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Foreword

This report forms part of a series of country reviews undertaken by the OECD to help countries assess their public governance arrangements from an international comparative perspective in terms of their ability to deliver on government objectives, in particular for the whole-of-government, and preparedness to meet current and future challenges.

In undertaking a comprehensive public governance review of Finland, the OECD analysed the operation of the Finnish public administration, with a particular focus on horizontality within the public administration, the relationships between levels of government and with citizens and businesses, innovation and quality of public service delivery, and the impact of information society policy on e-government.

This report builds on OECD experience in conducting peer reviews. It draws on an extensive review of information about public governance and the operations of public administration in Finland; and a series of interviews with Finnish public officials at the state and sub-national levels.

The report was completed in April 2010, under the auspices of the OECD Public Governance Committee as part of the work programme of the Public Governance and Territorial Development Directorate (GOV). It was financed by the Finnish government.

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The authors would also like to acknowledge the work undertaken by Yves Doz and Mikko Kosonen (2008) in developing the concept of strategic agility which was adapted for use in this review.

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Executive Summary

The Finnish government has a strong track record in responding to difficult economic situations, and it may now be facing its biggest challenge. Since the mid-1990s, and prior to the current global economic downturn, Finland enjoyed strong GDP growth in a low-inflation environment, with rising employment and a sound fiscal position. The public administration has been critical to this success, both in supporting Finland's remarkable transformation from an economy specialised in traditional industries to a diversified and modern economy, and in helping the country navigate the Nordic economic crisis of the early 1990s. As a result, the Finnish citizenry today trusts the public administration as a key partner for economic development and service delivery, as well as the mechanism to realise many Finnish values of social solidarity and equality.

Rather than resting on past successes, however, the Finnish government has continued its tradition of proactively looking to identify the next wave of challenges on the horizon in order to find existing and potential new solutions to address them, drawing from experiences both inside and outside of Finland. In order to work in an efficient and effective manner, the Finnish government has asked the OECD to look at its ability to respond to horizontal challenges at the state level and across levels of government.

The sustainability of the Nordic model

Like other Nordic countries, Finland has successfully combined openness to globalisation with collective risk sharing based on a high level of social cohesion. The role of the Finnish public sector has become more important due to increasingly complex policy challenges which threaten the sustainability of the Nordic model, including the ageing of the population, shifts in the global economic environment and, more recently, the impact of the global economic and financial crisis. In addition, internal migration away from rural areas due to urbanisation is also posing geographic challenges for public service delivery. In this context, citizens' rising demands and expectations concerning both the quality and equality of public services are increasing pressure on the public administration to improve its efficiency and responsiveness, and to be innovative and flexible in responding to longer-term issues.

The public administration's ability to respond to new developments will impact not just economic growth, but also citizens' way of life, for example: the sustainability of small northern towns, based on mining or logging industries; the close proximity of high-quality public services, even in sparsely populated areas; and a tradition of strong local authorities. The government may not be able to support all of these aspects of traditional life, but it has an important role to play in making communities and regions more economically viable, in promoting economic growth and innovation, in encouraging innovation in public service

delivery, and in reinforcing social cohesion by helping to ease economic and social adjustments. The government needs to better communicate the difficult challenges and choices that are required of the society as a whole, and then make those choices, on behalf of the citizenry, as the steward of Finnish public values, resources and objectives.

Achieving strategic agility

A sophisticated political system has evolved in Finland to maintain the complex balance of rural and urban interests, and the preferences of key stakeholders. This is primarily embodied by the allocation of ministerial portfolios and by the Government Programme of the coalition government. While the results of these agreements are relatively transparent and robust, they are difficult to adjust during a government's term. The result is a reduction in the Finnish public sector's strategic agility,[1] *i.e.,* the government's ability to anticipate and flexibly respond to increasingly complex policy challenges. Strategic agility requires a whole-of-government perspective to determine what requires collective action and what should be handled at a devolved sector or level in order to ensure the greatest responsiveness to the issue at hand.

Strategic agility is about taking decisive action where necessary, as coherently as possible and in line with existing priorities and constraints. It requires frameworks to enable fast and quality decisions, and to ensure their effective implementation in order to generate public value. This review looks in particular at three pre-requisites for achieving strategic agility: strategic insight, collective commitment, and resource flexibility (see Box 1.1).

Strategic insight: Strategic insight helps the government to develop its vision of its aims. Finland is a leader in identifying and placing high-level commitment behind horizontal, government-wide priorities. The current Government Programme explicitly commits to looking at climate change, and has set up cross-cutting programmes on health, employment and entrepreneurship, and the well-being of children, youth and families. Experience shows, however, that vision alone is not enough; horizontal priorities still lack sufficient follow-through and resources to realise the vision.

Finland's current approach to forecasting for future issues – studying a single issue across the government mandate – while proactive, lacks sufficient flexibility to address possible new issues as they arise. The practice of stakeholder engagement is also limited, despite central commitment. Effective planning and decision making requires governments to balance competing interests and information, and to anticipate future risks, costs and opportunities. Finland could better achieve this balance by ensuring that its decision-making frameworks take into account both evidence and opinion, and by determining what evidence-base is needed for which types of decisions. In this way, the government can better benefit from the expertise and experience of a wide variety of actors in analysing the current context, constantly interacting with the surrounding environment to be permanently aware of the current strategic position, and scaning forward to understand the changing environment.

Collective commitment: Achieving collective commitment to realise strategic insight does not necessarily mean consensus, as the public service will often be called to work in new

1. The concept of strategic agility has been adapted from work by Doz and Kosonen (2008) for use in the public sector context.

ways and to achieve more difficult objectives. Public servants therefore need to understand why they are being asked to work a certain way and the consequences if they are unable to do so. Adherence to the government's common vision could be improved by addressing both incentives and values within the public service. Finland is hindered in its ability to achieve collective commitment on both fronts, and at both the strategic and individual levels.

Collective commitment will be of particular importance for Finland to improve performance in areas that cut across individual sector portfolios, such as e-government. While Finland has moved quickly to identify and consolidate back-office shared services, it has fallen behind in service delivery. The SADe programme, launched in 2009, is looking to create centres of competence at all levels of government to provide front-office services to citizens and business on behalf of the rest of government, but realising its ambitious objectives will require the alignment of governance and leadership frameworks to support a common government-wide approach.

The relative homogeneity of the Finnish public service means that much is accomplished through informal working methods and networks that cut across sector boundaries. This is important as it significantly lowers public sector transaction costs. The values that drive these ways of working could be further strengthened through clear communication of vision and stronger leadership from politicians and the Centre of Government, as well as within ministries and agencies. This will be critical to achieve both formal and informal commitment to implementing the collective vision.

Resource flexibility: In these fast-changing times, resource flexibility is of increasing importance as a tool for the strategic agility of governments. Finland has limited ability to move both personnel and financial resources to support changing priorities. In terms of financial resources, most of these limitations are due to the separation of steering and budget planning. In terms of personnel resources, the limitations seem to be more cultural and self-imposed. The most important initiative in this area is the Productivity Programme, which looks to increase efficiency and productivity of the public administration by managing the reduction of the public administration by 9 645 person-years by 2011. While this programme has contributed to the public sector's relative state of fiscal health, in order to actively promote further innovation and productivity, it will need to better link reductions in staff with efforts to examine how to promote public sector innovation.

The government has sought to break down barriers across sectors by combining funding streams and simplifying regulations in the basic services delivery area. The provision of these services falls under the responsibility of municipal authorities, who receive a significant amount of their funding from state government. The expectation is that greater coherence of budget and regulations will give local authorities new possibilities to innovate, and to find efficiencies in order to serve their citizens better. Bringing down the barriers alone, however, is insufficient. Other issues, such as local capacity and the interplay with other sub-national reforms, also have a bearing on local authorities' ability to innovate in service delivery and therefore improve the sustainability of financing, quality and access.

Multi-level governance: All of these issues hold true for relations both within state government and across levels of government. A number of recent and ongoing municipal and regional reforms in Finland aim to ensure the sound structural and financial basis for the provision of municipal services, and to rationalise the current system of regional state administration. While they are expected to improve the efficiency of sub-national

governments, improve policy coherence, and clarify the regulatory and reporting streams, there is a need to better communicate the rationale and execution of these reforms. This will further involve sub-national authorities as reform partners, increasing alignment of horizontal and vertical objectives, and building up local capacity in order to promote local innovation and services that are adapted to local needs.

Preparing the public administration for continuous change

Finland entered the global economic crisis with a relatively strong fiscal situation. It has a robust competitive environment, a qualified workforce, and a deserved reputation for good governance. Yet, like many other OECD countries, Finland realises that preparing for the future is essential to maintaining its global standing. While this effort needs to be strategically driven by the centre, it requires the commitment of the public sector as a whole, and increasingly, it requires a whole-of-government vision and horizontal ways of working. It is not surprising that Finland has afforded a critical role to assuring the preparedness of its public service – to meet its own responsibilities, and to work with the rest of Finnish society to identify and achieve common goals and objectives, to prepare for future challenges, to build and sustain public and societal capacity, and to communicate the challenges and choices faced by the country as a whole. Building strategic agility will allow the government to better tap into and use a public service that is already of high quality.

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Chapter 1

Main Assessment

Overview

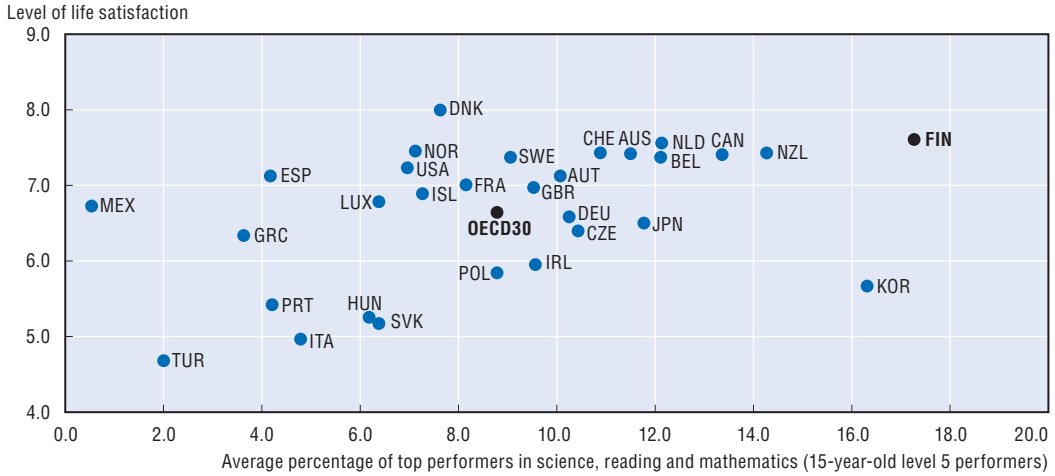
Since 1987, successive Finnish governments have focused on the modernisation of government, with public management reforms receiving strong political support. The public administration's 200th anniversary, in 2009, provided an opportunity for Finland to review its public sector institutions and arrangements. Part of the Finnish success story is due to a willingness to innovate and to look beyond borders for examples of international best practice. The Finns have traditionally supplemented in-country thinking with high-level outside perspectives. As such, Finland asked the OECD to undertake a Public Governance Review to assess how the Finnish public service is performing from an international comparative perspective, in terms of: 1) its ability to deliver on government objectives, in particular from a whole-of-government perspective; and 2) its preparedness to meet current and future challenges.

As part of this review, the OECD has analysed the operation of the Finnish public service, with a particular focus on horizontality within the state administration, the relationships between levels of government and with citizens and businesses, innovations in and quality of public service delivery, and the impact of information society policy on e-government. With the current government period ending in early 2011, the timing of the review was scheduled for 2009-10 to ensure that review findings would be available to provide input into preparations for the next electoral period.

The sustainability of the Nordic model will require strategic agility to respond to complex and fast-changing challenges

A significant characteristic of Nordic countries has been their ability to successfully combine openness to globalisation with collective risk sharing in a mutually supportive and inter-connected way. While globalisation offers numerous opportunities, it also entails many unpredictable risks and threats, such as the effects of increased factor mobility and the extent of layoffs and off-shoring activities. These new risks and threats put pressure on labour markets and social safety nets. To counterbalance the negative effects of these new challenges, Nordic countries have intensified collective risk sharing. The welfare state and labour market institutions work together to guarantee a Nordic type of "social contract"; in exchange for a strong public sector, a large share of national income is absorbed and re-distributed. Both general government revenue and expenditure as a percentage of GDP are significantly higher in Nordic countries compared to the average of other OECD countries (15 and 6.5 percentage points higher, respectively, in 2006). However, what distinguishes Nordic countries from other OECD countries is their capacity to score well overall in terms of societal outcome indicators. Finland ranks second best overall (in equal position with Australia and Sweden, behind Norway) in terms of eight key social indicators identified by the OECD.[1] Finland ranks the strongest within the OECD in performance in education and life satisfaction indicators, for example (see Figure 1.1).

Figure 1.1. **Examples of societal indicators: Education performance and life satisfaction, 2006**



Source: OECD, *PISA 2006 Database*, and World Gallup Survey, 2006.

Throughout the 2000s, Finland and the other Nordic countries successfully took advantage of the opportunities of globalisation and contained the spread of risks and threats to the social contract. However, the recent combination of the global economic crisis with demographic developments require that the instruments and policies in place to maintain the social contract in Finland be re-evaluated in order to maintain quality services and citizen satisfaction at a lower cost.

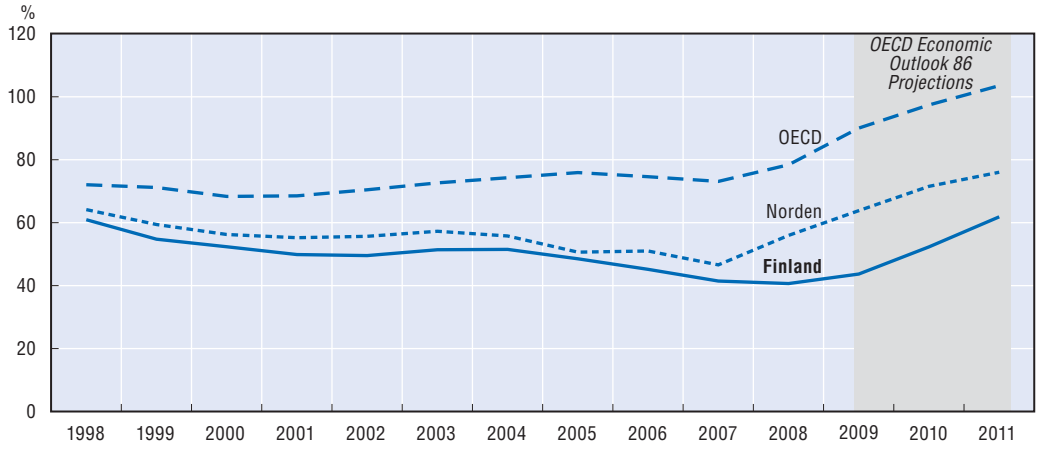
Despite sound fiscal management, the longer-term demographic outlook requires continued improvement of the public administration to maintain strong societal gains[2]

Finland entered the current economic crisis with a relatively strong fiscal position. In comparison to other OECD countries, however, its economy has deteriorated considerably since the winter of 2008-09, and is still adjusting to international and domestic shocks. Finland's ability to adapt to a changing economic environment, as seen during the recession of the early 1990s, and a tradition of fiscal responsibility put Finland in a good position going into the economic downturn: 1) Finland has had sufficient budget margins to introduce a fiscal stimulus package equalling 1.7% of GDP; and 2) while the central government's finances will weaken in 2009 and 2010 – public debt[3] is expected to increase by 29% between 2008 and 2010, rising from 40.6% of GDP to 52.4% of GDP – Finland's level of public debt is still relatively low compared to other OECD countries (the OECD average is expected to increase from 78.7% of GDP to 100.2% of GDP between 2008 and 2010, see Figure 1.2). It is therefore arguable that Finland will have relatively more room for discretionary fiscal stimulus in response to the pressures of the global economic and financial crisis than most OECD countries.[4]

In addition to the current economic situation, however, Finland is facing an escalating financial burden and critical workforce capacity issues as a result of an ageing population. For the period 2010-30, the old-age dependency ratio[5] in Finland is projected to grow faster than the average of the 19 OECD countries which are members of the EU, with a 51% increase from 17.3% of the total population over 65 years of age to 26.2%, compared to an

Figure 1.2. **Public debt: General government gross financial liabilities**

% of nominal GDP (1998-2010)

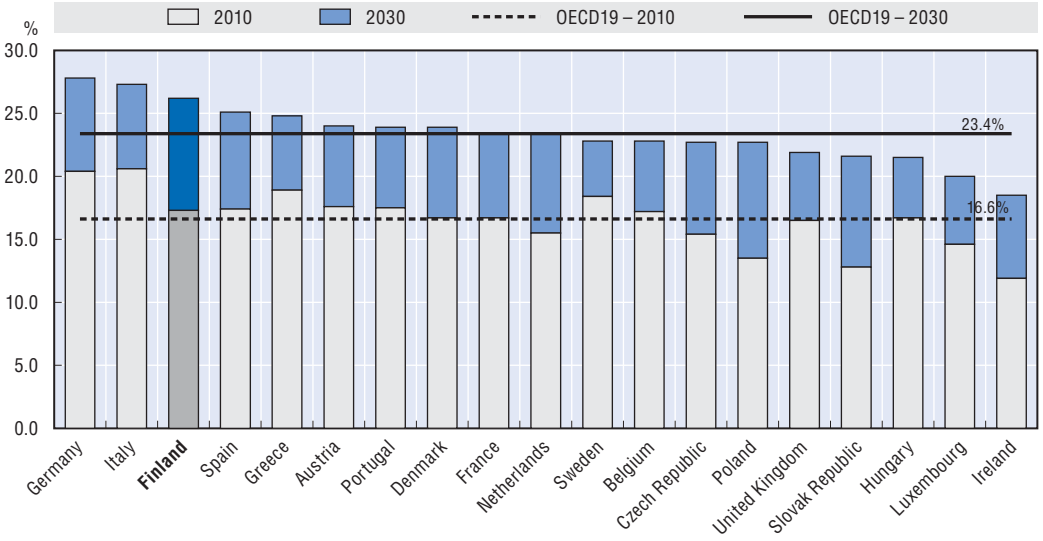


1. "Norden" = Denmark, Iceland, Finland, Norway and Sweden.

