



Public Sector Productivity – a Challenge of Welfare Society

Nordic Service Science Summit –
“What Should Universities Teach and Research”

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The Vision of the Ministry of Finance

The Ministry of Finance works to safeguard sound public finances and to give future generations wide scope for economic options and opportunities. As an essential part of the State and work community, the Ministry's basic values are:

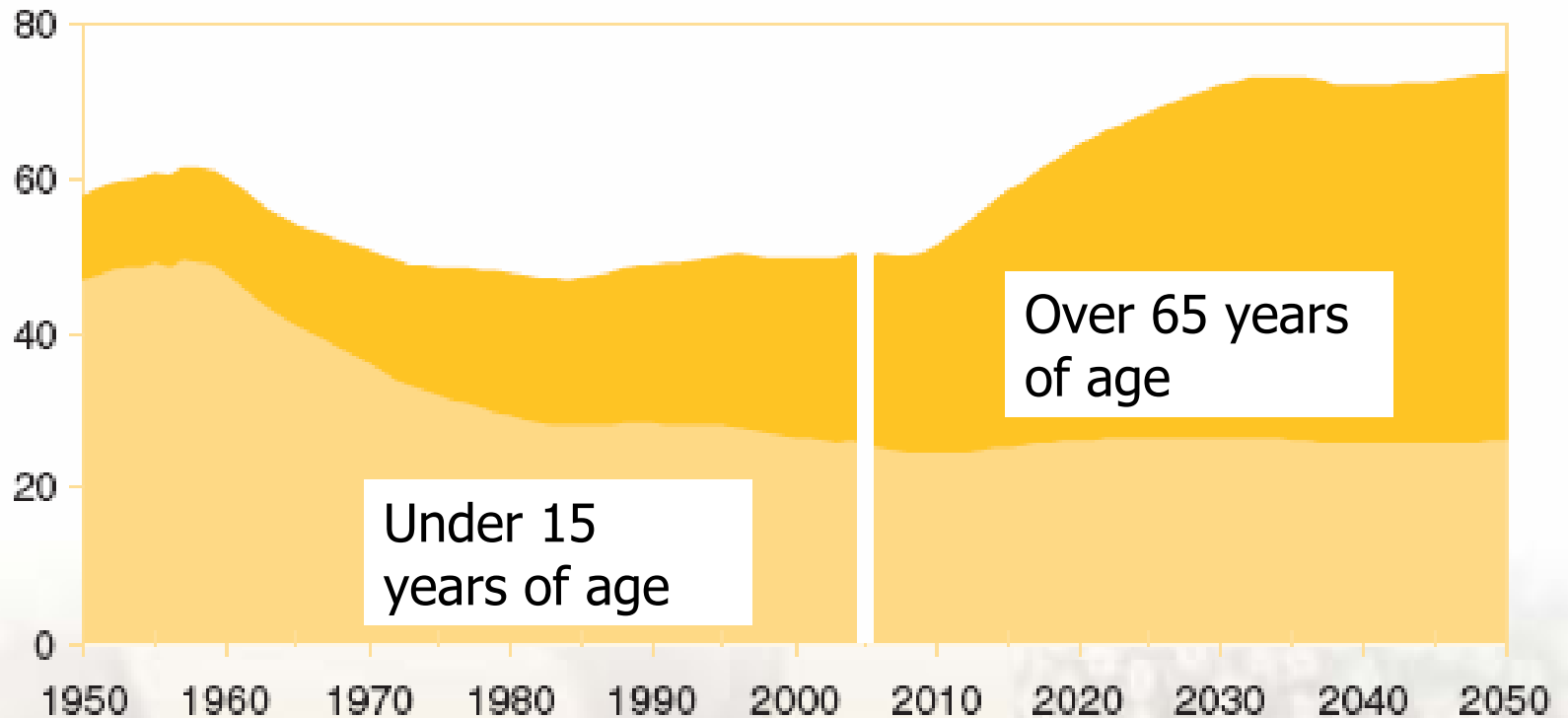
reliability
transparency
fairness
innovation



The age dependency ratio changes fast...

