

Conclusions and recommendations of the National Audit Office

Structural reforms in the Finnish Tax Administration

Over the past ten years, structural reforms have been introduced in the Finnish Tax Administration and they have been justified with the need to improve efficiency and quality of operations. The services provided by the Finnish Tax Administration have been made into a nationwide one-tier organisation, staff numbers have been reduced, tax offices have been closed and digital systems are now used more extensively.

The purpose of the audit was to examine and assess the manner in which the structural reforms were planned, the targets set in the process and their achievement, as well as the manner in which the impacts of the reforms have been verified. The aim was also to ensure that the audit findings can be used in the drafting of structural reforms in the future.

The structural reforms could be justified with changes in the operating environment

The structural reforms in the Finnish Tax Administration could be amply justified with changes in the operating environment and the legislative restrictions concerning the powers of the tax authorities. The Finnish Tax Administration has responded to the challenges arising from changes in its operating environment by overhauling its strategy. The aim in the overhaul process was to improve the performance of the Finnish Tax Administration (operational effectiveness, productivity and economic efficiency). The aim was also to reduce personnel and to raise the education level of the staff members. Strategic objectives help to provide the Finnish Tax Administration with better operating prerequisites.

The structural changes were contained in two legislative reforms and no targets were laid out for them in the Government proposals concerning the reforms. Thus, inadequate consideration was given to target-setting in the process. The measures implemented through these legislative changes help the Finnish Tax Administration to achieve its strategic development objectives and, consequently, to improve its operational performance. However, the targeted improvements were not described in sufficient detail in the Government proposals.

Parliament has not been kept up to date on the impacts of the reform. The Government failed to consider the proposal of the Finance Committee on monitoring the impacts of the reform and on reporting on it to Parliament. The detailedness of the final central government accounts and the Government's annual reports varied each year and these documents did not provide the overall picture required for assessing the operations of the Finnish Tax Administration. However, the Ministry of Finance has adequately monitored the structural reform process in the Finnish Tax Administration.

The Government proposals for legislative changes laying out the structural reforms did not contain any detailed savings or person-year targets. Instead of listing detailed savings targets, the Government stated that the aim was to increase economic efficiency through overall operational improvements. It is difficult to set specific targets in reforms of this type as they are introduced over a period of several years and

the impact assessment is a complex process. In such situations it is important to describe comprehensively how the reforms can contribute to operational improvements and economic efficiency. This is how the Finnish Tax Administration has acted when laying out its strategic objectives.

The Finnish Tax Administration gave adequate consideration to its strategic development targets as part of its performance management during the restructuring process. The performance targets have been set so that they contribute to the implementation of structural reforms and at the same time help to make operations more effective and efficient. Target-setting as part of performance management has made operations more effective and improved productivity and economic efficiency in accordance with the strategic objectives.

[Finnish Tax Administration has achieved efficiency and productivity improvements](#)

The structural reforms have helped the Finnish Tax Administration to improve its effectiveness, productivity, economic efficiency and service capacity, as well as the quality of its operations. The Finnish Tax Administration has also achieved most of its operational targets but has been unable to determine to what extent this has been the result of the reforms. At the same time, there has been a slight increase in the operating expenditure of the Finnish Tax Administration. The Finnish Tax Administration has, however, been able to respond to the significant challenges in its operating environment without any major spending increases. The cost structure has changed so that the purchasing of services now accounts for a larger proportion of the total expenditure, while at the same time, the percentage of personnel costs has decreased.

The Finnish Tax Administration has managed to reduce staff and increase the education levels of its personnel in accordance with its strategic objectives, which means that the Finnish Tax Administration has achieved the personnel targets laid out in the restructuring programme. Despite substantial reductions and extensive organisational, operational and task-related changes, job satisfaction among Finnish Tax Administration employees has remained high, which suggests that the reform process has been a success.

The Finnish Tax Administration has not produced any estimates of the additional costs incurred by its customers as a result of the structural reforms. The parliamentary hearings held during the drafting of the reform legislation were more or less the only forum where the customer perspective was discussed. In order to avoid unnecessary additional expenditure, there should be adequate consideration of the customer perspective in the drafting process.

[Impacts of the structural reforms are not clear from the reporting](#)

The strategy documents and the working documents produced as part of the legislative change process did not contain any plans on how the impacts of the reforms should be monitored and reported. Partly as a result of this inadequacy, no separate description of the operational performance improvements arising from the reforms has been produced.

The structural reforms have been extensive and any impacts that they may have will be described in the annual performance reporting.

The real impact of the reforms on different performance factors is not, however, clear from the reports.

It can be assumed that the digitalisation of the internal operations of the Finnish Tax Administration has had a positive impact on operational performance and that customers have benefited from a more extensive use of digital services. However, no reliable or systematic information on the impacts of digitalisation is available.

When describing changes in effectiveness, the Finnish Tax Administration has used a large number of different performance indicators, in which one indicator typically describes a small part of the overall operations. However, the indicators do not suggest that the structural reforms have led to significant changes in effectiveness. The extent to which the changes in effectiveness have been the result of the structural reforms can only be reliably assessed with factors describing the effectiveness of core taxation processes and systematic monitoring of these factors throughout the period in review.

The productivity and economic efficiency indicators used by the Finnish Tax Administration have improved, which is mainly the result of an increase in the number of customer relationships. However, the performances used as a basis for the inputs have not been defined in a uniform manner each year, which makes the indicators less reliable. This means that no consideration is given to qualitative variations in output and performances in the process. The reliability of the time series reviews and the reviews of two successive years is also negatively affected by changes in the classification criteria for customer volumes.

The service capacity and quality indicators used in official documents give a fairly good description of performance levels. The manner in which they have developed has not been significantly affected by the structural reforms.

Recommendations of the National Audit Office

Major structural reforms in the public administration must be based on detailed information on the impacts of the reforms on operations and operational performance. The following should be taken into account by the Ministry of Finance and the Finnish Tax Administration in their own activities and by the Ministry of Finance when it issues guidelines for other central government actors for the drafting of structural reforms, for decision-making on them and for the monitoring of their impacts:

1. Decisions on major structural reforms should always be based on the targeted performance improvements.
2. The targets laid out for structural reforms requiring legislative changes should be clearly stated in the Government proposals concerning the legislative changes.
3. When major structural reforms in the public administration are prepared, there should be clear plans and decisions on how the achievement of the targeted performance improvements is monitored and reported.
4. The quality of reporting in the Government's annual reports should be improved so that a unified picture of the impacts of the structural reforms can be produced.
5. Parliament should receive comprehensive reports on the impacts of the reforms and the Government should implement the parliamentary proposals concerning the monitoring and reporting of the impacts.

6. Major structural reforms in the public administration should be used in the assessment and analysis of reforms concerning operational performance.