Source: OECD Economic Outlook 86 Database.

expected 23.4% overall average in 2030 for the 19 OECD countries (see Figure 1.3).[6] In Finland, the working-age population will start shrinking as early as 2010, and by 2050 is projected to decrease by 260 000 at the same time as the number of people aged over 65 will grow by more than 700 000. The ageing of the population will lead to increased demand for public services as the workforce shrinks and there are fewer taxpayers to support current levels of service, resulting in a large financial burden and expenditure pressures that will need to be overcome. The government estimates that in order to meet the growing service needs of the expanding elderly population, staff numbers in municipal healthcare and social service provision will need to be increased by 4 000 annually.[7]

Figure 1.3. **Ratio of population aged 65 years and over to the total population in OECD EU member countries, 2010 and 2030**



Source: OECD Factbook 2009.

The public service increasingly needs to work collaboratively to strike a balance between controlling public service costs and maintaining equitable access

The structure of the Finnish public administration is characterised by strong, independent ministries and agencies in the state administration and autonomous municipalities. Finns traditionally trust the state level of government, but prefer that everyday functions (such as the delivery of basic services) be located at the local level. In the past, this approach has been successful, but demographic and economic circumstances are now increasingly challenging municipalities' ability to meet citizen expectations for service delivery proximity and access, on the one hand, and the need for service delivery efficiency and equality, on the other.

A key challenge for the government is to find new ways to work across levels of government and with other stakeholders in order to maintain citizen-centric service delivery, while respecting municipal independence and reducing costs through innovation and improved economies of scale. Finland's economic success and international competitiveness into the future depend on its ability to commit to and implement coherent whole-of-society responses to these challenges. This will require the ability to promote a common understanding of the challenges and available solutions at a societal level.

Strong governance arrangements instil stability in public administration, but at the price of greater agility

Finns are well aware of the need for strategic change and have a long history of innovation and renewal. In the public sector, however, long-standing values and administrative arrangements can still present a barrier to implementing change, and therefore to public sector innovation. Finland's Nordic culture and administrative system co-exist with institutional arrangements from the periods of Swedish and Russian rule resulting in a sense of formalism and legalism which still permeates social, business and political affairs.

Finland's finely tuned and highly successful processes to manage public sector governance are adapted to the context of the coalition government model. Decisions are made based on political consensus obtained through compensatory negotiations rather than through a clear dominant party policy. The results, which tend to be enshrined in policy agreements, reflect political consensus, but it can be difficult to move away from them when circumstances dictate. For example, while the current strategic planning framework, as represented by the Government Programme, has provided a strong structure for achieving outcomes in relatively stable economic and policy environments, it lacks flexibility and agility. The four-year span of the Government Programme makes it difficult for the government to change direction in reaction to shifting environments and priorities. While there is a mid-term review of the Government Programme, it appears that this is used to confirm progress in achieving the Government Programme rather than as an external scan to determine if the Programme needs to be modified – thus reducing the government and public administration's ability to be strategically agile.

The resulting consensual policy agenda has provided Finland's coalition governments with a high degree of stability and effectiveness. The confidence and pride of Finns in their government is based on the security that these management systems have afforded over many years. However, as the speed of contextual changes increases, they can also limit agility, preventing the administration from being able to easily shift focus and resources to new priority areas. The predictability of these processes, which is an important factor in

their strength, also appears to limit opportunities for change and course correction in the face of new societal and international factors. Engagement, which can be an important step towards innovation, may also be reduced.

Increasing strategic agility in the Finnish public administration

The Finnish government is aware of the pressing need to adapt to the increasingly global and complex environment, as failure to do so could lead to a decline of the Nordic Welfare Model. It has therefore put in place reforms at all levels of government to help shore up the public administration. These reforms include initiatives aimed at local and regional government structure, performance management, e-government, regulation, policy planning and co-ordination.

To meet the aforementioned challenges, the government needs a public administration that is flexible, responsive and strategically agile. Strategic agility in a public sector context entails capacity for, and commitment to, strategic insight, collective engagement and resource flexibility (see Box 1.1). In a fast-changing world and society, the public sector needs to be able to change policy directions quickly and effectively as circumstances demand. This also means being able to distinguish when action is most appropriate at a whole-of-government level, requiring central action or co-ordination, and when agility is best obtained at a devolved level in order to achieve greater responsiveness. The Finnish government appears to be seeking greater agility; however, in the absence of clearly articulated and expected outcomes, the public service has struggled to deliver in more recent times.

Box 1.1. **Building strategic agility: Some key concepts**

Today's dynamic world and society require governments to be able to change policy directions quickly and effectively as circumstances demand. **Strategic agility** is the ability of the government and public administration to anticipate and flexibly respond to increasingly complex policy challenges, and to determine at what level action is needed (*i.e.*, at a whole-of-government level or at a devolved local or sector level).

The OECD has adapted the work of Doz and Kosonen (2008) for use in a public sector context in order to identify three necessary components for developing strategic agility:

- **Strategic insight** is the ability to understand and balance government values, societal preferences, current and future costs and benefits, and expert knowledge and analysis, and to use this understanding coherently for planning, objective setting, decision making and prioritisation.
- **Collective commitment** is adherence and commitment to a common vision and set of overall objectives, and their use to guide public actors' individual work, as well as co-ordination and collaboration with other actors (both inside and outside of government and across levels of government) as needed to achieve goals collectively.
- **Resource flexibility** is the ability to move resources (personnel and financial) to changing priorities if and as needed; to identify and promote innovative ways to maximise the results of resources used; and to increase efficiencies and productivity for both fiscal consolidation and re-investment in more effective public policies and services.

Strategic insight

A key element to achieving strategic agility is governments' and public administrations' capacity for strategic insight. In the public sector context, strategic insight requires the capacity and capability to conduct dynamic and inter-related long- and short-term strategic planning, based on a whole-of-government vision, understanding and knowledge. Achieving strategic insight therefore depends on the government's ability to actively seek and consolidate the experience and expertise of multiple stakeholders in developing a strategic vision and operationalising it through strategic planning frameworks.

Strategic insight requires planning and decision making based on flexible and continuously updated data, analysis and consultation

It is important to determine the type of planning and/or decision making required in order to select the most appropriate input for achieving strategic insight. Identifying long- and medium-term priorities, for example, can benefit from citizen engagement and data analysis, but very long-term events may be unpredictable and "discontinuous" (*i.e.,* not based on historical patterns), and so require other types of scenario planning. In addition, consultation may not always be appropriate for short-term decision making because of the need for rapid responses or because of the sensitivity of the topic at hand. In such cases, however, it is all the more important that decision makers have general information on hand about citizen preferences (see Table 1.1).

Table 1.1. **Analysis horizons: Strategic and decision making needs by planning timeframe**

Analytical needs	Characteristics	Requirements	Examples
Foresight (Long-term: > 10 years)	Anticipation of, and preparation for, both foreseeable and disruptive/discontinuous trends and capacity needs; including future costs in today's decisions	Continuous scanning and consultation; pattern recognition; analysis of "weak signals"; futures studies; consensual views	Futures Reporting; horizon scanning; long-term budget estimates; scenario planning
Strategic Planning (Medium-term: 3-10 years)	Anticipation of, and preparation for, foreseeable changes and capacity needs; prioritisation; including future costs in today's decisions; risk management	Analysis of historical and trend data; comparable information and analysis across government; consultation on values and choices	Government Programme; medium-term budget frameworks; workforce planning; spatial and capital investment planning; innovation strategies
Decision making (Short-term: 1-2 years)	Responsiveness; rapidity; accountability; ability to determine at what level decisions need to be taken	Quick access to relevant information and analysis; capacity for re-allocation; overview of stakeholder preferences	Executive action; annual and mid-term budgets; crisis response

Evidence-based decision making supports the legitimacy and implementation of major policies and reforms, thereby supporting the realisation of the Government Programme

Evidence-based decision making feeds strategic insight by examining and measuring the likely benefits, costs and effects of government decisions, based on wide consultation and research. It helps to ensure that all possible scenarios have been taken into consideration, increases the transparency of government decision making, provides a "reality check" on the cost of government objectives, and gives governments the tools to help prioritise competing objectives.

Finland has frameworks in place that contribute to the achievement of an evidence-based decision making culture, such as research bodies, some public

consultation, regulatory impact assessments, and requirements for ICT investment business cases. Yet, these practices do not necessarily translate into a coherent organisational-wide culture and ethos where evidence-based decision making is a systemic and ingrained way of working in the public service. In part, this may be because many of the preparatory decision-making processes at the state level take place through informal discussions where there is no standard requirement for the use of business cases, cost-benefit analysis, comparative analyses, and wide consultation on impacts.

Informal decision-making processes in the public administration are an important aspect of what makes the Finnish public sector work and, as such, are key to the fast exchange of information and horizontal communication. However, the process is not transparent by definition, and results can be locked into political agreements that leave the government little room to manoeuvre. Increased use of analysis to underpin political policy discussions would both make them more transparent and open, and also clarify impacts, trade-offs and consequences to provide the tools for dialogue on how decisions could be adjusted where necessary.

Evidence-based decision making also supports the implementation and legitimacy of policies and major government reforms, supporting the realisation of the Government Programme. Clear business cases[8] for major initiatives such as the sub-national PARAS and ALKU reforms (see Box 1.3), or for the rollout of Shared Service Centres, have not been clearly communicated throughout the public administration. As a result, there are no specific targets and/or success indicators by which to evaluate and to help communicate the rationale for these reforms.

Strategic insight does not automatically result from amassing more evidence or even from improving the frequency and quality of analysis, but a clear and transparent flow of information and analysis from the public administration to political and administrative decision makers can help to inform discussions and clarify options and potential consequences. This is of particular importance in Finland, where there is no tradition of think tanks associated with political parties to generate and test public policies.

Increasing the use of, and expectation for, evidence-based policy making will require consultation with external experts and stakeholders to harness innovative thinking and strategic insights. This also serves to bring in information that is not necessarily available to the public administration, in particular on local impacts. This way of working requires a relationship between government and citizens characterised by consultation and collaboration.

Strategic insight requires citizen engagement in policy making, as well as for service delivery

The use of evidence-based decision making requires the public administration to have an active and purposeful dialogue with a wide variety of stakeholders, to analyse those insights in the context of the government's mandate, and to provide coherent *ex ante* advice to help inform government decisions and prioritisation. The active relationship between citizens and governments has been expanding in OECD countries, with citizens participating as partners during the design, delivery and evaluation of government services. As policy issues become ever more complex, and start threatening societal values and ways of life, governments can no longer address these issues alone. Partnerships with citizens, business, civil society organisations (CSOs) and other stakeholders are needed to

achieve whole-of-society objectives. Engaging citizens and allowing them to actively participate with government in addressing policy issues increases opportunities for strategic insight.

Openness is an underlying value in the Finnish administration. However, the Finns themselves note that interest in citizen participation seems to be periodic. Over the last 10 years, government interest in participation has increased in response to decreasing voting percentages, criticism directed at politicians and political parties, and the shunning of party political activities. This led to discussions within government on strengthening the role of civil society. As a result, during the late 1990s, the Finnish public administration undertook a number of projects and development initiatives to increase the role of civil society in defining social matters and public services. Citizen participation was the goal of one of the first horizontal Policy Programmes – the 2003 Citizen Participation Policy Programme – where the government's emphasis shifted from information to consultation and participation.

Citizen engagement policy in Finland remains weak, however, despite goodwill and efforts in some parts of the national public sector. The value of engaging citizens is not widely recognised in Finland. There is still quite some political support for improving citizen involvement in policy. However, some worry that if this backing decreases, interest in citizen engagement will fade away; this way of working is not usual business in the public administration, particularly at the state level. Consequently, the capacity of the public administration and government to achieve strategic insight will regress.

A key factor in the perceived distance between the state and the citizen is a lack of citizen consultation in the political process at the state level of administration. Individual citizen engagement seems to occur more at the municipal level and less at the state and political levels. Both municipalities and CSOs have suggested that neither the state administration nor government are in tune with the needs of citizens and are not taking these into account when developing national policies and legislation.

With decentralised power structures, it is essential that the state have an effective steering role and capacity for strategic insight. As such, it has an equally compelling need to consult with and hear the ideas and needs of citizens so that it can formulate whole-of-society approaches to ever-increasing complex policy problems. It has been suggested that staff employed in the state government needs to learn how things work on the ground at the local level; knowledge transfer between municipalities and the state is necessary. Direct contact with citizens for consultation and participation are also needed at the state level.

Some observers feel that there is too much emphasis in Finland on e-participation and e-democracy as methods for engaging and consulting with citizens. Electronic methods appear to have been pushed as a way to get around traditional Finnish reluctance towards direct public engagement. While electronic methods can be highly efficient, in many cases engagement appears to work best through face-to-face contact, as illustrated in the Kainuu region, where health and social services officers hold information evenings in local communities. At the state level, KELA, the Social Insurance Institution, also provides a good example of engaging citizens through a number of customer-service monitoring mechanisms, including holding working groups with stakeholders.

While representative bodies are engaged at the state level, this involvement may be declining. Where CSOs and unions were once consulted prior to government decisions and again during the development of the programmes, in recent years they claim that they are

now only consulted in the latter case and have less influence than before, with negative outcomes for citizens. The decline in influence may also be due to the short timeframes provided by the state when seeking input or comment.

In order for consultation to be a useful input into decision making, it needs to be based on informed discussion about the expected benefits and costs of action, as well as inaction. Finnish policy makers have access to long-term budgetary projections, but this information is not easily available to citizens and other stakeholders in ways that can help to bring costs and benefits for future generations into today's policy discussions. Doing so would better engage citizens and help them understand (and participate in) the difficult choices that are currently facing policy makers.

A continued focus on citizen participation should be at the centre of a shift towards a closer relationship between the state, and citizens and businesses. It may be that the stakes for stronger citizen engagement need to be more clearly identified and discussed within the public administration, and with Parliament and civil society, in order to develop consensus about the direction of citizen engagement and the means to further advance such efforts. Citizens want feedback on what happens to their input of ideas; however, the state is currently unable to provide this to those citizens who actively seek to participate. The impact of whole-of-government agendas on consultation and engagement with the citizenry will be critical to ensuring greater trust in government and better outcomes through enhanced strategic insight.