Demographic dependency ratio 1950-2050

Elderly people and children per working age population



Source: Statistics Finland

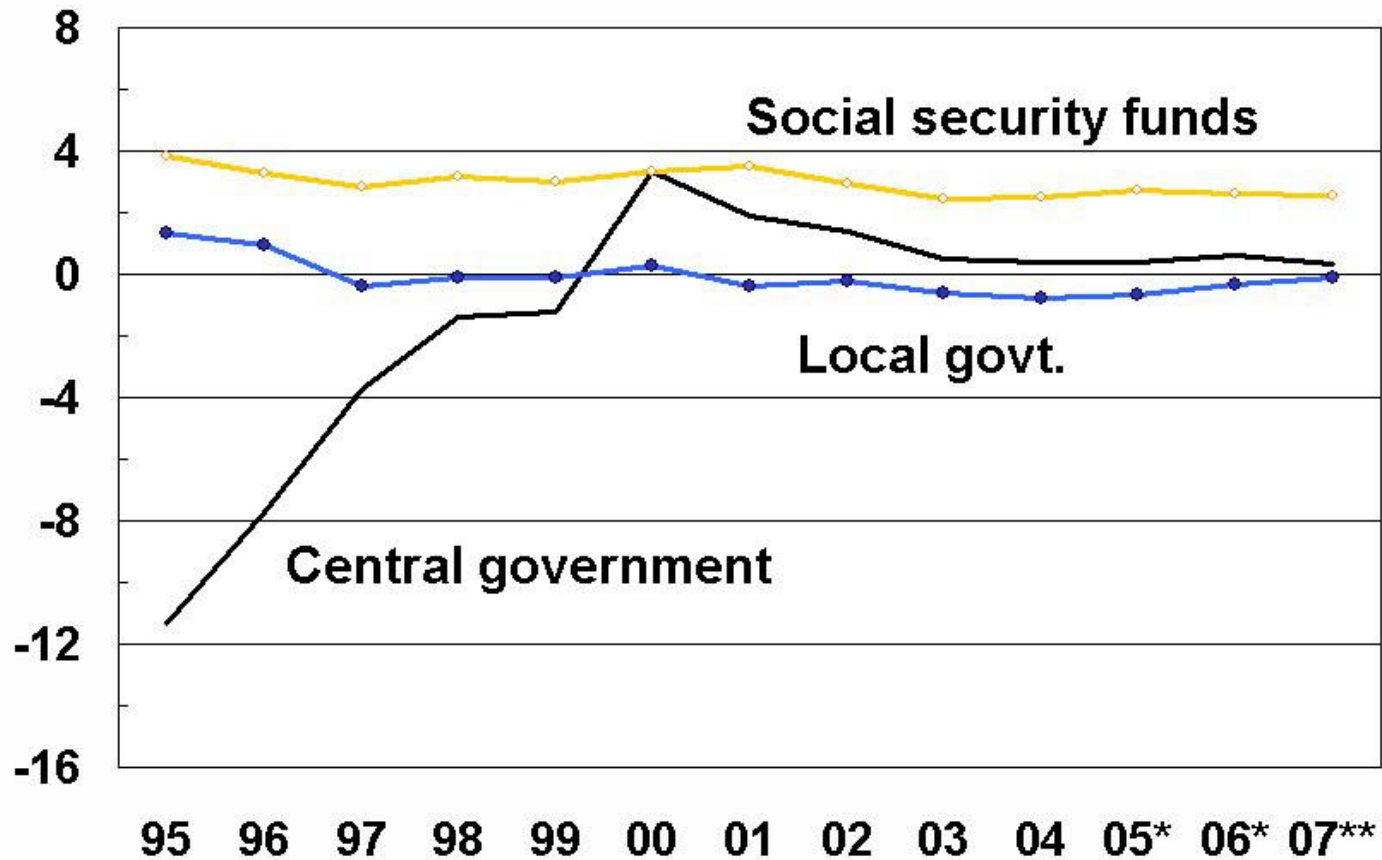


Main concerns

- Ageing society needs more health care and social services – and public financing
- There are limits to raise the tax levels – because of employment and international competition
- The labour force is decreasing
- There is a need and window of opportunity to make even radical changes as the retirement increases



