The preparation and management of the Government productivity programme

The Government productivity programme started with an action programme that was adopted by Prime Minister Matti Vanhanen's first Cabinet. Prime Minister Vanhanen's second Cabinet has continued implementing the programme so that measures' impact will extend up to 2015. The programme is known publicly for reductions in person-years, which the Government decided for the first time in its spending limits decision in March 2005.

The objective of the audit was to examine the preconditions for the programme's effectiveness and to form a basis for a subsequent audit concerning the programme's impacts. The main audit question was whether the productivity programme has been prepared and guided in such a way that a sufficient basis has been created to achieve the programme's objectives.

The audit revealed that when the programme began in 2003, improving productivity genuinely appeared to be the primary objective, but since the Government's spending limits decision in 2005, the primary objective appears to have become reducing central government personnel. On the basis of the wording of spending limits decisions, the Government has considered improving productivity the primary objective, as a result of which personnel will be reduced. In practice the Ministry of Finance has, however, considered the primary objective to be a reduction in person-years, whether this happens as a result of productivity measures or not.

Both of the programme's objectives, reducing personnel and improving productivity, were nevertheless interim means to achieve ultimate objectives. These are to maintain economic growth as the labour supply declines and to manage and pay for rising costs resulting from the ageing of the population. The audit indicated that these objectives cannot be achieved with central government measures alone.

An analysis of the Government's spending limits decisions and explanatory memoranda drew attention to the two most common grounds in the programme, which were the decline in labour supply and cost pressures on public finances. The audit also drew attention to the validity of these grounds and the assumptions that were made.

The audit found that the Ministry of Finance has not made a distinction between the impact of central government and local government in describing threats related to the decline in labour supply, according to which the demand for labour in the public sector will displace the demand for labour in the private sector in future. The selected scenario was based on the simplification that a labour shortage will result from the retirement of the baby boomers. The scenario did not look at the big picture, in which the development of the number of employed persons is in a key position as to whether a labour shortage will occur or not. The Ministry of Finance presented the worst possible scenario and used this as grounds for speeding up reductions in person-years. The audit considers it problematic that the reductions in person-years in the programme are centred on the government term 2007-2011, while retirement will be centred on the years 2011-2015, and the working-age population will not turn downwards until after 2010.

Looking at pressures to reduce costs in the public sector as grounds for the programme, the audit found that the calculated savings in the state budget will only be around 1.5 per cent, if reductions are fully implemented. Furthermore a large slice will be taken out of savings by the fact that during the period 2007-2011 on average 40 per cent of savings will remain in administrative sectors. The savings that will be left for administrative sectors to use in 2012-2015 will be as much as 75 per cent, in which case personnel reductions will mainly create room for reallocations within administrative sectors. The situation can be considered expedient, however, so that administrative sectors will have an incentive to improve productivity.

The audit asked whether productivity potentials in different administrative sectors and agencies have been taken into account in preparing reductions in person-years. This included three levels: decision-making by the Government, preparation at the Ministry of Finance and preparation at other ministries. The audit formed a picture of the basis on which the overall dimensioning and sectoral focusing of reductions in person-years have been carried out and used a sample of six ministries to examine the connection with productivity measures at the agency level.

The overall dimensioning of reductions in person-years started with the 2 per cent productivity objective in the programme. To begin with the programme's objective was genuinely to improve productivity. When the objective was interpreted to mean a similar reduction in personnel, however, improving productivity was subordinated to the objective of reducing personnel.

On the basis of the audit, the "cheese slicer" principle was not used in deciding objectives for reducing person-years in different administrative sectors. Objectives for reducing personnel in different administrative sectors vary in relation to natural attrition and the initial level of personnel. Those administrative sectors in which personnel is difficult to replace have been given smaller reduction targets. The grounds for the sectoral allocation of reductions cannot be considered adequate or transparent, however, since they have been vague. The audit found that the grounds were not included in programme documents except in a general form, without actual justifications: administrative sectors' objectives are based on planned measures to increase productivity in administrative sectors.

The audit indicated that the specification of objectives for reductions has not been based on real productivity potential, nor can productivity measures be found in the background of reductions in every case. The connection between reductions in person-years and productivity measures has excessively relied on the Ministry of Finance's evaluation, and this evaluation has not always been based on a real vision of what measures can achieve impacts. This is reflected by the fact that in different stages the level of reductions has been decided before specifying what productivity measures could be taken to achieve objectives.

The National Audit Office considers that firmer grounds should be presented at the level of objectives for reductions in person-years. Furthermore personnel reductions have been scheduled too early. In the Office's opinion, allowing more time could also encourage administrative sectors to plan productivity measures in fields in which up to now it has appeared impossible to achieve reductions based on genuine productivity potential.