The scope of foresight reporting could be broadened to enhance strategic insight

Strategic foresight reporting is another essential component of achieving strategic insight. By scanning ahead to identify future risks and opportunities, governments can better prioritise and focus policies. Finland has used government foresight reporting since 1993, when the first horizontal Government Foresight Report was tabled in the Finnish Parliament. This initial report presented views on major future developments and optional scenarios for Finland, and provided a plan for the kind of future society that the government was seeking to establish through its actions when in office.[9] Since then, a horizontal Government Foresight Report has been submitted to Parliament during every electoral period. However, the scope of this reporting has shifted from a whole-of-society approach to a more narrow focus on a single cross-cutting issue area (*e.g.*, the current Government Foresight Report is focused on climate and energy policy). This narrowing of focus reduces the ability of the government and the public administration to scan and report on the wider range of policy challenges and opportunities on the horizon and impacts the government's capacity for strategic insight.

In addition to the horizontal Government Foresight Report, the public administration provides vertical sector futures reports at the end of each term of government for consideration by Parliament in the preparation of a new Government Programme. In many respects, this type of foresight reporting is quite advanced, but more could be done to strengthen the information contained therein. There is further opportunity, for example, to consolidate the vertical sector futures reports at the central level before they are provided to Parliament, and for further analysis to map issues at a whole-of-government level. The Parliament could then benefit from a horizontal whole-of-government futures report (corresponding to the perspective of its own Futures Committee), accompanied by the supporting vertical sector futures reports, providing a wider scope of vertical and horizontal reporting of current and future risks and opportunities.

Futures reporting in its current form is a relatively work-intensive process. To some extent, this is necessary to help create the space to think strategically beyond immediate deliverables. The government could make better use of its existing data, however, to identify patterns that merit additional follow up and research, and trends that extend beyond the scope of a single sector. It could also better co-ordinate different sets of futures work in universities and government agencies. Greater awareness of and more explicit reference to the different sets of futures work (including opposing scenarios) would help provide a common basis for discussion and debate.

Futures reporting can also help build both horizontal and vertical coherence in the development and implementation of the government's agenda. An open discussion on the future of the sub-national sector, for example, could build ownership of municipal and regional reforms. The key to a shared vision is active engagement of society's actors in its development – which requires embedding a culture of open and transparent government at all levels of public administration. The values and standards by which public servants work and measure performance must be "updated" to match the changes being brought about by complex policy challenges and citizen expectations.

Finally, the follow up and feedback provided on futures reports could help highlight the importance of this type of strategic planning to government policy making. While not all issues raised will be prioritised on the government's agenda, feedback can help sharpen the strategic capacity of ministries and individual workers to improve insights of future reports and ensure that ministries invest sufficient time and effort into the process rather than treating it as a checkbox exercise.

Strategic insight provides the tools to create a strategic vision

Strategic insight provides the basis for governments to create a strategic vision for the country and for the public administration based on available information and input from citizens, businesses and civil society, keeping in mind future opportunities and risks. If communicated effectively, strategic vision can be a powerful tool for transmitting public values and objectives and as a basis for co-ordination and collaboration.

In Finland, each government's strategic vision is communicated through the Government Programme, a plan of action agreed by coalition partners that sets out the main tasks facing the incoming government. In 2003, horizontal Policy Programmes were added to the Government Programme as a means of better identifying horizontal priorities. Following from the Government Programme is the Government Strategy Document, the government's annual plan. It presents outcome targets on Policy Programmes and contains indicators for monitoring the implementation of the Government Programme.

While the Finns have a strong Government Programme, many officials interviewed by the OECD felt that the government's strategic vision was not sufficiently clear and that it was uncertain how some programmes were related or linked together. Strategic insight alone will not provide governments with the flexibility and agility needed to adapt to the changing and increasingly complex policy environment or the collective commitment to adhere to the strategic vision.

Collective commitment

Adherence and commitment to a common vision provides a framework for societal actors to identify the subsidiary actions needed to realise shared goals. In the public sector

context, this is best achieved by aligning incentives and values around the overall strategic vision. This requires linking organisational and individual performance management goals and objectives to strategic objectives, accompanied by strong leadership at the Centre of Government and within organisations in order to change the way public sector staff think about and approach their work.

The government's whole-of-government vision is not being realised at the operational level

While the government has put much effort into strategic planning, its ability for collective commitment to a shared vision is hampered by a lack of horizontal collaboration in the development and translation of strategic priorities. While the Government Programme details the government's strategic sector and horizontal policy priorities, there is no clear business case for inter-ministerial co-ordination and collaboration on policy development. Horizontal priorities do not seem to flow down to the individual level with clear incentives to work in a more joined-up fashion. The Action Plans developed within each ministry, which should cascade from the Government Strategy Document, do not necessarily provide the required level of detail on policy priorities to allow divisions and individual staff within ministries to elaborate on how they will meet the objectives or work in a collaborative and holistic way. Perhaps most importantly, the strategic steering and budget allocation systems, while aligned in terms of timing, are not substantively aligned – so there is no budgetary incentive to work horizontally across sectors.

A silo-based approach to policy development and implementation is one of the most significant problems in the Finnish public administration. Continuing silo-based thinking and ways of working limits the public administration's ability to flexibly respond to government needs and to harness collective momentum to commit to the implementation of the government's agenda. The lack of horizontal co-ordination and collaboration is related to a number of factors, including leadership priorities, lack of mobility across and outside of the state administration, and an emphasis on worker specialisation. In addition, given historical and traditional ways of working, staff within ministries have not been shown how horizontal co-operation will benefit them, and therefore lack incentives to collaborate (or sanctions for non-collaboration). A major lever for horizontal collaboration is to link performance management with strategic planning and budgetary frameworks. This strengthens both organisational and individual commitment to a shared vision and provides the accountability and incentive framework for working horizontally.

Performance management does not provide an incentive for collective commitment to whole-of-government outcomes

The Finnish state performance management system follows a rational structure in which state ministries and agencies prepare performance management agreements to achieve individual portfolio objectives. These agreements are based on ministerial Action Plans which, in turn, cascade from the Government Strategy Document based on the Government Programme. In general, ministries and agencies have a clear performance dialogue relationship in place, and agencies appear to be putting their performance agreements into action within their organisations by filtering down performance objectives from senior management through to junior staff.

Despite this clear framework, however, the state performance management system seems to fall short of supporting an overall strategic focus that connects agency

performance objectives to the achievement of societal outcomes. Ministry and agency officials report that performance measures tend to focus on detailed processes rather than strategic actions that support the Government Programme. At the organisational level, there seem to be few, if any, consequences for failure to meet strategic objectives. This shortfall appears to stem from four main factors: 1) lack of clear, strategic whole-of-society vision communicated by government; 2) difficulty in developing indicators that clearly link back to strategic whole-of-society objectives; 3) insufficient prioritisation of overall objectives; and 4) lack of real accountability, in particular for shared strategic objectives.

The Finnish National Audit Office (NAO) inspection reports have repeatedly noted shortcomings in areas such as performance information for government agencies and information on the effectiveness of grants and other government transfers. Furthermore, the Parliamentary Audit Committee has widely reported (in 2008) on the inadequate functionality of governing by information in social and healthcare services. Given this, the Ministry of Finance has recently commenced a major review of the performance management system at the state level.

As in every country, the development of performance indicators is a core challenge that takes time. Performance management was slow to take off in Finland in the aftermath of the 1990s recession and the period of transition when Finland joined the European Union (EU). Measuring the performance of ministries has also been difficult. Interviews with ministry staff suggest that they find it challenging to identify appropriate indicators at the organisational level because policy work is difficult to measure, and because they have difficulty linking their own concrete objectives to more abstract government priorities. Ministries struggle to develop indicators to achieve unclear outcomes, and performance discussions with agencies seem to focus on process indicators rather than contributions to overall objectives, demonstrating greater comfort with those indicators that are most easily measurable. Achieving commitment to shared whole-of-society objectives requires individual performance management plans to contain shared outcomes. This way of working should start with permanent state secretaries and filter down through the administration. Public servants should be urged to work collaboratively and co-operatively as a means of strengthening service to the whole-of-government rather than limited to one ministry or agency.

The lack of connection between the state ministries' targets and agencies' ability to negotiate resources allocated to achieve these targets is another cause of insufficient linkages to strategic objectives. The fact that performance and budgeting are undertaken in separate departments within the Ministry of Finance reinforces the disconnect between these two critical areas. The Ministry of Finance's perceived pre-occupation with fiscal objectives could perhaps be tempered by better incorporating the work of the Public Management and Budget Departments, increasing credibility with ministries and agencies and improving linkages between performance target setting and budget allocations. Such an approach, however, underscores the importance of consultation with ministries and agencies as part of a performance dialogue, rather than simply a top-down allocation exercise.

In widening the scope of performance management, the government has had great difficulties measuring municipal productivity and efficiency. State officials have raised concern over the quality of performance information received from municipalities and suggest that this could also be improved. While this is a general challenge, the diffuse

governance system of public service provision has made data collection on performance historically late, inaccurate, unreliable and incomplete. As public service provision is managed both at the state and local levels, responsibility for data quality is dispersed. While periodic studies provide municipal performance rankings for primary and high-school education and health services, for example, there is a need for more regular publication and communication of performance data to the central government – as well as to other municipalities and citizens – as a means to promote "bench learning", sharing of good practices and yardstick competition.

Looking to the future, Finland shares a challenge with other OECD countries: how to use its performance management system to support accountability for cross-cutting priorities. There is a need for better horizontal and vertical co-operation in Finland when planning and implementing joint objectives and indicators for agencies reporting to multiple ministries. The real benefit of improved horizontal working across government is the opportunity to develop and achieve societal objectives. However, this way of working requires a change in the way the business of government has traditionally been managed in Finland. The government, through its Findicator initiative, is beginning to look at how it can set indicators for desired societal outcomes and communicate these both to the public administration and the broader society. The real challenge is how to translate broad strategic outcomes into tangible strategic objectives for each ministry that filter down to state agencies and municipalities. This way of working should be systemic and included in all individual performance agreements from senior management to junior staff.

Institutionalising horizontal co-ordination and collaboration requires changing traditional ways of thinking and working

Given Finland's past performance, there is no doubt that the public administration will continue to successfully implement the government's agenda in the sector ministries. However, the challenge continues to be the ability to harness horizontal collaboration and co-ordination in the development and implementation of the government's agenda. Despite efforts to compel this way of working, formal horizontal co-ordination and collaboration is not a natural way of working for the Finnish public administration (or in other countries, for that matter). Rather the public administration uses an informal system of co-ordination to gain consensus for decision making. In a dynamic environment which increasingly requires whole-of-government policy responses, Finland must change traditional ways of thinking and working in its public administration, moving from sector silos to a culture of open collaboration and co-ordination to support collective commitment. This will require fostering values of individual risk taking and entrepreneurship, supported by the collective achievement of shared goals.

In a public sector context, horizontal working across ministries, departments, agencies and levels of government in a co-ordinated, co-operative and collaborative manner is necessary for both the strategic development of government policies and the implementation of a whole-of-government agenda. Coherent vertical and horizontal co-ordination and collaboration in the implementation of the government's strategic agenda improves the public sector's ability to respond to complicated policy challenges – such as climate change, ageing populations and emergency management responses, which do not neatly fit within organisational competencies, and to help achieve efficiencies across organisational boundaries.

While the Policy Programmes have been helpful in focusing the public administration's attention on sector co-ordination, the current arrangements do not enable the operationalisation of horizontal policies for desired outcomes. There is a need to move forward to achieve greater agility, affording every person in the system the room to act within agreed parameters at all levels. The principle behind the Policy Programmes to achieve cross-sector horizontality is valid; however, the necessary incentives are not aligned. Because the Policy Programme is far from service delivery, a starting point for the necessary cascade of plans is required. While the structures are in place, the link between strategic objectives and operational measures is missing.

Outside the scope of the horizontal Policy Programmes, there are examples of highly successful horizontal co-operation, but these are mainly in relation to policies where there is an impetus to come together and succeed at a national level, such as country defence and international forums like EU affairs. In these examples, horizontal working is achieved through a clearly defined framework agreed by all actors. The Ministry of Defence – with responsibility for co-ordinating the cross-ministry and cross-society functions of society which are imperative at a time of war or crisis – is an excellent example of marshalling horizontal working relationships within the public administration and with external stakeholders through the comprehensive society approach. However, despite good examples of horizontality in action, the challenge for Finland will be how to achieve horizontal working across the whole public administration.

Effective leadership is a key condition for managing change to achieve collective commitment

A key aspect of achieving collective commitment is to support change through to successful implementation. Effective leadership is a critical component for successful policy implementation and change management, and will be essential to integrating strategic and innovative thinking and horizontality into everyday work in the Finnish public sector. Leadership can be discussed at many levels: political/administrative interface; across the public administration through the Centre of Government; and at the individual level within ministries and agencies.

Leadership at the political/administrative interface. Democratic regimes often find themselves balancing two values that can be in some tension – fair and non-politically partisan public service delivery and, subject to the law, the responsiveness of public servants to the policies of the current executive. Managing the political/administrative interface is a key aspect of the necessary trade-offs. Because they are in the public eye, ministers are held responsible for the actions of their ministries and departments. However, in Finland, the use of political state secretaries has changed the leadership dynamic and is raising concerns regarding the politicisation of the public service.

The relationship between the political arm of government (including ministers) and the public administration appears to be strained at times. This is not unique to Finland, as the expectations, accountability and responsibilities of both political officials and the public administration are being tested in new ways across OECD countries. In the Finnish public administration, permanent state secretaries are quite powerful due to the longevity of their service in individual ministries. This leadership longevity can lead to claims that state secretaries and their ministries are set in their ways and do not have the flexibility to change to new government agendas. As a result, some ministers are using newly created

political state secretaries and increasing the number of political staffers. Some believe that distance between ministers and the bureaucracy has grown and led to a so-called "separation of powers" in policy development processes, as well as a lack of connectedness between the government and the public service. This can also impact citizen participation and the use of evidence-based policy making to feed government decisions.

While the introduction of the political state secretary has increased the visibility of the political interface, it has also increased tension in the relationship between the government and public administration, and it has been argued to have increased the politicisation of the public service as a whole. However, it should be noted that the role of political state secretaries is still unclear, and there is confusion over both the role and its relationship with the public administration. Clarifying roles and responsibilities would help, as would increasing the mobility of administrative state secretaries to give them a broader view of the public administration and enhance their ability to serve the ministers.

Finally, the blurring of political involvement in the public administration is reinforced by ministerial responsibility for ministries, in particular as ministers represent different parties within a coalition government. This feeds politicisation of the public administration and strengthens stovepipes where the public administration is unable (even when willing) to act as a collective whole; each separate ministry acts as an independent organisation loyal to a minister rather than working for the government of the day. Exploring collective responsibility of the Cabinet for the delivery of horizontal objectives in the Government Programme would be one way of reinforcing accountability, and therefore leadership, for collective action.

Leadership at the Centre of Government. Complex policy environments require a public administration that is configured to support and enable a common sense of purpose – from an overall vision down to specific operational objectives and actions. While institutions evolve and adapt over time, as the external environment changes more quickly, more reflection on appropriate governance arrangements, how to achieve them, and their possible consequences is required. In Finland, co-operation and collaboration on policy development and implementation across the public service will be critical to developing strategic insight and collective commitment to a shared strategic vision. Embedding the needed changes in Finland will require strong leadership from the central administration to create and manage inter-dependencies across the administration.

When Finnish ministries have an interest in co-operation, they appear to work well together – but formal co-operation arrangements tend to follow a relatively intensive process that, by definition, can only be used for the highest-priority issues. The management of EU affairs, for example, demonstrates the Finns' ability to work together at the whole-of-government level, but also highlights the fact that, given the complexities of the coalition government and a traditional mindset, co-ordination and collaboration in a formal sense do not come naturally and must be compelled through the implementation of formalised structures and frameworks.

Rather than establishing rigid structures to enforce horizontality, the role of the centre could be strengthened to increase oversight and accountability of existing processes as a means of achieving a collective commitment across the Finnish public service to working horizontally in achieving the government's agenda. The role of the Prime Minister in a coalition government is not as strong as in single-party governments, but rather one of *primus inter pares* (first among equals); however, this does not prevent central ministries

within the public administration from displaying leadership and facilitating collective commitment to the achievement of a shared vision. This would be more achievable if incentives across the administration were aligned to encourage whole-of-government co-operation and collaboration and subtle changes to increase accountability for working this way. Aligning individual and collective interests through performance management provides incentives to embed collaboration and co-ordination across the administration.