The financial balance of general government subsectors in ratio to GDP, per cent

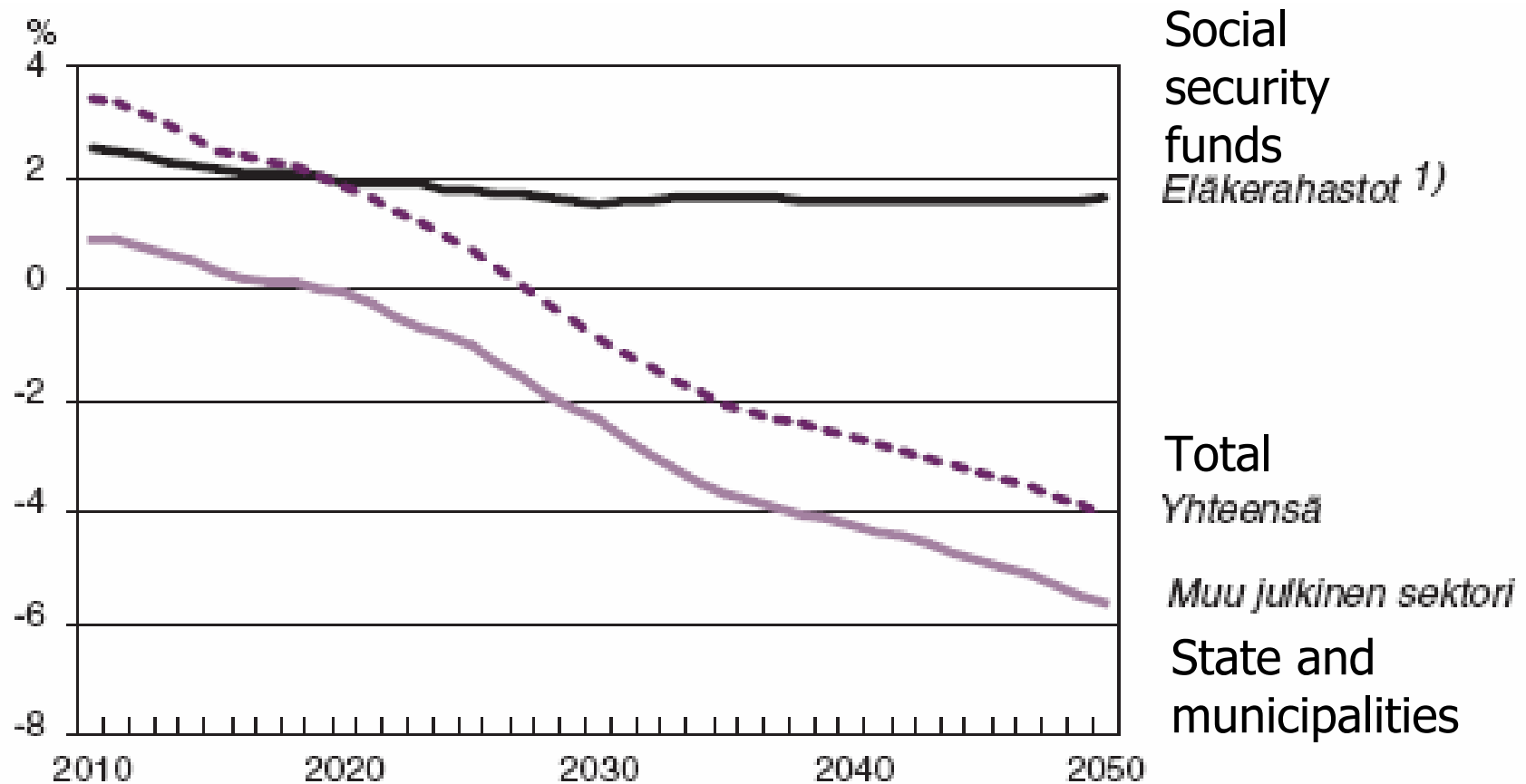


Sources: Statistics Finland, Ministry of Finance

12.12.2006/RK



Public Sector Balance in Relation to GDP 2010 - 2050



1) Pl. Valtion eläkerahasto.

