loans for rental dwellings. This will increase the production of affordable rental dwellings, support the implementation of the MAL agreements on land use, housing and transport, and promote employment from the perspective of the construction sector and in terms of labour mobility. As the interest reduction also affects renovation loans, the employment impact of this measure will extend across the whole country. The fixed term nature of this will act as an incentive for housing projects to begin quickly.

At the same time, law drafting will begin for altering the loan repayment plan for long-term interest-subsidised loans to make it significantly more front-loaded than at present. This is important for owners, especially in the long term, as their loan portfolio will be reduced when buildings are of an age where they require renovation. This will improve the prospects for obtaining additional financing from the market.

With a preliminary examination made, it is estimated that the nominal cost of the interest rate reduction in regard to the new construction of 1,000 standard rental dwellings (EUR 3,200/m², 4%, 60 m²/dwelling) is in the order of approximately EUR 42.7 million for the full interest subsidy payment period (23 years). At current interest rates there will be no interest subsidy expenditure for the State as a result of this measure, and there will be no other effects on the Budget.

Approval authority for investment subsidies for special groups will be raised by EUR 10 million

Approval authority for investment subsidies for special groups will be raised to EUR 130 million.

Non-profit requirement concerning interest-subsidy loan recipients will be changed to become case-specific in accordance with the draft government proposal prepared by the Ministry of the Environment

An income limit of EUR 3,000 will be imposed for ARA housing in accordance with the government decree proposal prepared by the Ministry of the Environment

In connection with the introduction of an electronic income register, a proposal will be prepared for introducing periodic income checks in regard to resident selections for ARA housing.

Real estate tax on unbuilt land will be raised by EUR 9 million

An increase in real estate tax will encourage housing construction, which will promote labour mobility.

Film industry production incentive

To improve employment in the creative fields and strengthen Finland's competitiveness as a location for both international and domestic productions, the Government will introduce a production incentive based on a film industry payment rebate model for 2017 through an appropriation of EUR 1.5 million.

The Government is committed to allocating the final funding for the incentive in next spring's government spending limits discussion, bringing the budget authority for the production incentive to EUR 10 million per year in the period 2017–2019.

Preparation for Government's mid-term review

Dismantling of incentive traps and promotion of labour mobility

The Government is committed to a significant dismantling of incentive traps and the promotion of labour mobility in connection with the mid-term review of the Government Programme. For the preparatory work, a group of experts will be assembled by the Ministry of Finance with the task of putting forward, before the government discussion on spending limits, its proposals for improving the incentives for work, together with the effects of these. The group will include representatives from the Ministry of Economic Affairs and Employment, the Ministry of Social Affairs and Health, the Ministry of Education and Culture and the Ministry of the Environment, and separately invited experts. The group will be given the task of making proposals concerning matters such as tax recommendations, income-dependent payments, promotion of mobility in seeking employment, including the possibility of someone in a debt enforcement process signing a rental agreement, to curb expenditure on housing subsidies by looking at e.g. the provisions and practices concerning housing expenditure in general housing allowances and social assistance, and the compatibility of these provisions and practices.

Earlier employment decisions implemented in the budget proposal

Equalising costs arising from parenthood

The Government will promote equality in working life and employment by introducing a EUR 2,500 lump sum to employers of mothers taking maternity leave, to compensate for costs arising from parenthood. The support will be paid to employers who pay salary for at least one month during the maternity pay period.

Tax concessions connected with the Competitiveness Pact

To support the Competitiveness Pact, the Government will reduce taxation on labour. The tax changes will compensate for the tax-tightening effect of employee contribution increases included in the Pact, and will reduce taxation on labour. As a result of the Competitiveness Pact and the Government tax concessions, taxation on labour will ease by a total of EUR 515 million in 2017, if the coverage of the pact is 90%. The easing of tax on labour will be directed equally at all income levels, such that taxation of earned income is reduced, on average, by approximately 0.6 percentage points. The taxation of middle-income earners will be eased by just under 0.6 percentage points, approximately EUR 235 per year.

Increasing the domestic help credit

The domestic help credit will be raised from 45% to 50% of the part relating to payment for labour or service. Increasing the credit will promote demand and supply of domestic help services and therefore strengthen local economies.

Facilitating generation changes in businesses

Generation changes in businesses and farms will be promoted by reducing inheritance and gift taxation. The inheritance and gift tax scales will be eased, focusing on gifts in tax class I. The tax base will be expanded by abolishing insurance compensation payable on death and the partial inheritance tax exemption of comparable financial support. The deduction for a spouse will be increased from EUR 60,000 to EUR 90,000 and the deduction for minors from EUR 40,000 to EUR 60,000.

Facilitating generation changes in forest holdings

Generational changes in forest holdings will be facilitated by introducing a forest gift deduction. The measure will increase use of wood, promote entrepreneurial forestry and increase holding sizes.

Tax deduction for entrepreneurs

Incentives to engage in business activity will be strengthened by a new entrepreneur deduction. The level of the deduction will be 5% of business, agricultural and reindeer husbandry income. A deduction of similar size will be taken into account in the taxation of forestry.