Regardless of the system or time, however, the fundamental purpose and function of the centre and central agencies is critical to co-ordinating policy responses that are collaborative and coherent, especially in an environment of increasingly complex policy challenges. This does not mean that the centre should micro-manage the development and implementation of policy responses, but that it has a key role in strategic oversight of the whole-of-the public administration and thus is well positioned to bring the right actors and leaders together to implement the government's strategic agenda.

The Prime Minister's Office has a key role in achieving collective commitment within the public administration for the operationalisation of the government's strategic vision. As the embodiment of the Centre of Government, it needs to play a greater role in steering and co-ordination of the public administration. For example, while it is responsible for monitoring implementation of the Government Programme, the Unit is primarily dependant on self-reporting by ministries and agencies. While the Prime Minister's Office has a strategic, and forward-looking outlook, it needs to play a stronger role in ensuring that the rest of the public service also adheres to this vision.

The authority of the Centre of Government also depends on the interplay of responsibilities and power between the core ministries – in Finland, the Ministry of Finance and the Prime Minister's Office. The Public Management Department in the Ministry of Finance collaborates well with the Prime Minister's Office, as well as with the Personnel and Municipal Departments, which are also in the Ministry of Finance. The Budget Department of the Ministry of Finance, however, tends to go about its business in a much more stand-alone fashion. In this respect, there is a strong budget culture that lacks the consideration of strategic steering from the Prime Minister's Office, and workforce and management considerations of the Public Management, Personnel and Municipal Departments. This dynamic is reinforced by the fact that the Budget Department is under a separate ministerial portfolio from the other Departments (representing separate parties of the coalition government) within the Ministry of Finance. Greater efforts need to be made to improve co-operation within the centre in order to assure an integrated steering process that aligns resources with the political programme of agreed outcomes and objectives for the government.

Leadership at the individual level within ministries and agencies. Leadership plays a significant role in influencing and reaching collective commitment within a public administration. Without strong leaders working collaboratively towards a common goal, fragmented stovepipes form, as has been evidenced in Finland. Leadership involves all levels of the public administration, although the roles are different at each level – there is a need for strategic leadership at senior levels, team leadership at middle levels, and technical leadership among lower-level employees.

In Finland there is a reluctant leader's culture in public administration linked to the "tallest poppy syndrome". In many cultures, including in Nordic countries, it is not proper to stand out in a crowd – *i.e.,* to be the tallest poppy. Thus there is a general move to at least

try to appear equal in stature, which may result in a missed opportunity to identify the next promising generation of leaders. In Finnish culture, no one person should visibly have more or be more than anyone else. This can impact on individuals' capacity to be overt leaders or to take a leadership role because by definition a leader is "taller" or stands out *vis-à-vis* the rest – this is particularly noticeable in the Finnish public administration in contrast to the private sector. The public sector culture of expertise also means that leaders should not be seen as being higher than the experts they are leading (which is exacerbated by remuneration structures). This might explain certain leadership issues in the Finnish administration, such as a reluctance to move into positions of authority as well as preventing the assumption of leadership in programmes and horizontal policy execution.

Such attitudes may also account for resistance to adopting institutional leadership models in which certain public administration offices take responsibility for whole-of-government priorities and therefore provide leadership for the rest of the public administration in their domain. This is the case, for example, in e-government development, which works through persuasion and provision of resources and technical assistance, rather than a central body forcefully developing and articulating a programme for the rest of the public administration to follow. Such a model may not be particularly Finnish, but failure to provide stronger leadership in this area has resulted in the current lacklustre e-government outcomes (see Box 1.2).

Leadership is needed to manage change. The almost continuous process of public sector reform over the past 15 years can lead to failures in reform implementation if it is not accompanied by efforts to make the changes sustainable. Reforms need sufficient time to be integrated into working methods and internalised. Otherwise, projects risk being neither fully implemented, nor given appropriate time to become established before they are modified or reformed again. Continuous reforms also impact citizens who experience changes, and do not know where to go to get their services. For all of these groups, leaders are needed to explain the *why* of reform as well as the *what* and *how*.

The impending public sector retirements provide an opportunity for leadership renewal in Finland's public administration. However, a transition strategy will be critical to preparing a new generation of leaders. Preparing for a smaller public service must include seeking officials with the capability to take on and lead greater responsibilities, and not simply in capacity or numerical terms. The new Public Management and Leadership Development Programme being developed by SITRA, the Finnish Innovation Fund, will need to harness the potential within the public administration and foster a new era of strategically agile public sector leaders.

Resources flexibility

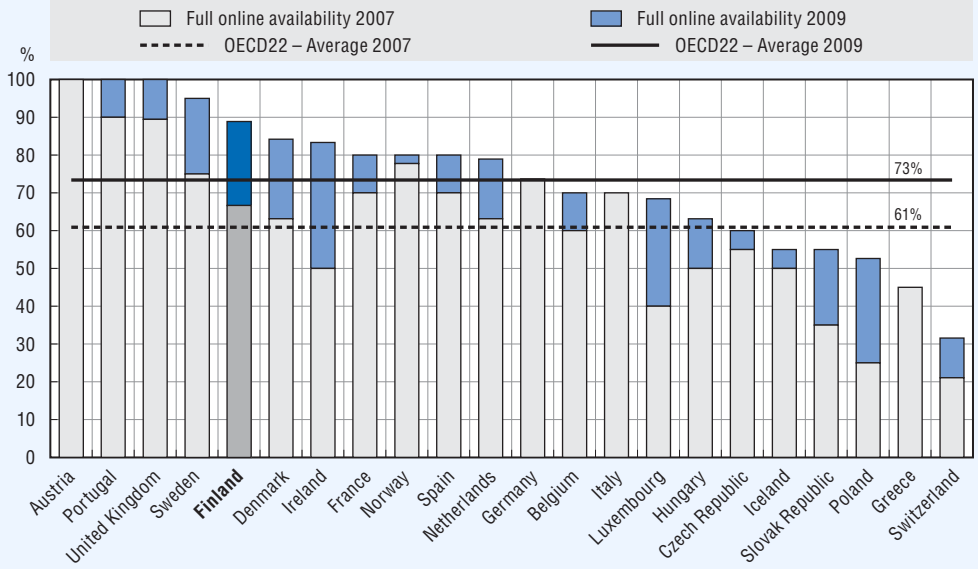
Strategic agility requires the ability to move both personnel and financial resources to strategic priorities as they change, to identify and promote innovative ways to maximise the use of resources, and to increase efficiencies and productivity to take the strain off of the budget and deliver more effective public policies and services. It relies on flexible budgetary and employment frameworks that enable the re-deployment of resources after they have been committed, and the movement of staff to areas of strategic priority as needed.

Box 1.2. **E-Government – The consequences of a lack of strategic agility**

Until recently, Finland has been a world leader in exploiting ICT to renew its economy and to reform its public administration. It enjoys one of the highest e-government take-up rates by business in the OECD. And while there is room for improvement in citizen take-up rates (50% on average), citizen usage of e-government services is still well above the OECD average of about 35%. However, in recent years, Finland's position as a leader in e-government has been slipping; this has perplexed the government, which sees strong e-government as a factor for Finland's competitiveness.

In the period 2004 to 2009, Finland dropped from 4th to 8th in EU rankings for full online availability of e-government. This is a challenge shared by many other leading e-government countries in the OECD as other countries look to their example in order to catch up. However, between 2007 and 2009, Finland improved its ranking from 10th to 5th among the 22 OECD countries which are also members of the EU (see Figure 1.4). Finland's online sophistication (as at 2009) measured 94%, where the overall sophistication score for both citizens and businesses were above the OECD22 average. Figures from the World Economic Forum show that Finland's regression in the Lisbon Review ranking is, in large part, due to a pronounced decrease in scores related to information society and network industries.

Figure 1.4. **E-Government full online availability in the EU (2007 and 2009)**



Source: EU (2009), *Smarter, Faster, Better e-Government, 8th Benchmark Measurement*, November 2009.

There is a high degree of political awareness and attention being given to information society policy and e-government in Finland. The government included information society policy as one of the first four Policy Programmes in 2003 in order to encourage greater whole-of-government action. This focus has helped to successfully integrate back-office services (*e.g.*, corporate HR and financial services) in the state administration. However, shared services do not guarantee greater efficiency in and of themselves (state agency staff suggest the cost of joining the Shared Service Centre is 2.5 times their original costs). Achieving greater efficiency through shared services will require better data on baseline costs of providing the same service in the corresponding government agencies, and appropriate incentives and controls to ensure that service provision costs stay below the baseline cost.

Box 1.2. **E-Government – The consequences of a lack of strategic agility** *(cont.)*

The SADe Programme, introduced in 2009, is an effort to also join up front-office services for citizens and businesses, including across levels of government. Through this programme and consultation, the government has identified areas for shared services and leaders to take these services forward. It has not yet developed a plan, however, to consolidate newly developed shared services. Such a step is necessary in order to harvest and re-invest savings for additional e-government development.

Despite the increased focus on ICT reform at the political and strategic levels, the various ICT reforms are not well co-ordinated with one another – particularly across levels of government – or with related reforms that can serve as drivers for the use of ICTs, *e.g.,* the Productivity Programme. At the state level, ministries have divided up responsibility for efficiency gains through ICT rather than collaborating to achieve cross-cutting benefits from shared services. There is still an urgent need to harmonise ICT infrastructure across all levels of the public administration. The government faces even greater challenges at the local level due to municipal autonomy and a large number of legacy systems.

The government is aware of the need for change in the area of ICT, but has not been able to gain traction. While public ICT governance was decentralised in Finland during the 1990s, the Ministry of Finance is now aiming towards a more centralised ICT governance model to achieve greater progress – through, for example, harmonised standards and frameworks within and across levels of administration. While centralised decision making is not always a feature of successful technology introduction, it may be necessary to drive ICT standards, the mutualisation of ICT systems and services, and the development of integrated citizen-centric services.

The disconnect between strategic and budget frameworks limits the ability to prioritise and re-deploy resources as needed

The Finnish government's budgetary framework significantly limits the government's ability to re-prioritise resources if needed as part of a response to changing social and economic environments. Current budgetary arrangements also act as a disincentive to horizontal collaboration in the development and implementation of government policies.

The Government Strategy Document, managed by the Prime Minister's Office, and the Budget Framework, managed by the Ministry of Finance, are considered the two key strategic planning tools. While the Strategy Document focuses on whole-of-government priorities, the Budget Framework allocates funds at the ministry level. So while the two processes have been aligned in timing under the Programme Management reforms, resources and desired horizontal outcomes are not linked. This presents a fundamental gap in the setting of strategic policy agendas and the means for implementation; the financial allocation decisions that drive incentives and resources for implementation are not aligned with the political priority areas as identified in the Government Strategy Document. Thus, when priorities change, funds remain allocated as originally decided and cannot be moved.

The disconnect between the preparation of the Government Programme and the budget framework impacts the ability of the public administration to focus resources on the government's priorities. In line with modern budget practices, the Finnish budget allocates funding at the portfolio level rather than at the programme and project level. Therefore, it is up to each ministry to interpret how its budget allocation can best realise

the priorities laid out in the Government Programme. When the Government Programme is prepared at the start of a new government term, however, there is no formal stocktaking of the projects and programmes being funded and whether they should continue to be funded. In this sense, the new Government Programme is layered on top of former priorities. This makes it difficult to know where to focus work and creates a budget environment where the government is not forced to prioritise its objectives, creating a vacuum for political accountability.

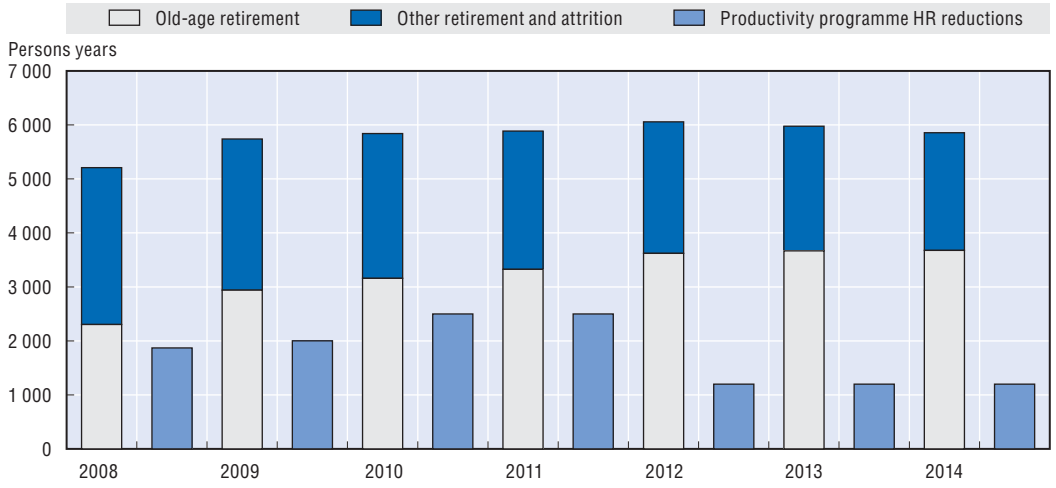
The disconnect between the horizontal Policy Programmes within the Government Programme and the budget process also limits the ability to achieve horizontal outcomes. Firstly, distancing the Policy Programmes from the budget process sends a strong message on priorities. A minister with responsibility for a Policy Programme is not afforded the staff and means to meet this responsibility and cannot require other participating ministries to share resources. Lead ministries only have "the power to beg". This provides a disincentive to both horizontal co-operation and to achieving horizontal outcomes. Execution depends on the co-operation of associated ministries to provide resources from their budgets, but as individual ministries place their own sector priorities – for which they are more clearly accountable – over vague horizontal obligations, it is not surprising that there is a lack of resources to fund horizontal programmes. Lead ministries may, in turn, be tempted to go it alone in terms of implementing their horizontal programmes, thereby losing out on the coherence and innovation benefits of horizontal co-operation. These dynamics can be evidenced in the implementation of the Information Society Policy Programme, which did not achieve all of its stated objectives. Finally, the Budget Framework does not permit the transfer of budget allocations from one ministry to another. This creates an issue in terms of both agility and incentives. While there is a political incentive to develop the Policy Programmes as a means to create stability across the government parties, there is little administrative incentive to implement the programmes in a horizontal fashion, or at all.

Sustainability of the Productivity Programme will depend on a concerted effort to support public sector innovation

The Productivity Programme, introduced in 2004, is one of the most important corporate tools to increase efficiency and productivity in the Finnish public administration. Managed by the Budget Department in the Ministry of Finance, its objective is to maintain pressure to achieve and harvest public sector efficiencies through measures in government administrative structures: improving exploitation of ICT and enhancing central government processes, with a view to permanently reducing government staff numbers and improving labour competitiveness, curbing expenditure growth and increasing the potential to re-allocate resources. It is often perceived elsewhere in government, however, as exclusively focusing on reducing the number of personnel rather than creating the conditions for increased innovation and efficiency. This is, in part, because reducing staff numbers is a major priority of the government, including a target of reducing the public administration by 9 645 person-years by 2011 (see Figure 1.5).[10]

While ministries and agencies depend on public management reforms such as ICT and process re-engineering to achieve expected savings under the Productivity Programme, the programme itself is not explicitly linked to any of these other reform areas – with the notable exception of shared services. Some feel that staff cuts have actually limited organisational capacity to develop innovative ways to increase productivity, and risk creating a barrier to the introduction of new ideas by ministries. Ultimately, in the absence of the implementation of

Figure 1.5. **Central government human resources attrition projections and Productivity Programme HR reductions, as at January 2009**



Source: Ministry of Finance (2009), *Budget Review January 2009*, Ministry of Finance, Helsinki.

innovative practices to support increased productivity, the large loss of staff due to the Productivity Programme's HR reductions and retirements will have the effect of forcing remaining staff to do the same amount of work with fewer resources.