Lähde: EU:n talouspoliittisen komitean ikääntymistyöryhmä, VM



Total Productivity of State Sector and Municipalities 2000-2005, change from previous year, %

■ Year	2001	2002	2003	2004	2005
State sector:					
■ Total productivity	2,8	-1,4	-2,1	0,0	1,0
Municipal sector:					
■ Total Output	-0,2	0,8	0,5	1,7	3,7*
■ Total input	3,1	2,9	1,9	2,7	2,6*
■ Total productivity	-3,1	-2,0	-1,4	-1,0	1.0*

Source: Statistics Finland, * preliminary data



Government Action Programme for Productivity

- Government Strategy Document (2003, 2004): "The target of the Government is to raise productivity of public services and administration, in planned and verifiable way, and that the use of savings created by increased productivity is planned"
- The Action programme was started in November 2003, continues until end of 2007, outcomes 2007 - 2011
- Covers the whole public sector and publicly financed activities
- Is part of the spending limits and budget processes of the Government



Government's Spending Limits Decision 23.3.2006 (2007 – 2011)

- Ministries are requested to implement their productivity plans (more than 150 projects)
- Staffing to be reduced by 9645 (c. 8 % of present staff, c. 36 % of estimated natural attrition) till 2011 as a result
- Staff reduction targets in each ministerial branch included in the decision
- Expected savings included in spending limits with the savings effect of 16 mill. euros annual savings in 2007 and c. 200 mill. euros in 2011
- Part of savings (average 40 %) left in each ministerial spending limit, as an incentive, to be reallocated by the ministry itself



How to improve productivity

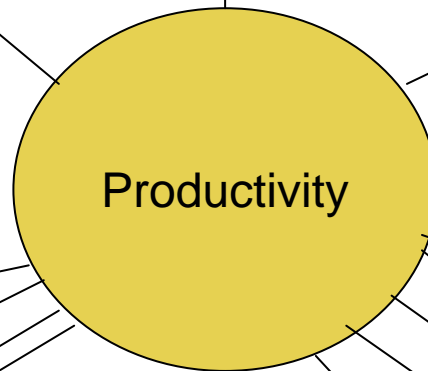
Productivity plans of the ministries

Structural changes

Operational and process changes

Use of ICT

- Economic and personnel administration
- procurement
- IT-management
- Premises



- Performance management and accountability reform
- Personnel policy
- New pay system
- Performance pay
- Top management reform
- Regionalisation ?

Corporate policies
Shared services

Reforms supporting productivity programme



Some examples of productivity projects in the State Sector

- *Lean structures, larger units, more specialisation, more balanced workload:* police, district courts, universities
- *Streamlined and new service processes:* the new immigrant process, "automatic" taxation, company register reform, electronic export customs system
- *Efficient shared services:* all accountancy and personal administrative services are produced by five service centers; procurement services by Hansel Company



Reform Project of the structure of municipalities and services

- Launched by the Government in March 2005
- To guarantee financing, providing and production of welfare services and increased efficiency and productivity in conditions of demographic change, regional differentiation and financial challenges
- Responsibilities of the State and the municipalities, co-operation, regional structures to be reconsidered
- Financing structures: challenges of cost control, multi-channel financing, sub-optimising and incentives
- First proposals made in autumn 2005, the whole reform programme and frame legislation passed by the Parliament in January 2007
- Partners: political, ministries, local and regional authorities
- Benchmarks: other Nordic countries



Questions we have to answer

- What is productivity of public services – can you really measure it
- How can you control and guarantee quality and effectiveness
- Are you trying to cut down the state and privatise
- What happens to the civil servants
- Can you explain the efficiency differences between different service producers – how can you manage them
- How can we manage change, technology, innovation and human resources in order to increase productivity