

## The current state of the Kainuu regional self-government experiment

The reasons for starting the Kainuu regional self-government experiment (2005-2012) included the region's declining and ageing population, contracting entrepreneurial activity, declining employment and deteriorating municipal finances. The general aim of the experiment was to gain experience regarding the positive effects of regional self-government on the development of the Kainuu region, the arranging of health and social services, citizens' participation, the relation between the region and central administration, and local authorities' and central government's role in regional administration.

In the 2005 Budget, funds earmarked for the development of the Kainuu region were contained a single item, the Kainuu development appropriation. This appropriation has risen from 44.8 million euros at the start of the experiment to nearly 60 million euros in 2009.

The objective of the audit was to examine the implementation of the Kainuu regional self-government experiment and the impacts of the Kainuu development appropriation on the development of the Kainuu region. The main question in the audit was whether the Kainuu regional self-government experiment has strengthened Kainuu's development.

On the basis of the audit, the experiment has had only a minor impact on the development of the region. Nor has the objective of increasing the regional council's role in regional development been fully implemented. The state's central and regional government authorities still have decision-making power over matters that should have been handed over to the regional council according to the Government proposal (198/2002 vp). The Act on the Kainuu Regional Self-government Experiment would also allow the regional council to exercise broader power. Owing to the inadequate transfer of power, the regional council's limited ability to decide on the allocation of resources does not support the objectives of regional self-

government. Otherwise the experiment has promoted interaction among regional actors and increased central administration's interest in Kainuu's affairs.

The purpose of transferring decision-making from central administration to the region's own organs was to increase the coordination of regional decision-making and measures. Besides delegating decision-making, another aim was to increase citizens' possibilities to participate and have a say in regional development. In the initial stage of the experiment, the number of seats on the regional council was lower than on councils in municipalities of a similar size. When regional elections were held in 2008, the number of seats on the regional council was increased by 20. Increasing representation was also expected to increase citizens' participation. Low voter turnout in the regional election has not supported this expectation.

During the experiment sudden structural changes in the economy have hampered the drafting of the budget, increased the amount of the Kainuu development appropriation and caused problems in allocating the appropriation to purposes in line with planned development objectives. This has tended to weaken the efficiency of the financing system. The effectiveness of the Kainuu development appropriation on regional development has also been weakened by the fact that the appropriation cannot be allocated freely, since most of it has been tied to the handling of statutory tasks.

Measured in terms of the general development indicator, which compares changes in gross value added, employment and population with the country as a whole, development in the Kainuu region has weakened during the early years of the experiment compared with the rest of the country. The main reason for Kainuu's deteriorating situation is negative population development. The population is expected to continue declining sharply in the next decade.

According to the GEP-deviation indicator, which compares regional growth percentages for gross value added, employment and population to those of the whole country, at the beginning of the experiment development in Kainuu was slightly better than in North Karelia, which was chosen as a reference region in the audit. According to projections, however, Kainuu may fall behind North Karelia in the near future.

Kainuu had the lowest GDP per inhabitant of any region in Finland in 2007. In 2008 Kainuu faced sudden restructuring as a result of major job losses. Kainuu is expected to suffer the largest decline in total output in 2008-2010 among Finland's regions. The fall in total output will also curb entrepreneurial activity. In 2009 Kainuu had the lowest number of business establishments in relation to population of any region in Finland.

In spite of good development during the initial stage of the experiment, Kainuu still had the highest unemployment rate in Finland in 2008, and the rate of employment in 2008 was lower than in every other region except North Karelia. Kainuu's positive development in the rate of employment compared with North Karelia can be attributed to the ageing of the population in the Kainuu region. The employment situation in Kainuu is expected to remain difficult in the coming years. The ageing of the population and deteriorating finances will also require increased central government spending on the Kainuu region.

Statistics for the Kainuu region do not give a clear picture as to whether the Kainuu development appropriation or the increase in the appropriation has had impacts on Kainuu's development. In addition to the general economic situation, development in Kainuu is influenced by development measures focusing on the region. The significance of the Kainuu development appropriation as a regional policy tool would appear to be less than expected, however. On the other hand, excessive expectations were placed on the appropriation when the experiment was undertaken.

One significant result of the experiment is that some of the objectives in the Act on the Restructuring of Local Government and Services were implemented in the Kainuu region ahead of the rest of the country. The activities of new organizational structures can also be considered an important result of the experiment. Thanks to the experiment, the local authorities in the region have started to pay more attention to planning services over a term of several years. The restructuring of services in the experiment has also helped keep costs down. Standardized spending on health and social services has been lower in the Kainuu region than in the rest of the country.

According to the audit, it is unsure whether Kainuu will be able to continue keeping costs down. Public services in the region are under a greater burden than average. This is due to the age structure

of the population as well as higher rates of illness and unemployment than in other parts of the country. Service quality and effectiveness perspectives have also led to a shrinking service structure and the concentration of services, as a result of which neighbourhood services have been cut back. According to client surveys, the availability and quality of health and social services have received good marks so far.

The monitoring and supervision of the experiment have been carried out as planned. The results of evaluations have also been put to use in the experiment. On the basis of the audit, the positive impacts of the experiment are not as clear as interim evaluations would suggest. The objectives of the experiment have not been met in all respects. One problem is the backwardness of economic activities. Some of the positive results of the experiment may also be cyclical.

According to plans, the final evaluation of the experiment will not make use of a reference region. The National Audit Office considers this a shortcoming. Distinguishing between the impacts of the experiment and cyclical effects, for example, may be problematic if comparison is not made with development in other regions. The assessment of economic development in the final evaluation should not be based solely on the region's own trend.

Despite the varying results of the experiment, no return to the previous state of affairs is in sight. The experiment may also have impacts that will only become visible after it has ended.

The experience gained in the experiment can be used in developing regional administration in general, for instance in the Reform Project for Regional State Administration (ALKU). The audit found that increasing the role and tasks of regional councils, which is linked to the objectives of the ALKU project, does not necessarily mean increasing regional self-government. The Government proposal (59/2009 vp) also notes that the reform is not intended to transfer decision-making power. According to the objectives of the ALKU project, regional administration authorities are to be steered by ministries working in cooperation with one another. This means that after the Kainuu regional self-government experiment has ended, the significance of central administration will remain strong in Kainuu as well.

Central administration's line management prevented the Employment and Economic Development Centre and the Regional En-

vironment Centre from being shifted to regional administration in the initial stage of the experiment. Had such a shift been made, this could have produced additional experience for the ALKU project and for the restructuring of central and local government in general. Allowing regional administration to levy taxes would also have given the experiment an additional dimension.

The audit pointed to the need to reconsider the allocation and purpose of road appropriations in implementing the ALKU project. Instead of including them in the Kainuu development appropriation, one alternative would be to allocate road appropriations directly to the Transport Infrastructure Agency, which will be established at the beginning of 2010. When the reform of regional state administration gets under way, in the itemization of the budget the breakdown of the Kainuu development appropriation should be simplified. The appropriation should be more freely applicable to regional development, which would also support the strengthening of regional self-government.