The Productivity Programme has effectively required ministries to review their operations and come up with efficiency proposals that appear to have led to innovation in some cases. It has also contributed to the public service's relative state of fiscal health. Following initial identification of "low-hanging fruit", however, the programme will be increasingly pressed to look explicitly at *how*, and not just *where*, efficiencies can be achieved.

In the absence of efforts to support public sector innovation and delivery of services linked to the Productivity Programme, gaining substantial efficiencies other than from staff cuts will be difficult – limiting opportunities for self-administered re-allocation. The Productivity Programme should better link reductions in staff with efforts to examine the capacity needs associated with work intensification, for example through analysis of work capacity and reviews to identify possibilities for business process re-engineering, administrative simplification, and value for money. This would also help identify innovative practices that could be generalised and reinforce the capacity of the Productivity Programme to help redirect resources to priority areas.

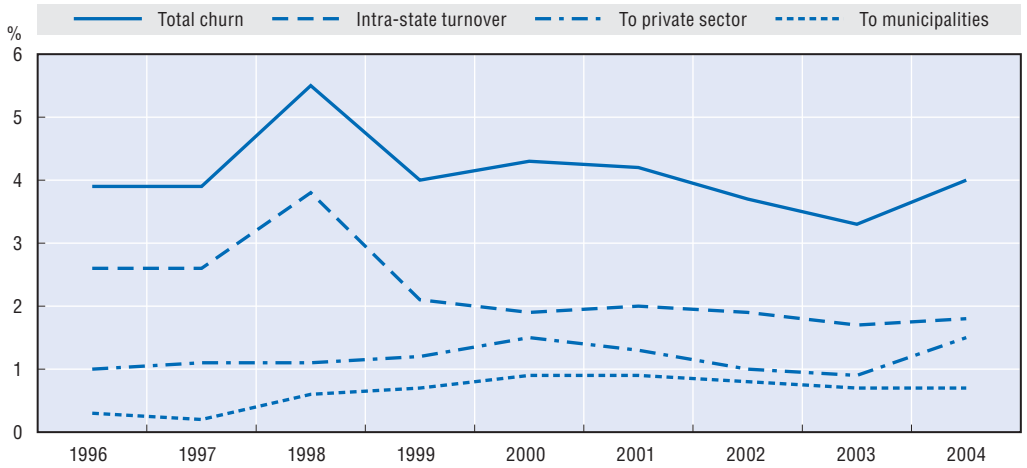
Workforce challenges are limiting resource flexibility in the Finnish public administration

Harnessing resource flexibility in the pursuit of strategic agility includes ensuring that the public administration's key assets – its staff – have the capacity and capability to achieve strategic agility. This includes staff skills and training, leadership, and mobility. Finland's public administration is approaching a critical time with the ageing of the public sector workforce and a large number of expected retirements over the next five years. While this situation has a high risk of paralysing the Finnish public administration, it also provides the opportunity for renewal and an impetus for driving a change in organisational culture. The Finnish public sector seems to be approaching a challenging stage in which yet-to-be-completed structural changes and continued ambiguities in cross-government

leadership may lead to an incapacity to adapt quickly to existing and future challenges. A number of features of existing systems present major barriers to moving towards strategic agility.

Low workforce mobility. The Finnish public administration system develops and values highly specialised expertise over generalist management skills, contributing to a lack of workforce mobility. In the Finnish public administration there is little mobility of staff across ministries at the state level (see Figure 1.6), between the state and municipal levels of administration, and between the public and private sectors. The lack of mobility encourages ministry silos at the state level, which create a barrier to horizontality. In addition, as many leaders are experts in their field rather than generalist managers, they do not have a good cross section of experience and thus lack horizontal and whole-of-government skills. The lack of mobility also increases distance between the state and citizens by impeding cross-fertilisation with municipal staff. The lack of public/private mobility inhibits the injection and adoption of private sector innovation.

Figure 1.6. **Staff mobility in the Finnish state public administration (1996-2004)**



Source: Ministry of Finance, Finland.

Nothing formally prevents mobility in the Finnish public administration, but a resistance to moving around may be a characteristic of Nordic culture. Personal preferences were cited as a key reason for the low workforce mobility – with the barrier to mobility being a collective cultural mindset. Due to a strong passion for municipal work in Finland, staff may prefer not to transfer to posts in the state administration, reducing state/municipal mobility. However, a number of people interviewed by the OECD who were in state leadership positions had worked either in municipal administration or the private sector. One hypothesis is that there is more mobility at the higher levels of the public service, but low mobility in the middle to low levels of the public administration, which are the feeder groups to management positions. The ageing of the public administration leadership and impending retirements leads to a risk that very low mobility in feeder groups will intensify ministerial silos and have a negative impact on horizontal working relationships.

Workforce capacity. Due to the demographic age imbalance in Finland, it is estimated that by 2020 half of the current personnel at the municipal level will retire. This will leave

municipalities competing against one another for employees. Similarly, at the state level, the ageing workforce will see a significant number of staff in the leadership pool retire in the next three to five years (80% of senior leaders). This staff turnover provides an opportunity for change and renewal. However, the significance of these retirements is not to be underestimated. A significant public administration capacity issue at both the local and state levels of administration will first need to be negotiated. To maintain civil service levels, the Finnish government will be required to recruit 20% of the available workforce in the coming years. In addition, there is also an urgent need for a transition strategy for leadership renewal ahead of the planned retirements. The government is aware of this problem and has been trying to put measures in place to mitigate its impact, for example, extending the retirement age and providing leadership training for those under age 45. It has not had much traction, however, in focusing the attention of the political level on this issue. Workforce capacity provides a justification for e-government and the Productivity Programme reforms; rather than replacing staff, the focus could be how to develop the capacities needed to allow the public service workforce to become more efficient, productive, and cross cutting in its outlook and working methods.

Multi-level governance

Strengthening the state government's strategic insight would clarify the direction and objectives of sub-national reforms

Strategic insight at the sub-national level requires the state government to create a strong strategic vision based on consultation, participation and engagement with sub-national actors. A whole-of-society vision requires ideas, information and buy-in from all key stakeholders to ensure that all of society's actors are working towards a common goal. To develop whole-of-society strategic insight that is supported by key stakeholders, the central government must adopt a stewardship role rather than bearing full implementation responsibility itself. In this respect, sub-national government is a key partner and deserves to be treated as such. This includes involving the sub-national level in a meaningful dialogue regarding strategic vision, consulting and engaging stakeholders in the development and implementation of the government's policies, and consulting the sub-national level as part of futures reporting development and evidence-based decision making processes. It also requires the central government to assist in capacity building at the sub-national level by providing tools to enable local initiative.

A key example of the importance of strategic vision is in the implementation of sub-national reforms (see Box 1.3). The PARAS and ALKU reforms highlight the importance of using business cases to determine when and how reforms should be implemented. The rollouts of both the PARAS and ALKU reforms seem to have resulted in confusion among some municipalities as to the government's strategic objectives and the benefits these reforms would create. This may have led some municipalities to "sit on the fence" and put off implementing reforms until they saw which types of reform had the most government support (municipal amalgamation *versus* enhanced co-operation). Municipalities have indicated that there is a need for greater clarity of the government's agenda and, as such, would prefer clearer guidance about their future plans for municipalities.

In examining the PARAS reform, the desired outcomes of the reform are unclear. The lack of strategic vision translates into a lack of clear targets. A lack of communication of the strategic vision and target setting means that it is difficult to determine the success of the reforms. For example, thus far the number of municipalities has been reduced from 418

Box 1.3. **Sub-national reforms – The ALKU and PARAS reforms**

Finland has recently implemented two reform processes aimed at strengthening the municipal and regional levels of administration – the PARAS and ALKU reforms. The objective of the PARAS reform, currently underway, is to ensure a sound structural and financial basis for municipal services in order to secure the organisation and provision of these services into the future. As part of this reform, municipalities are encouraged to either merge, or to increase horizontal co-operation via joint service agreements in order to improve efficiencies in service delivery. Service structures are to be strengthened by forming larger catchment areas for services for which the population basis provided by individual municipalities is insufficient, and by increasing co-operation among municipalities. The expectation is that these reforms will improve operational productivity by making the organisation and production of municipal services more efficient.

The ALKU project, which was recently completed, was intended to rationalise the system of regional state administration by clarifying and re-organising the roles, duties, steering and regional division of all regional administrative authorities. A key theme of this reform was to increase the powers of the 19 Regional Councils to bring together and co-ordinate regional development activities, and to give the Councils increased responsibility for strategic tasks. Existing regional state authorities (of which there were 54) were merged into two new regional state administrative authorities: the Regional Administrative Agency (AVI, six agencies) and the Centre for Business and Industry, Transport and the Environment (ELY, 15 centres).

to 348 as a result of the PARAS reforms, but this figure does not reveal much about the success of the mergers. In some regions, 10 municipalities merged into one; in another, three merged to form one of 130 000 inhabitants. Some are of the view that the number of municipalities should be significantly reduced, to perhaps around 100. Because the parameters of what would define success have not been articulated, it is difficult to know when objectives have been achieved. While the final number of municipalities is probably not a useful indicator of the success of the reforms, efficiency targets and implementation timeframes – as well as parameters concerning the establishment of joint municipal bodies – would help guide implementation.

The use of business cases brings the benefit of including cost-benefit analysis, and wide consultation and gathering of data on impacts but also provides a basis from which to clearly communicate the rationale of the reforms to stakeholders. Two strategy documents, which were released following the January 2010 rollout of ALKU, lay out strategic aims for regional bodies tied back to the Government Strategy Document and other government programmes. Each set of bodies also has one strategic performance target agreement laying out targets linked to their strategy document, which can be revised annually. While only recently available, these documents may serve to better inform more sub-national authorities about the purpose and structure of the ALKU reforms and result in greater buy-in to the reforms.

These strategic planning documents result from efforts undertaken during the rollout of the programme; however, they would have been even more powerful if developed in conjunction with the reform plans. The PARAS and ALKU reforms have different objectives, take place at different levels of government (PARAS at the municipal level and ALKU at the regional level), and have followed different but overlapping timelines. That said, because

they impact many of the same sub-national actors, it is all the more important that those actors understand how the reforms interact. Further consultation with municipalities could be useful to assess whether or not the additional information has had an impact, and to determine what more is needed, including how the PARAS and ALKU reforms interact, how individual authorities stand to benefit, next steps and future vision, and how individual authorities can make informed decisions on how to implement reforms.

There is an indication that the complexity of Finland's sub-national reforms may reflect a political agreement, but if the complexity of the reforms is not addressed it will remain a challenge for implementation and for achieving the intended objectives. Thus, it is critical that the national and sub-national levels work together to develop a clear strategic vision for sub-national arrangements and strive to maximise coherence in any new sub-national policies. Perhaps such an overall strategic vision for the sub-national level could be to gain agreement to maximise areas based on their differences. This scenario could enable multiple models of regionalisation based on the needs of particular areas: for example, a region-based development model could be used in more sparsely populated central and eastern Finland, and a municipal merger approach could be used in the more densely populated southern areas of Finland (with the exception of the Helsinki area). Developing a shared strategic vision between the sub-national and national levels will require collective commitment by both levels to ensure the outcomes are achieved.

Collective commitment at the sub-national level requires horizontal and vertical alignment of objectives and incentives

Municipal autonomy in Finland is enshrined in the Finnish Constitution and affects interactions between the national and sub-national government. It is important for both national and sub-national actors to realise, however, that collective commitment is needed precisely because failure to act in a unified way will endanger their ability to meet societal obligations and demands. Moving to an environment of collective commitment across sub-national governments will require a new relationship between the state and sub-national levels. Given Finland's past experience, collective commitment will require the state to enhance its stewardship role in partnership with the sub-national government. However, to do this the state will need to give local authorities the tools to achieve shared objectives within their scope of autonomous authority, and the sub-national level will have to collectively buy in to the national government's strategic agenda. Such a vision should also include a key role for the Association of Finnish Local and Regional Authorities.

The recent implementation of the ALKU reform provided an example of the need for collective commitment at the sub-national level. While the objective of the ALKU reform was to improve regional co-ordination and co-operation between state sectors, there is a view that the reform did not go far enough. The clarification of roles and responsibilities of the state regional administration (AVIs and ELYs; see Box 1.3) and of the municipal-based Regional Councils will indeed simplify arrangements and provide greater transparency regarding duties, which can be confusing given the differences between the two regional administrations: state-based, top-down AVIs and ELYs, and municipal-based, bottom-up Regional Councils. Linkages between the ELYs and Regional Councils are in place. Further building and strengthening these relationships will improve opportunities for coherence. Despite this, the new structure does not sufficiently address the disconnect between policy development and budget management – central authorities still retain budget control and funding is a responsibility of the state, while the Regional Councils are responsible for

setting development policy for their territories. Therefore, while a goal of ALKU may be to strengthen Regional Councils by increasing their participation in the regional development process, their persistent lack of budget authority reinforces the status quo. For these reasons, ALKU should be viewed as a first step towards a fuller regional reform process.

Collective commitment at the sub-national level can be difficult to achieve, but it does exist in Finland. The key appears to be changing the relationship between the state and sub-national levels. The Regional Cohesion and Competitiveness Programme (Coco) provides a good example of the national and sub-national levels' ability to forge such a new relationship. Under the auspices of the Ministry of Employment and Economy (MEE), Coco is a network policy model designed to enhance regional competitiveness while balancing regional development by supporting the interaction and linkages of key regional development actors. The programme fosters co-operation between municipalities in 52 defined Coco regions, and among Finland's current 19 regions. Coco is a good example of a programme designed with, and to promote, information sharing. The focus of Coco is bottom-up participation and idea generation. The state actively consults with municipalities and collects and collates ideas from the local level as part of the Coco agenda. In this way, Coco provides a successful model for collective buy-in at the sub-national level.

Additional capacity may be required at the sub-national level to achieve strategic outcomes

Internationally, the present financial and economic climate is having a negative impact not only at the central level, but also at the sub-national level. In Finland, local authorities are responsible for providing essential public services, with close to 40% of total government expenditures at the sub-national level (see Box 1.4).[11] In the changing economic and demographic environment, the Finnish government has become aware of

Box 1.4. **Basic Services Programme – Responding to the need for increased capacity**

Basic services – *e.g.,* primary and vocational education, primary healthcare, basic social services – are funded in part by the state government, while legislation provides for a minimum standard service level for certain services. Municipalities are responsible for determining the best mix of services, and mechanisms for their delivery to the public.

The Basic Services Programme was introduced as a tool to facilitate the management and financing of local government services, and to improve linkages across lines of service delivery to encourage innovation and to build local capacity. The programme aims to introduce a new model of working across jurisdictions. It looks at the state of basic local government services, and evaluates the outlook in local government finances and the impact of the government's budget proposal on local government finance. It evaluates changes in the local government operating environment and the demand for services, trends in local government finances and changes in local government functions, and draws up a plan of the measures required to balance revenue and expenditures. The Programme's budget is drawn up in connection with the government's budget proposal.

In an increasingly tight fiscal environment, a key challenge for the central government is how to monitor the effectiveness of local governments' spending. With increased discretion for spending state grants through block grants introduced as part of the Basic Services Programme, the municipal and central governments will need to agree how to ensure

Box 1.4. **Basic Services Programme – Responding to the need for increased capacity** *(cont.)*

accountability to citizens on service quality and the use of public funds. While the Basic Services approach may give municipalities additional flexibility, so far it has not led to the accompanying clearly articulated performance expectations aimed at driving efficiency, productivity, innovation, and service-quality improvements.

There is also a need to balance the fiscal capacity of municipalities (and of central government) with citizens' expectations (and the Constitutional requirement) of effective public services regardless of location. While this may require changes in fiscal approaches, it may also require communication with citizens as to the reality of moving forward in a "business-as-usual" manner. Citizens need to be educated about the looming need for a trade-off between maintaining high-quality, widely accessible services with convenient service access (immediate service proximity, regardless of the need or frequency of service usage). However, this discussion can only take place effectively if it is informed by information about the quality, usage and cost of services.

Another challenge for basic services is the capacity to maintain the same type, level and quality of services across the country. Inequity is also evident in the payment of social security benefits; minimum payment levels are identified in legislation, but municipalities are able to provide benefits above this amount as they see fit. The work of the SATA Committee, which is looking at payment simplification and streamlining, will seek to consolidate some state-based payments and merge some municipal-based social security payments into the KELA portfolio. This will help reduce the inequitable delivery of social security payments in Finland, but this work could beneficially be expanded to include the delivery of all social and health services and benefits.

