

# Opinions of the National Audit Office

## Central government pay systems

The currently used central government pay systems were introduced between 1994 and 2008. The purpose of the reform was to support management and performance management in operating units and to help them to achieve their operational targets. The aim was to update the old public service pay systems and to replace them with new systems that are better suited for the needs of the operating units.

The intention was to have systems in which the pay is based on competence requirements, work performance and professional competence and the performance of the organisation, unit and group. The systems have three pay components: job-specific component, personal component and performance-based component. The job-specific and personal components constitute the basic pay. The aims set out for the personal pay component should be in accordance with the organisation's operational and performance targets.

The aim of the audit was to establish whether the new pay systems have been successfully implemented. The focus was on how the new pay systems have supported performance management in central government agencies. The audit was limited to examining the use of the pay system information from the perspective of performance management at central government level. The functioning of the pay systems at agency level or the experiences or opinions of central government personnel concerning the pay system reform were outside the scope of the audit.

The National Audit Office bases its opinions on the following entities that it examined in the audit: the link between pay systems and performance; introduction and steering of the pay systems; pay system components; and the knowledge base connected with the pay systems.

## Success of the pay system reform has not been assessed

The agreements concluded at agency and central government level have had a substantial effect on the planning and introduction of central government pay systems. Agencies have been able to decide on their own pay systems within the framework of the agreements. However, the agencies do not have any specific obligation to monitor or report on how the new pay systems have supported the management of the operating

units, performance management and the achievement of operational targets. The usefulness of the performance appraisals carried out in the agencies each year and their relevance to the setting and achievement of the agencies' performance targets (performance management) are not monitored at central government level. This means that the state does not have any procedures at its disposal that would allow it to monitor the effects of the pay system reform on performance in the agencies. Thus, the achievement of the main aim of the pay system reform cannot be assessed because the relevant knowledge base does not exist.

## The connection between the pay systems and performance has not been directly determined

It was found out in the audit that even though the agencies are, within the framework of the agreements, free to decide on their own pay systems they do not have any obligation to monitor or report on the effects of the pay system reform on performance management or on its effects on promoting and supporting performance.

Basic performance criteria were incorporated in the State Budget Decree as part of the central government performance management and accountability reform. The criteria consist of societal impact and operational performance. Operational performance is based on operational efficiency, outputs and quality management, and the management and development of intellectual resources.

It was found out in the audit that the provisions of the State Budget Decree on the steering of the presentation of the objectives concerning the management and development of the personnel resources in central government agencies in the state budget proposal are not as explicit as those concerning the presentation of the other operational performance targets. Under the decree, objectives concerning the management and development of intellectual resources should only be introduced and strengthened when necessary.

In the report on its activities to the 2014 parliamentary session, the National Audit Office stated that there is still room for improvement in performance management. Professional steering in financial and productivity matters and the use of the information supplied by management accounting at managerial level have not developed as envisaged in performance guidance thinking. If in the assessment of the state of performance management, the setting of productivity and economic efficiency targets and the presentation of true and fair information on them are combined, it transpires that only one accounting

office in three had been set adequate productivity and economic efficiency targets and presented in its final accounts true and fair information on the manner in which they are implemented.

The purpose of the new pay systems has been to provide an incentive for the personnel to achieve better performance and to develop their competence so that the operational performance of the agencies concerned would improve. In practice, the agencies' internal performance management is mostly in the form of performance appraisals or personal development discussions in which the past and future work tasks, the way in which the employees have managed them and competence needs are assessed.

It was found out in the audit that the usefulness of the performance appraisals carried out in the agencies each year and their relevance to the setting and achievement of the agencies' performance targets (performance management) are not monitored at central government level.

The National Audit Office is of the view that the information on the pay systems as part of the management and development of other areas of personnel resources should be more clearly linked with the agencies' performance guidance, promotion of performance, performance targets and official reporting on them (annual reports and final accounts). The usefulness of the performance appraisals carried out in the agencies each year and the way in which their contents relate to the management, performance targets and performance guidance in the agencies should be monitored at central government level. The task of the agencies is to achieve their operational targets with the available resources, including personnel resources. The pay system should be considered as a performance management tool that has a clear connection with the targets set for the agency in the performance guidance process.

## Focus has been on the introduction of the reform

It was found out in the audit that the main aim of the central government pay system reform has been to introduce systems that cover the entire central government and to ensure that central government salaries are competitive with those offered in the private sector. In this respect, the end result can be considered a success. Nearly all central government agencies now use the new pay systems. At the same time, however, there has been no monitoring of the performance impacts of the new pay systems.

The planning and introduction of the central government pay systems are based on the agreements concluded at agency and central government

level. This is one reason why the Office for the Government as Employer has not been able to play a decisive steering role in the introduction of the new pay systems. As a result, the new pay systems have become highly agency-specific as the agencies have been allowed to decide themselves on their competence and performance appraisal systems. This approach can be justified because it has allowed the construction of performance-oriented pay systems tailored to the needs of individual agencies. At the same time, it has led to a situation where, instead of having a single pay system, the central government now has a large number of different pay systems. The existence of a large number of different pay systems contributes to incoherence and weakens the role of the Office for the Government as Employer as a producer of information and system developer at central government level. For example, producing pay data that can be compared with each other requires a great deal of extra work.