Cash-basis VAT accounting

The liquidity of small companies will be increased by facilitating cash-based settlement of value-added tax. In addition, turnover limits granting entitlement to longer settlement periods of value-added tax will be raised.

Shortening of the duration of earnings-related unemployment security

The maximum duration of earnings-related unemployment security will be shortened by 100 days from 500 days to 400 days (less than three years of employment history, from 400 days to 300 days). The shortening of the maximum duration is expected to reduce periods of unemployment by an average of 14 calendar days. The reform will increase employment by approximately 7,500 person-years. The reform will also change the waiting period and the increment components of unemployment security, in which case the overall impact on employment will rise to 9,000 person-years.

Last spring's entrepreneurship and employment package of the Ministry of Economic Affairs and Employment

The threshold for hiring the first employee will be lowered. A study on various implementation options will be prepared during autumn 2016. A fixed-term trial will be implemented on the basis of the study.

Business services and TE (public employment and business) services will be combined into a public growth service in connection with the regional government reform. The objective is to finalise the key content and production plans of the growth service by the end of November 2016.

An innovation voucher will be introduced, aimed at encouraging more and more SMEs to take advantage of innovation expertise in developing their competitiveness. In a trial project administered by Tekes, a business may purchase services from an expert of their choice using a EUR 5,000 service voucher. The two-year trial will be launched in October 2016.

The establishment of an Innovation Bank will be launched in a trial project funded by Tekes. Various implementation models will be outlined by the end of 2016 and the actual trial will start by April-June 2017. The aim is to boost better utilisation of research excellence, innovations and patents.

Hiring of foreign experts needed by growth companies will be eased by reviewing bottlenecks in permit processes. At the same time, granting of residence permits and founding of businesses on the basis of start-up entrepreneurship will be facilitated. A working group established by the Ministry of the Interior is currently investigating the necessary legislative changes. Government proposals will be submitted during 2017.

Unemployment security for the self-employed will be developed. Two rapporteurs were appointed in June 2016 to study the need for changes. Proposals by Akava Director Maria Löfgren and Federation of Finnish Enterprises Head of Labour Market Affairs Harri Hellstén on the changes required to the unemployment security system in the area between salaried employment and traditional entrepreneurship will be received by 14 December 2016.

By removing incentive traps, unemployment security will be tightened and doing work will be made more profitable. For example, the obligation to accept work will be tightened and regional mobility will be increased. Unemployed persons will also be subject to a stricter obligation to participate in all services promoting employment. A Government proposal on amending the Unemployment Security Act will be submitted to Parliament in October 2016 at the latest. The amendments are due to come into force at the beginning of 2017.

The use of unemployment benefits will be extended so that they could be used for mobility assistance, start-up grants and wage subsidies. This will allow unemployed persons to use their unemployment benefits for promoting employment instead of serving as income. A Government proposal on amending the Unemployment Security Act will be submitted to Parliament in October 2016. The amendments are due to come into force at the beginning of 2017.

The Government decided to study the introduction of a new 'Work Sample' service and the launch of a related trial. Based on the study, the use of the work trial will be expanded to help unemployed job seekers find work and to lower the threshold to employment. The work trial could be used to assess a job seeker's suitability before entering into an employment contract. The expansion of the use of the work trial will be included in a Government proposal for a law amending the Act on Public Employment and Business Services to be submitted to Parliament in October 2016. The amendment enabling the expansion of the use of the work trial is due to come into force at the beginning of 2017.

Regional trials on public employment and business services will be implemented in 2017 and 2018. The objective of the trials is to create for the period after 2019 a comprehensive cross-administrative and cost-effective operating model that is customer-oriented for both job seekers and employers. Nine regions were selected for the regional trials in June 2016. In the latter part of 2016, the required legislative amendments highlighted by the trial regions will be surveyed and the amendments necessary to implement the trials will be prepared. The aim is for a Government proposal on the legislative amendments to be submitted to Parliament during the autumn session 2016.

The employment programme for growth companies will support growth companies by providing them with expert labour. In the programme, educated experts who have been unemployed for a long period can be hired by growth enterprises through training, apprenticeships or an employment subsidy. The programme will bring together the key services and operating models that connect growth companies with the highly educated unemployed. A preliminary programme, which has been circulated for comment in the (ELY) Centres for Economic Development, Transport and the Environment and the Employment and Economic Development (TE) Offices, has been prepared on the content of the employment programme for growth companies. A number of areas have indicated their satisfaction with Government Programme initiative and their interest in participating in the implementation of the employment programme for growth companies. A readiness to embrace development activity beyond county boundaries is also evident. The development of growth services to support the employment programme for growth companies and the preparation of the Growth Services Act is also covered in the comments of the areas. Based on the answers received, the Ministry of Economic Affairs and Employment will engage in further discussions in early autumn with areas that indicated their activity, and will prepare an

action plan of the final programme. At the same time, the financing of projects to be launched in the first phase will be decided on. The employment programme for growth companies will be implemented in phases, with the implementation period being 2016–2019.