Differences in service delivery across municipalities and disconnection in service provision across providers is reinforced by stand alone-ICT systems in each municipality and regional administration. This situation, coupled with the decision making autonomy of municipalities, has created an environment where basic services are not joined up across municipalities (outside of joint co-operation structures) and across levels of government. Thus, information is not shared across municipalities for a given service and among service providers in a given location, *i.e.,* information does not move along the service delivery chain to the next provider. Citizen-centred service delivery is more than just the co-location of services at a municipal level; it requires the provision of all basic services to the citizen in a seamless inter-connected manner – the "no-wrong-door" approach in which citizens get the help they need regardless of which jurisdiction of government they contact.

the growing need to align and integrate systems and services in order to harvest efficiencies and increase the sustainability of government programmes. At the sub-national level, however, resource flexibility is less of an issue of moving resources to changing priorities as one of realising efficiency gains and finding innovative ways to direct funding to the efficient, effective and equitable delivery of public services.

Some officials told the OECD that the PARAS reforms will not strongly increase efficiencies for a number of reasons: that rules of engagement for co-operation among municipalities are too loose and local governments are able to organise their co-operation differently; that following the mergers of local governments, staffing levels may remain the same for up to five years, thereby minimising any immediate efficiency gains; that there

are no set fiscal and/or efficiency goals for the reforms; and that there is a risk that changes might decrease productivity and raise costs. It has also been suggested that the municipal reforms are too focused on achieving actual mergers rather than on taking action to strengthen structural and financial frameworks. Many municipalities seem to be struggling to cope with the administrative changes required as a result of their mergers and admit that the ability to achieve innovation in service delivery (which should lead to efficiencies) will be some years off. Municipalities fear that the level of service delivery may even decline as a result of participating in mergers due to the energy and time needed for administrative adaptations. In fact, some municipalities suggested that stage one of the merger is to implement administrative changes and stage two will be to examine and implement innovations in service delivery practices.

In recent history, municipal capacity to maintain efficiency gains in Finland has been low. In the 1990s, municipalities ran out of funds and investment levels were at zero. They addressed this issue through workforce reduction. Because local governments generally ran a surplus, they were able to reduce their expenditures quickly. However, this reduction was not accompanied by structural changes in service production. As such, after the recession when Parliament ran a campaign to re-invest funding into the municipalities, the money was used for postponed investments and for re-staffing. Once staffing levels were back in place, there was a noticed productivity drop. In other words, reductions made due to the crisis were not maintained once the crisis passed. In the context of the current crisis, this may be happening again; municipalities are reducing expenditures, not through structural means, but through emergency measures, such as reducing staff, giving holidays and temporarily closing schools.

The demographic changes in Finland (*e.g.,* migration, ageing, etc.) combined with fiscal and other resource pressures are creating a service delivery environment which puts at risk equity in services for citizens across territories. The constitutional autonomy of municipalities enables them to implement services based on their specific demographic needs. At the same time, municipalities must meet mandatory minimum service levels in accordance with the Constitution. This helps ensure a degree of standardisation across municipalities. However, it also requires a prioritisation of funds and resource allocation which may not necessarily be representative of municipalities' own perceptions of their particular needs. This can create a mismatch between the service priorities of the central level and those of individual sub-national authorities, creating a multi-level tension in service delivery matters (examples include the delivery of joined-up health services).

While the financial situation at the sub-national level is a critical issue, so too is its capacity to absorb reforms and develop innovative responses to harvest efficiencies and increase productivity. In this respect, the capacity and capability of sub-national administrations is an important aspect of achieving strategic agility for the nation as a whole through increased resource flexibility. Innovation is needed at the local level because this is where services are delivered and where staff are located. Nearly 430 000 staff are employed by local and joint authorities, which constitutes one-fifth of Finland's entire workforce – as compared to around 90 000 staff at the various levels of state government.[12] A stewardship relationship is therefore needed between central and sub-national government, and with key stakeholders such as the Association of Finnish Local and Regional Authorities. Such a relationship would be based on developing commonly agreed expectations for service delivery and quality expectations, as well as the resources required to meet them, both in financial and capacity terms. While the Basic

Services Programme sets the fiscal and regulatory framework for the delivery of basic services, it has not sufficiently addressed performance expectations, on the one hand, nor what is needed to stimulate local innovation for improved service delivery, on the other. The sharing of good and innovative practices, the development of common standards and service delivery platforms, the introduction of business-case and analytical tools to choose the right reforms, and regular consultation at all stages of policy development are all necessary to make this new relationship a reality.

Conclusions

The current set of public administration reforms in Finland is comprehensive and ambitious. These reforms seek to strengthen the existing system, but they do not seek to fundamentally change it. To sustain the current structure for public services, however, Finland may need to be even bolder and to go further in its reforms in order to achieve the strategic agility to respond to the current and future needs of its people. Shifting the current paradigm could be achieved by turning the public administration on its head, by changing its focus from better connecting ministerial stovepipes and local government boundaries to better addressing the needs of its citizens and businesses. Such an approach does not necessarily imply radical structural change – though some additional structural reforms may be required. Instead, it means developing a closer relationship among citizens and businesses and the public sector as a whole – regardless of boundaries or levels of government – that would reduce distances and build citizen engagement by focusing on how the different parts of the public sector can better work together to respond to a shrinking public service and growing costs of service delivery.

Many, if not all, of the elements discussed in this report are either already in place or are being explored by the Finnish government in its continuing efforts to innovate. Some of these efforts, however, will need to be strengthened and their coherence improved in order to achieve an overall vision. In the Finnish context, achieving such a vision involves reinforcing Finland's e-government strategy and governance framework and building a new relationship among the state, local authorities, civil society organisations and businesses. It requires more coherent service delivery, improved planning and foresight capacity from a whole-of-government perspective, stronger horizontal linkages across state government and reinforced capacity and leadership at all levels of government to better communicate and implement a common vision. The realisation of this vision also requires developing a consensus among all stakeholders – government, citizens, unions, business, and civil society – on overall objectives and goals for Finland, and collective responsibility for achieving these objectives. This can only be accomplished through a transparent and interactive process of engagement with reinforced leadership and strengthened steering capacity.

Notes

1. See Table 1.1 in OECD (2009), *Society at a Glance*, OECD, Paris, p. 11.
2. The economic analysis and projections in this document are based on the *OECD Economic Outlook 86*.
3. Public debt: measured by general government gross financial liabilities as per cent of nominal GDP.
4. *OECD Economic Outlook 86 Database*.

5. Old-age dependency ratio: measured by the ratio of the population aged 65 over the total population.
6. OECD Statistics.
7. Ministry of Finance (2009), *Budget Review January 2009*, Ministry of Finance, Helsinki, p. 25.
8. Business case refers to a communicated rationale for a reform/project/change providing the vision and outcomes to be achieved, the methodology for achieving them, a cost-benefit analysis, impact assessment, engagement strategy and evaluation framework.
9. Prime Minister's Office (2007), *Improving the government Foresight Reporting Procedure – Summary*, Prime Minister's Office – Finland, Report 1/2007, Helsinki, p. 12.
10. Ministry of Finance (2009), *Budget Review January 2009*, Ministry of Finance, Helsinki, p. 26.
11. *OECD National Accounts Data*.
12. The introduction of university reforms, which came into effect on 1 January 2010, changed the employment status of aproximately 30 000 university staff (reducing the number of state administration staff from 124 000 to 90 000).

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Chapter 2

Sustainability of the Nordic model: The Role of the State

Introduction

Since the mid-1990s, and prior to the current global economic downturn, Finland has enjoyed an encouraging economic position. GDP has grown strongly in a low-inflation environment, with rising employment and a sound fiscal position. Critical to this success was the public administration's role in supporting Finland's remarkable transformation from an economy specialised in traditional industries to a diversified and modern economy, and in helping the country to navigate the Nordic economic crisis of the early 1990s. As a result, the Finnish citizenry today has a high level of trust in its public administration and sees it as a key partner for service delivery and economic development, as well as the mechanism to realise key Finnish values of social solidarity and equality through its crucial re-distributive role.

The role of Finland's public administration has increased due to complex policy challenges which threaten the sustainability of the Nordic model, including shifts in the global economic environment and, more recently, the impact of the global economic and financial crisis and the ageing population. In addition, internal migration from rural areas due to urbanisation – a more recent phenomenon in Finland than in other European countries – is also posing geographic challenges for public service delivery. In this context, rising demands and expectations from citizens concerning both the quality and equality of public services are increasing pressures on the public administration to improve its efficiency and responsiveness, and to be innovative and flexible in responding to longer-term issues.

This chapter describes the economic and demographic context in Finland and identifies the rationale for reviewing Finland's public administration. It starts by highlighting Finland's characteristics and policy approaches, which are shared with four other countries, through the use of the Nordic model.[1] These common features are crucial to understanding Finland's successful economic and social performance until the recent global economic and financial crisis. Recent challenges which pose a threat to the sustainability of the Nordic model have provided an opportunity to review the operation of the public administration with the view to fine-tuning its operations to maximise its future efficiency and effectiveness. These will be explored in depth throughout the subsequent chapters of this report. In providing the context underlying this report, this chapter:

- describes the key elements of the Nordic model;
- provides an overview of Finland's economic and financial position;
- discusses the challenges threatening the sustainability of Finland's Nordic model; and
- presents a rationale for reviewing the response of the public administration.

The Nordic model's common characteristics, and its application in Finland: A successful combination of economic and social policies

Nordic countries' social and economic systems are based around a common set of basic values. While country approaches may not follow each other exactly, sufficient

similarities among Nordic countries have invoked the establishment of a recognisable Nordic model. The Nordic model refers to the common socio-economic aspects shared by the five Nordic countries: Iceland, Denmark, Finland, Norway and Sweden. Because their common features, policy approaches, and success stories distinguish them from other comparable groups of industrialised countries, they are often examined as a group.

Public administrations in all the Nordic countries have created economic and social policies intended to strengthen and sustain economic growth and social well-being. The main characteristic of Nordic countries has been the ability to attain strong economic growth by combining openness and adaptability to globalisation through economic policies, with collective risk sharing through social policies in a mutually supportive and inter-connected way. The intrinsic components of the Nordic model should therefore be understood as complementary and inter-related elements of a comprehensive and, to some extent, coherently articulated system.

The similarities among Nordic countries can be considered key features leading to the model's relative success. However, while these similarities are important, they are not in themselves the essence of the Nordic model – its crucial characteristics are more difficult to capture, and relate to intangible and systemic features.[2] That said, the success of the Nordic model can generally be captured by understanding the key elements of the model, which include: openness to trade and competitiveness; labour market institutions and policies; social protection and the welfare state; and fiscal policy.

Globalisation: Openness to trade and competitiveness

As relatively small economies characterised by a constrained resource base, a peripheral location and a resulting dependency on imports, it is understandable why Nordic countries have followed a traditional commitment to free-trade policy. With the objective of high standards of living, Finland and its neighbouring countries relied on their relative competitiveness in international trade. Barriers to trade – except for agricultural products – and foreign investment are low, and Nordic countries have historically participated strongly in international trading systems. Furthermore, Nordic countries have created competition-friendly regulation in markets for goods and services. In this respect, the role of the public administration in Denmark, Finland and Sweden was crucial in successfully preparing the regulatory environment for EU membership.

However, after financial liberalisation in the 1980s and deep economic recession in the 1990s, the Nordic countries profoundly re-structured their economic policies towards deeper market-oriented measures. Special consideration was given to policies supporting R&D and innovation to develop competitiveness in the information and communication technology (ICT) market, leading Nordic economies towards knowledge-intensive activities. The biggest contribution to economic growth in Nordic countries has been an increase in productivity levels, mostly as a consequence of high levels of R&D and investment in ICT.

Competitiveness thrives within the Nordic economic environment for many reasons. Innovation is stimulated within an environment of strong economic equality, so the consequences of economic failure are somewhat more bearable. In addition, transaction costs are lower in an environment where there is a high degree of mutual trust among economic agents. Thus, it is not surprising that Nordic countries today score remarkably well across international competitiveness rankings. According to the 2009-10 *Global*

Competitiveness Index,[3] Finland ranks fifth among OECD countries, behind Sweden and Denmark, third and fourth respectively. Additionally, the World Bank's *Ease of Doing Business Indicator*[4] ranks Nordic countries within the top 12 OECD countries.

Two factors may explain why Nordic countries have successfully harnessed globalisation for higher productivity and higher living standards. Firstly, public authorities had the strategic insight to specialise early in the production of fast-growing and relatively profitable skill-intensive products, such as conducting strong innovation frameworks in ICT markets. This shows their strategic agility in adapting to a new environment by building capacity to lower their risk of exposure to globalisation. Secondly, Nordic countries benefited from a self-reinforcing cycle: innovation frameworks for human capital to develop and maintain high levels of education throughout the workforce, combined with high-quality public institutions that inspire citizens' confidence. A highly educated and relatively content workforce renders economic and social policies more politically acceptable, and clearly demonstrates the dividend reaped from high levels of trust in government.

While globalisation offers numerous beneficial opportunities for economic growth, it also opens many unpredictable risks and threats – such as increased factor mobility and off-shoring activities and layoffs of workers. These new risks and threats put pressure on labour markets and social safety nets. To counter-balance the potentially negative effects of these new threats, the welfare state and labour market institutions work together via the public administration to guarantee the Nordic type of "social contract": in exchange for a strong public sector, a large share of national income is absorbed and re-distributed through social expenditures. Finland and its neighbouring Nordic countries have managed to set up systemic inter-relations between economic policies, such as R&D for new technologies or environmental policies, and key institutions, such as labour market institutions and the welfare state. In a sense, the Nordic approach may therefore be characterised as a response to the challenges of globalisation.

Labour market institutions and policies

Nordic countries share similar labour market structures. Public authorities offer relatively low employment protection and high unemployment protection, combined with high income-support benefits, strict activation policies and a high degree of centralised wage co-ordination. Labour markets in Nordic countries are also characterised by high participation rates, relatively low long-term unemployment and high job mobility. For example, in 2008, all Nordic countries except Finland ranked among the top five OECD countries in terms of labour force participation. Finland still ranks very well, in 10th position with 76.7% compared to an OECD average of 70.8%.[5]

Finland and the other Nordic countries have been very successful in their attempts to benefit from the opportunities of globalisation and to contain the spread of threats and risks to the social contract. Nordic economies are top performers in terms of egalitarian criteria in labour markets such as women's labour force participation, with an average of 81.1% across the five countries, over 10 percentage points above the OECD average of 70.8% (Finland ranks 10th among OECD countries with 76.7%).[6] However, what specifically distinguishes them from other OECD countries is their comparatively high achievement on most societal outcome indicators. They have managed to concurrently contain inflation and unemployment, provide first-class access to health facilities and offer an excellent education environment.

Social protection and the welfare state

While it is difficult to depict a unique Nordic model in practice, Nordic countries' public administrations share common successful approaches. For example, social benefits and public services are provided in a more comprehensive way than in other OECD countries. The Nordic experience has proven that social protection and economic development can work in tandem, in a mutually reinforcing way. High economic growth has been combined with a reduction in poverty and income inequality, coupled with close to full employment. A strong welfare state is compatible with strong economic growth.

The Nordic countries have also shown that social protection can play a crucial role in economic development. Social policies were originally introduced to assuage the difficulties faced during the process of transforming an agrarian society into an industrial one. Social and housing policies smoothed the agrarian labour force's migration from rural to urban areas. In addition, social policies helped to reduce income disparities between rural and urban areas while family policy programmes supported dual-earning households, promoted gender equality by enhancing women's labour force participation and smoothed economic growth.

Nordic countries' economic and social success is by no means accidental. It is the result of the public administrations' successful implementation of national social policy programmes; the public sector in Nordic countries has been particularly open to the idea that social policy can go beyond a protective guarantor against social risks. It is also believed that social policy strengthens social interactions within society. Successful universal social programmes, such as in education and healthcare, both unify people and social groups, and promote stability and predictability within society.