### Pay system information is based on questionnaires and statistics

A large amount of statistical and questionnaire-based information on pay systems and central government personnel resources has been produced.

VMBaro is an information system application implemented in 2004 and owned by the Ministry of Finance. The system can be used for conducting job satisfaction surveys and surveys concerning the functioning of the pay systems. It was found out in the audit that no VMBaro-based surveys have been conducted at central government level in which the aim is to produce information on the functioning of pay systems.

In the central government job satisfaction surveys conducted using VMBaro, the respondents have also been asked how satisfied they are with their pay. In the period between 2006 and 2013, satisfaction with pay among central government employees (pay index) was low; on a scale of 1 to 5, it fluctuated between 2.7 and 2.90. In the job satisfaction surveys, central government employees have also been asked how they view the use of performance appraisals and personal development discussions in competence development. In 2012, the two instruments were given the grade of 3.04.

Ministries and agencies enter the information on their employees to the central government personnel information system Tahti. Pay-related data are also entered in the Tahti system so that the pay position of the central government can be monitored. According to the information obtained in the audit, there have been no separate reports on the Tahti system that

would be relevant to the objectives of the central government pay system reform.

The National Audit Office is of the opinion that, in addition to the collection of more general statistical information on pay systems and personnel resources, there is also a need for more in-depth analysis of the information and for more extensive planning and development of the personnel resources in view of the competence needs of the future.

## Functioning of the pay components has not been examined

In the new pay systems, the intention was to base salaries on competence requirements, work performance and the performance of individual groups. The systems have three pay components: job-specific component, personal component and performance-based component.

It was found out in the audit that the Office for the Government as Employer has not commissioned or carried out any assessments of the practicality of the job-specific or personal pay components. The National Audit Office is of the view that the practicality of these two pay components should be assessed. The job-specific and personal pay components constitute the basic pay and for this reason, examining the practicality of these two components would be essential.

It was found out in the audit that in the policies concerning the new pay systems, the flexibility of the pay and payment methods, which are part of the pay systems, has not been explicitly defined. Moreover, there have been plans to discontinue all pay-related allowances. At the same time, there have also been plans to link flexibility with the payment of performance bonuses so that they would depend on the economic situation. Flexibility has also been a consideration in the definition of the personal pay component. It has been suggested that the personal pay component should not be considered a fixed part of the salary as it should vary on the basis of such factors as work tasks. It has also been suggested that the job-specific and personal pay components should be relatively stable (fixed) so that the employees would be able to make plans for the future.

The questionnaire conducted as part of the audit showed that there is rarely any downward flexibility in the personal pay components and that allowances are still paid on the basis of such factors as experience. It was found out in the audit that there is no assessment information available on the actual flexibility of the salaries or different pay methods.

The National Audit Office is of the view that the concept of flexibility that was originally an element in the pay system should be clarified and

that the chances of introducing it should be examined. There should be assessments of the flexibility of personal pay components and the usefulness of allowances. On the basis of the assessments, it would be possible to produce information on the functioning of the pay system as a whole and the areas where improvements are needed.

It was found out in the audit that the performance-based pay component is not widely used. According to the questionnaire conducted as part of the audit, most of the respondents stated that they are not planning to introduce any performance-based pay schemes because the necessary funding is not available. Measuring the performance was also considered difficult. It was found out in the audit that not reports have been prepared on the practicality of the performance-based pay component or the way in which it should be developed.

The National Audit Office is of the view that the Office for the Government as Employer should examine the feasibility of the performance-based pay component as part of the overall pay system.

## Recommendations of the National Audit Office

The main aim of the pay system reform was to support the management of operating units and the achievement of operational targets. Verifying the effective and proper use of central government resources requires improvements in performance measurement and performance reporting. These can form the basis for a situation where pay systems can help agencies to make the right and essential decisions in performance-related matters.

Based on the audit, the National Audit Office issues the following recommendations:

1. The central government pay systems should support performance at central government and agency level and it should be possible to monitor and manage their effects. In order to ensure this the information on the pay systems as part of the management and development of other areas of personnel resources should be more closely linked with the agencies' performance guidance, development of their operations and the official reporting on these areas.

In practice this means that the pay systems and procedures and reporting concerning them should be developed so that the effects of the pay systems on performance can be assessed and managed. This requires systematic steering and more transparency between

performance appraisals, performance management and performance guidance in agencies. Reducing the number of pay systems would make the systems more manageable and more useful as performance management tools. From the perspective of central government group steering, the development of a new unified central government pay system should be considered in the long term.

2. In addition to the collection of more general statistical information on pay systems and personnel resources, there is also a need for more in-depth analysis of the information and for more extensive planning and development of the personnel resources in view of the competence needs of the future.
3. There is a need for assessment-based information on the functioning and flexibility of the pay system components and the success of the reform from the perspective of central government performance and overall central government administration and personnel policy objectives.

In the view of the National Audit Office, taking the recommendations into consideration and the drafting process are, in accordance with the rules of procedure of the Ministry of Finance, the responsibility of the ministry's Budget Department and the Personnel and Governance Policy Department.