KUNTALIITTO

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Jaana Jormanainen

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EU Regulation and Use of AI in the Municipal Sector

Artificial intelligence offers the local government sector increasing opportunities to improve public services, increase efficiency, and create better services for citizens. Numerous proven and ready-to-use AI technologies could be deployed to improve citizens' quality of life, enhance services for businesses, and boost public sector productivity in areas including, for example, basic administration, education, employment and business services, as well as for providing personally targeted services.

However, the EU-level regulatory framework creates obstacles that slow down the adoption of AI. They have halted the development of high-risk AI applications in particular. Key challenges include the legal uncertainty surrounding high-risk AI systems, a lack of clarity on data protection requirements, and insufficient official support for public sector organisations. Enabling the effective deployment of AI requires seamless cooperation between legislators, public authorities, and the public sector organisations that use these technologies.

Key observations

Re-evaluating the approach towards high-risk use cases

The local government sector often perceives the regulatory risks, associated ambiguities, and administrative burden of high-risk AI systems to be so significant that they avoid projects in this category, or in the surrounding "grey area", altogether. High-risk AI systems often also have the most potential impacts, and thus a large part of AI's potential remains, for the time being, not explored. **To support local government organisations, guidance based on concrete use cases is needed, especially for high-risk applications.**

Clarifying the AI Act terminology

The effectiveness of the AI Act in promoting responsible AI depends on its understandability and the clarity of its key concepts. Terms such as 'AI system', 'provider', 'user', and 'profiling' are open to interpretation. Ambiguity exists, for example, in situations where a municipality collaborates with another entity: when does a 'user' assume the obligations of a 'provider' in a co-development context? This ambiguity therefore also creates challenges for planning collaborative development. **The terminology should be clearly defined and harmonised with other legislation at the level of guidance.** This is particularly true for terms directly related to risk classification, such as 'profiling'. This lack of clarity creates legal uncertainty and complicates procurement processes, making it more difficult for public authorities to procure and deploy new AI systems.

Association of Finnish Cities and Municipalities
www.localfinland.fi
firstname.lastname@kuntaliitto.fi

Providing targeted advisory services to the public sector

Finland’s municipal sector supports the European Commission's initiative to create a targeted advisory service for the implementation of the AI Act. **In addition to the business community, advisory services should also be targeted at the specific needs of the public sector.** Municipalities have different procurement processes and responsibilities from private sector actors, which often require a stricter interpretation of the regulation. In system and service procurements, it is crucial to understand what is being purchased. Furthermore, the local government sector engages in long-term planning and development even before procurement, for which it is essential to understand what practical AI systems are possible within the regulatory limitations. Municipalities and cities can also act as co-developers alongside private sector actors. It is essential that they have an equal opportunity to act as partners with the private sector and to conduct their own assessments, independent of service providers. Low-threshold advisory services would help public organisations navigate the increasingly complex regulatory landscape, manage risks, and adopt new AI technologies responsibly.

Obtaining binding pre-rulings

For the deployment of AI, the EU should create a mechanism whereby **organisations can obtain a binding decision from national authorities on the lawfulness of a planned AI system**, particularly in relation to the GDPR and the AI Act, before making major investments and moving forward with deployment. This would significantly reduce the risks associated with AI adoption and provide much-needed legal certainty.