Fiscal policy

The effectiveness of the large re-distributive feature of Nordic public sectors depends on efficient and effective public expenditure. The high tax burden in Nordic countries is well established. In 2006, the average level of taxation for general government revenue as a share of GDP for Nordic countries was 37.9%, which is high compared to the OECD average of 27.0%. Finland has the lowest tax burden among Nordic countries with 31.1%, and Denmark's rate of 48.5% is the highest. The only non-Nordic country with a similar level of taxation is New Zealand, with 35.5%. General government revenue as a percentage of GDP in Nordic countries is also very high, with an average of 54.6% compared to an OECD average of 42.8%. Finland's government revenue represented 52.9% of GDP in 2006.[7]

This relatively high level is justified in order to finance the large majority of public expenditure, and also the comprehensive social spending on education and healthcare programmes. General government expenditure in Nordic countries represented 47.4% of GDP in 2006, compared to 42% for OECD countries on average. Nordic countries' 2006 average fiscal position of 7.2% is considerably stronger than the other 24 OECD countries' 1.1%.[8] These figures, though static, give a very positive indication that the high-quality public services in Nordic countries are delivered efficiently, or at least without incurring budget deficits. Nordic countries therefore not only differentiate themselves from other OECD countries by their relatively high levels of taxation and government revenue, but also by their relative success in delivering public services efficiently and effectively – in other words, by the capacity of public administration to put government revenue to efficient use.

Together with the common approaches described above, this success plays a key role in both offering a collective mechanism for risk sharing, and in safeguarding the political acceptability of structural reforms. The public administration plays a crucial role in effectively collecting taxes and re-distributing these revenues for efficient public service delivery. The public sector in Nordic countries has therefore helped to expand the size of the "economic pie", but even more so, to share the distribution of the "pie". This is reflected by the nature of the tax and welfare systems. It is culturally and socially accepted, and expected, that the "winners" of structural reforms share their gains with the "losers" – the collective risk-sharing mechanism. Income equality and poverty rates are below the OECD average in all Nordic countries except Iceland. The recent strong economic performance of Finland and other Nordic countries is fully recognised. (Performance data is presented in the following section of this chapter, on Finland's economic and financial position.) However, in light of the recent global economic and financial crisis, questions have been raised as to whether incentives associated with high taxes and a generous social security system are sustainable over the long term.

Finland's economic and social performance

The Nordic model describes characteristics of Finland's economic and social structure, and provides guidance to understanding its economic and socio-demographic experience and performance. Though Finland differs from other Nordic countries in various economic and social aspects – for example, it is the only Nordic country that is a member of both the EU and the EMU – understanding its economic and social performance can sometimes be facilitated by comparing it to both Nordic countries (Norden) and the OECD.

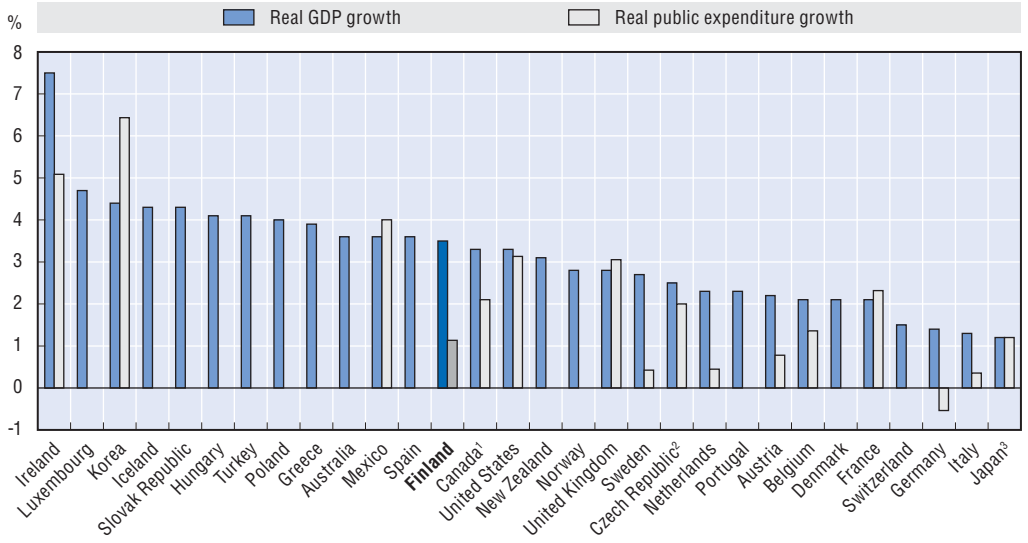
Finland has a strong economic history. Its first significant phase of economic development occurred under Russian rule, when Finland embarked on the path of industrialisation with the rise of the wood processing industry in the 1870s. Following independence in 1917 and the subsequent loss of Russian markets, Finland experienced its second phase of economic development, which led to the expansion of the pulp and paper industries in the 1930s. During the period of the Second World War until the late 1970s, Finland was under constant pressure from a consultation agreement with the Soviet Union which influenced the composition and some actions of governments. However, as economic and social conditions improved during the late 1970s and into the 1980s, successive Finnish governments were able to retain power throughout their whole four-year terms without difficulty. During this period, Finland gradually became a Western market economy, with the Soviet Union accounting for only 20% of exports. However, Finland's economic system continued along traditional lines, where ownership was closely guarded and cartels played an important role. The expanding economy allowed the Nordic welfare state system to develop. Employers and trade unions concluded nationwide collective bargaining agreements, which the government supported through tax and social welfare incentives. Nevertheless, Finland's foreign policy had to be balanced very cautiously during the Cold War, as it participated both in progressive Western trade liberalisation and bi-lateral trade with the Soviet Union.

Finland experienced a severe economic recession in the early 1990s, due in large part to the loss of export markets with the collapse of the Soviet Union, but also influenced by the Western European recession and difficulties in adjusting to the new liberal order of international capital movement. GDP fell by 7.1% between 1990 and 1992, and the unemployment rate rose to 16.7% in 1994.[9] To survive, the country had to shift from a low-skilled industry-intensive market towards a skill-intensive economy. The public

administration played a large part in transforming the economy with considerable reforms such as privatisations and innovation-led financing in targeted areas of research and development, but also by entering the EU in 1995 (by referendum). As a result, Finland's economy prospered.

Finland's ability to adapt to a changing economic environment (as noted during the early 1990s recession), and a tradition of fiscal responsibility put Finland in a good position going into the recent global financial crisis. Between 1995 and 2005, Finland's GDP grew at a real average annual rate of 3.5% while public expenditure grew at a real average annual rate of only 1.1%[10] (see Figure 2.1). The difference in the evolution of these two indicators demonstrates Finland's success in achieving a public budget surplus nearly every year over the same period. General government expenditure as a percentage of GDP in 2006 was 48.9%, ranking seventh in the OECD29 and slightly above the average of 42% – but significantly less than the 61.6% level of 1995, at the time when Finland and Sweden were the highest relative public spenders (see Figure A.1 in Annex A). However, Finland ranked 10th in terms of government expenditure per capita in 2006, with USD 15 992 in purchasing power parity (PPP) terms (see Figure A.2 in Annex A). Between 2000 and 2006, the annual real percentage change of government expenditure per capita was 2.8%, ranking 10th in the OECD29 and slightly above the average of 2.1%.[11]

Figure 2.1. **Average annual growth of real GDP and public expenditure, 1995-2005**

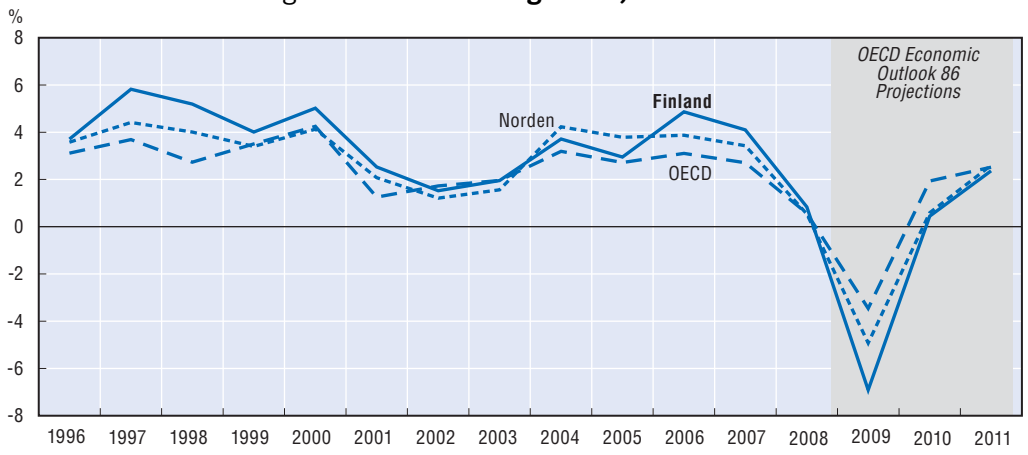


1. 1998-2003
2. 2002-2004
3. 1996-2005

Source: OECD Statistical Database.

Throughout recent history, Finland has been a relatively robust economic performer, particularly in terms of economic growth, when compared to OECD countries. During the period between 1995, when Finland became a member of the EU, and 2008, before the global economic and financial crisis, Finland's economic growth was always stronger than the OECD average. And except for a short period between 2003 and 2006, it was also more dynamic than the average of Nordic countries (see Figure 2.2). However, despite these past strong figures, growth in Finland is expected to be affected more than most OECD countries by the global financial and economic crisis.[12]

Figure 2.2. **Real GDP growth, 1996-2010**

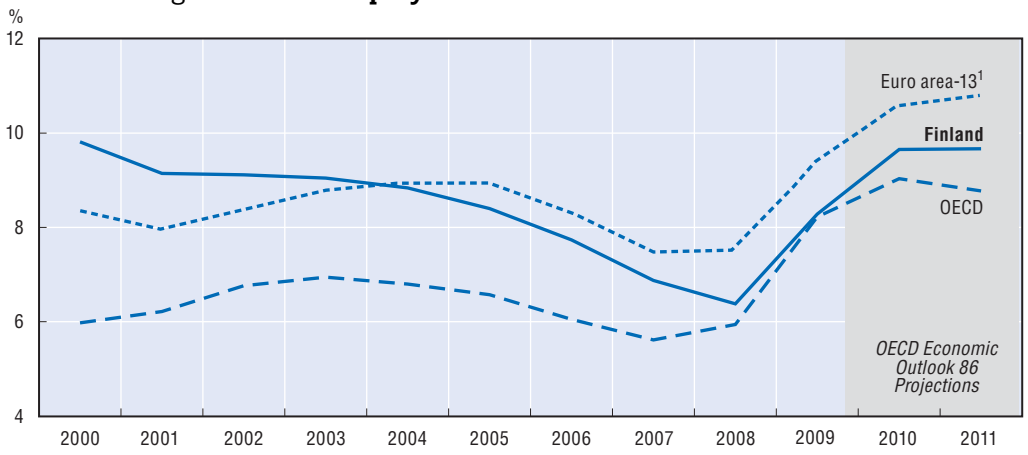


Source: OECD Economic Outlook 86 Database.

In addition to strong economic growth, Finland has also managed to keep inflation (as measured by CPI) under control. Since 1995, inflation has been kept in check, following a cyclical path around the euro area average. Inflation was significantly below the euro area average when Finland joined the EU, and then exceeded this level during the three-year period between when the euro came into force in 1999 and when Finland's ICT sector completed its second restructuring phase in 2001. Inflation then remained at reasonably low levels until the current global economic and financial crisis (see Table A.1 in Annex A). OECD projections for 2010 in Finland do not predict deflation, which has occurred in Sweden, or hyper-inflation, as occurring in Iceland.[13]

Despite positive economic growth and low inflation, Finland has not been the best Nordic performer in terms of unemployment. However, the government made significant progress, particularly before the onset of the global economic and financial crisis, in reducing unemployment levels. Despite the severity of the current crisis, and even though Finland's unemployment rate is climbing (from 6.4% to 8.3% between 2008 and 2009), it remains below the euro area-13 country rate of 9.4% (see Figure 2.3).

Figure 2.3. **Unemployment rate in euro area and Finland**



1. Euro area-13 refers to Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the Slovak Republic.

Source: OECD Economic Outlook 86 Database.

Finland's relatively strong economic history has enabled it to direct public revenue towards achieving collective social and welfare outcomes for Finnish citizens. Finland ranks second best overall (in equal position with Australia and Sweden, behind Norway) in terms of eight headline social indicators identified by the OECD (see Table 2.1).[14]

Table 2.1. **Headline social indicators, most recent period**

	Self-sufficiency		Equity		Health		Social cohesion	
	Employment-to-population ratio, total	Share of students with insufficient reading competences	Gini coefficient of income inequality	Gender wage gap	Life expectancy at age 65, men	Infant mortality	Subjective well-being	Crime victimisation
	2007 levels	2006 levels	2004-05 levels	2006 levels	2006 levels	2006 levels	2006 levels	2005 levels
	OECD30	OECD30	OECD30	OECD28	OECD30	OECD30	OECD30	OECD26
Finland	**14th**	**1st**	**8th**	**15th**	**20th**	**4th**	**2nd**	**9th**
Denmark	4th	9th	1st	8th	24th	13th	1st	21st
Iceland	1st	17th	12th	25th	4th	1st	16th	24th
Norway	3rd	21st	11th	6th	9th	6th	4th	13th
Sweden	5th	8th	2nd	11th	10th	5th	10th	14th

Source: OECD, *Society at a Glance*, 2009.

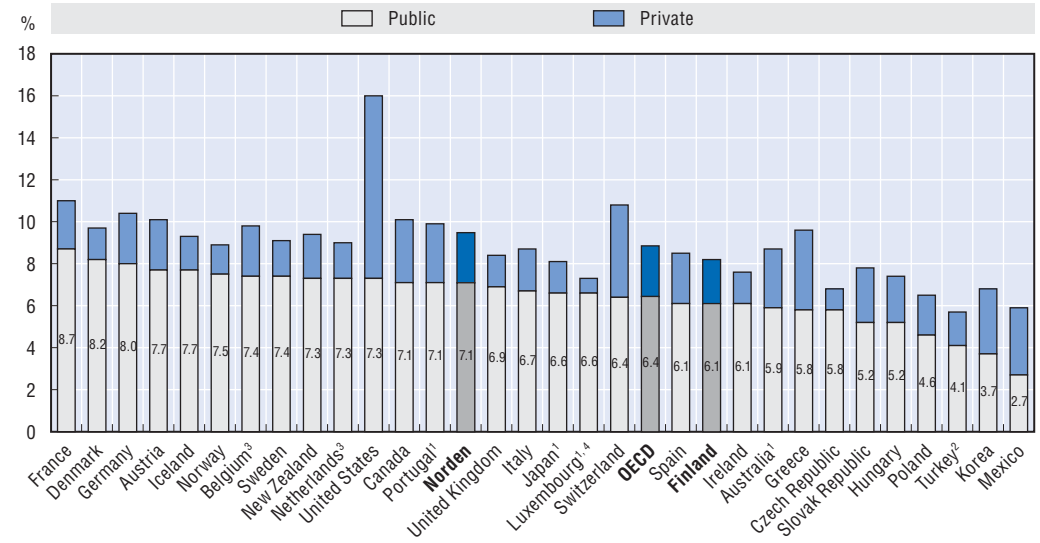
Finland ranks among the strongest countries within the OECD in key societal indicators, such as education and life satisfaction (see Figure A.3 in Annex A). In 2005, Finland's share of public expenditure on educational institutions was 96.1%, one of the highest among OECD[15] countries (the OECD average was 73%). This investment has had positive outcomes; higher education attainment in Finland is higher than the OECD average (28%), with 36% of the Finnish population aged 25-64 holding qualifications at the tertiary level in 2007. Finland has been internationally recognised for achieving the highest rankings in successive OECD PISA surveys of 15-year-olds' educational knowledge and skills.[16] (The last rankings were published in 2006 and the next results will be published in 2010.[17])

While Finland's public expenditure on health as a share of GDP is low compared to the other Nordic countries (6.2% and 7.3%, respectively) and is slightly below the OECD average (6.3%), life expectancy at birth in Finland is close to the OECD average (see Figure 2.4).

The degree of income inequality is often regarded as an important indicator of a society's "fairness". A high level of income inequality may also be detrimental to social connectedness within countries.[18] Income in Nordic countries is much more equally distributed than in most OECD countries (see Figure 2.5). Between the mid-1980s and the mid-2000s, Finland experienced the strongest rise in income inequality among OECD countries (see Figure A.4 in Annex A).[19] However, despite this increase, income inequality as measured by the Gini coefficient of household disposable income was relatively low in Finland in 2004. It ranked seventh among OECD countries, and Finland's GNI per capita is the lowest among Nordic countries, but income is slightly more equally distributed than in Norway and Iceland.

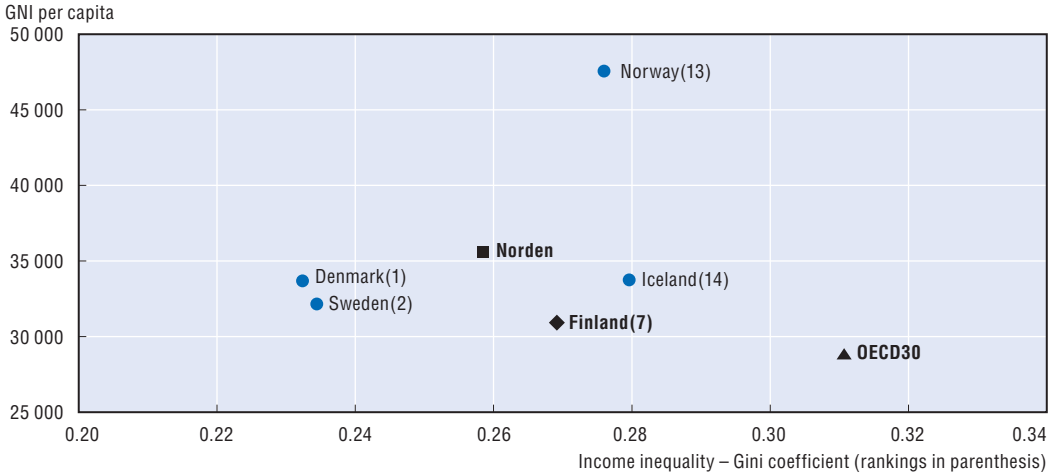
Universal access to government services is another key characteristic of the Nordic model. Finland's small population is widely dispersed over a large land mass, which has posed challenges for the government in providing services within close proximity to citizens in rural and remote areas of the country. Investment in public infrastructure is

Figure 2.4. **Public and total expenditure on health**



Source: *OECD Factbook* 2009.

Figure 2.5. **Gross National Income (GNI) per capita and income inequality, 2004 (OECD ranking in parenthesis)**



1. Data for 2004 except for Denmark (2005). OECD average for GNI per capita refers to 2004 and OECD29.

Source: *OECD Factbook* 2009.

critical to ensuring citizen access. One key area is ICT infrastructure. In 2007, 68.8% of households in Finland had access to the Internet, which is higher than most OECD countries but lower than the other four Nordic countries. The number of broadband connections per 100 inhabitants is also the lowest within the Nordic region. Finland ranked fifth of 21 OECD countries in terms of full online availability of e-government services in 2009.[20] In terms of e-government usage in 22 OECD countries in 2008, Finland ranked first for take-up by businesses, and fourth for take-up by citizens.

Global economic and financial crisis: Recent economic and social challenges are threatening the sustainability of the Nordic model

Like other Nordic countries, Finland has successfully combined openness to globalisation with collective risk sharing based on a high level of social cohesion. However, the current global economic crisis – along with the ageing population and other complex policy challenges – is threatening the sustainability of the Nordic model. In addition, internal migration away from rural areas due to urbanisation – a more recent phenomenon in Finland than in other European countries – poses geographic challenges for public service delivery. Increasing immigration will also start to place pressure on the way in which services are delivered.

The effects of and response to the global economic and financial crisis

In comparison to other OECD countries, adjusting to international and domestic shocks as a result of the global economic and financial crisis has caused Finland's economy to deteriorate considerably since the winter of 2008-09. The main reason for this setback is the economy's reliance on the export of investment goods, for which demand has decreased significantly. While growth is expected to drop by as much as 7% in 2009, the economy may experience a limited recovery of 0.4% in 2010, to eventually find momentum in 2011 with a 2.4% increase.[21] The export volume of goods and services fell dramatically by 26.5% in 2009. Finland mainly exports ICT products, largely to eastern European countries, which have also experienced significant recession. Finland's recovery may also take longer than other OECD countries due to rigidities in the labour market following recent wage negotiation outcomes, which seem to have reduced competitiveness. Though credit growth has slowed slightly, the financial sector has remained relatively unscathed, in part due to measures implemented following the financial crisis of the early 1990s.

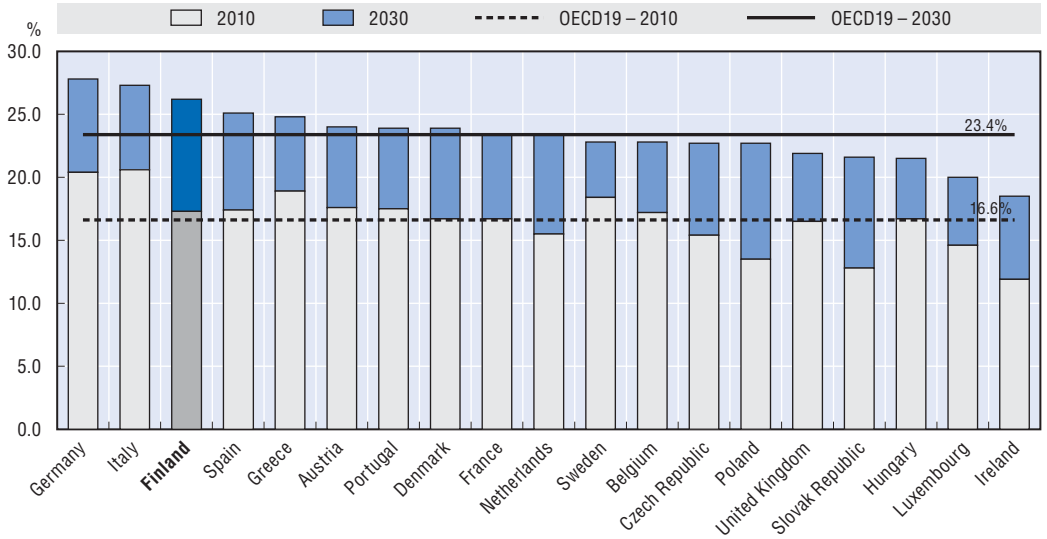
Economic recovery may find its path if interest rates remain low, exports rebound and the ongoing fiscal stimulus package bears positive results. Household consumption is expected to recover mildly following the current wage negotiations. Business investment may cautiously pick up if the long-term prospect for exports improves. Finally, because migration from rural areas towards large municipal areas has not significantly slowed down, the housing market may recover more quickly than other markets.

Finland entered the economic downturn in a strong fiscal position and is therefore believed to have significantly more room to manœuvre in offering fiscal measures to support demand than most other OECD countries. This positive fiscal position is important when considering resource flexibility – the ability to move resources to match government priorities.

An ageing population

In addition to the current economic situation, however, Finland is facing an escalating financial burden and critical workforce capacity issues as a result of an ageing population. Over the next 12 years, the old-age dependency ratio[22] is expected to increase by 57%, and the 20-49 age group is expected to decrease by 20%. By 2025, the old-age dependency ratio is expected to be the second highest among OECD countries. Due to this significant ageing of the population, even under the assumption of a constant labour force participation, the labour market is expected to decline faster than the OECD average. Furthermore, over the 2010-30 period the old-age dependency ratio in Finland is projected to exceed the average of the 19 OECD countries which are members of the EU with a 51% increase from 17.3% of the total population over 65 years of age to 26.2%, compared with an expected 23.4% overall average in 2030 for these 19 countries (see Figure 2.6).[23]

Figure 2.6. **Ratio of population aged 65 years and over to the total population in OECD EU member countries, 2010 and 2030**



Source: OECD Factbook 2009.

Finland's working-age population will start shrinking as early as 2010, and is projected to decrease by 260 000 by 2050; at the same time, the number of people aged over 65 will grow by more than 700 000.[24] The ageing of the population will lead to an increasing demand for public services – as the workforce shrinks and there are fewer taxpayers to support current levels of service – resulting in significant financial burden and expenditure pressures that will need to be resolved in coming years. The government estimates that in order to meet the growing service needs of the expanding elderly population, staff numbers in municipal healthcare and social service provision will need to be increased by 4 000 annually.[25]

Internal migration

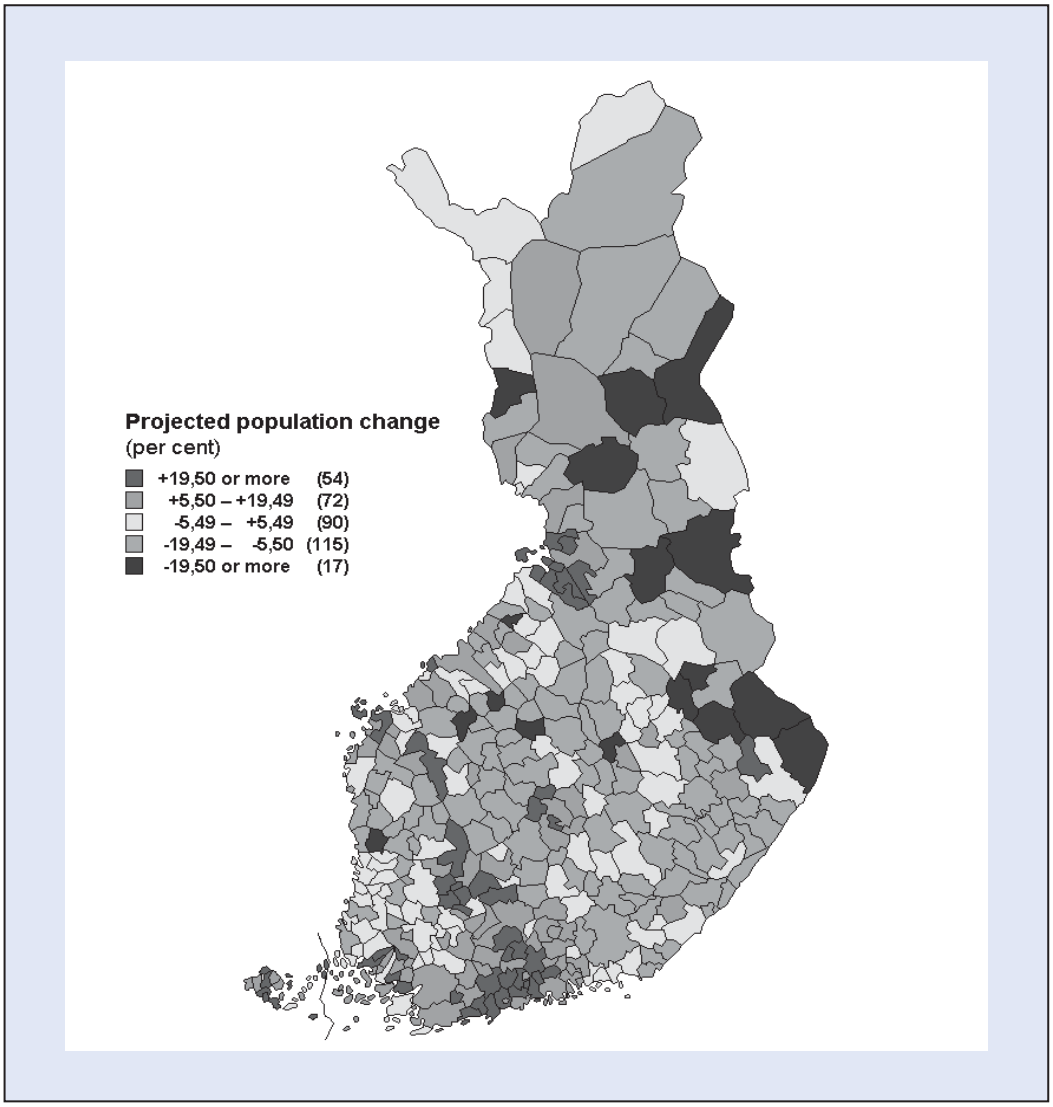
Internal population migration is also posing challenges for the government in sustaining equitable provision of, and guaranteeing access to, public services under the Nordic Welfare Model. In 2005, approximately 88% of Finland's territory was classified as predominantly rural,[26] and Finland is classified as predominantly rural based on OECD definitions (see Box A.1 in Annex A). Of its 20 regions (including the Åland Islands), 17 are considered predominantly rural, two intermediary, and one (the region of Uusimaa in which Helsinki is located) predominantly urban. In 2005, the population grew by 2% in the predominantly urban region (one of the highest rates in the OECD) and by 0.3% in the intermediary regions. It fell in predominantly rural regions by 2.2%. This reflects an equal outward migration from predominantly rural regions into predominantly urban and intermediary regions. The OECD average population growth rates for this same period were: urban, 0.3%; intermediary, –0.2%; and rural, –0.1%.

Thus, while Finland is still a predominantly rural country, there are population growth trends towards urban centres – and the regions in which they are located, such as Oulu in *Pohjois-Pohjanmaa* (northern Ostrobothnia), Jyväskylä in *Keski-Suomi* (central Finland), and Tampere in *Pirkanmaa* (Tampere region). Intra-regional migration from peripheral rural areas to the regional urban centre is also on the rise. For example, in the Kainuu region, the

youth who decide to remain "local" migrate to Kajaani, the region's capital (see Box 6.9 in Chapter 6). Thus, while the region as a whole does not de-populate, the population concentration shifts, reinforcing intra-regional territorial heterogeneity.

Population growth is concentrated in central and southwest Finland, while it is declining in the north, centre-east, southeast and two western regions. The result is increased territorial heterogeneity and the potential for stark population differences among regions. These differences can be manifest in two ways. Firstly, the population will not be evenly spread throughout territories, but rather concentrated in areas of greater density. This is not unusual, but in Finland differences in population density risk becoming much greater than in other OECD countries (see Figure 2.7). Secondly, population density will impact the challenges Finland is facing in addressing its ageing population.

Figure 2.7. **Projected population change (percentage) 2003-2030**



Notes: Regional division 1 January 2009 – 348 municipalities.
2009: Official Population Structure, 2030: Population Projection 2009-60.

Source: Statistics Finland.

The increasing internal migration towards urban centres, particularly by youth or younger generations, has the effect of reducing the human capital pool available to provide services in intermediary and rural regions. Increased demand for social services for the aged will compound this problem, straining service delivery, skewing demand, and potentially requiring a shift of resources from other services.

Increasing immigration

In addition to an ageing population and internal migration, increasing immigration to Finland is also likely to add pressure to the way in which public services are delivered. In 2007, a total of 26 000 persons immigrated to Finland, a rise of 16% over 2006. Of these immigrants, 17 500 were foreign nationals (compared to about 13 900 in 2006). The net immigration of foreign nationals was 14 400, up 29% from the previous year. Immigrants migrated mainly from Estonia, Russia, China, Sweden, Somalia, Thailand, India, Poland and Iraq. At the end of 2007, a total of 133 000 foreign nationals lived permanently in Finland, representing 2.5% of the Finnish population.[27]

While immigration levels are very low compared to some OECD countries, the level of immigration needs to be considered within the country context. Finland has long been a homogeneous society, enabling policies and programmes to be developed and implemented without the need for much cultural variation. But this practice may now have to be re-examined, particularly in the employment and social services, education and health sectors. It is worth noting that of the 133 000 foreign nationals living in Finland in 2007, 64 000 were in the labour force (with an estimated employment rate of 50% and unemployment rate of 20%). An average of 28 600 job seekers had registered with the Employment Offices, of which 12 900 were unemployed.[28]

A re-assessment of the public administration in response to the global economic and financial crisis and as an impetus to sustain the Nordic model

A model in crisis?

Throughout the 2000s, Finland and other Nordic countries benefited from the opportunities of globalisation and successfully contained the spread of risks and threats to the social contract. However, the recent combination of the global economic and financial crisis with demographic developments requires that – now, more than ever – Finland re-evaluate its instruments and policies to operationalise the social contract in order to maintain quality and citizen satisfaction at a lower cost.

There is reason to believe that the inter-linked features and characteristics that held the Nordic model together, including a societal consensus on the role of the public sector, are moving in different directions. Over recent generations, the level of trust in government is gradually declining, as communities become more dissimilar and heterogeneous. Income disparities have increased and have become accepted. Inter-generational differences have led the Finnish society to accept different ways of living, and reduced the number of common frames of reference. This may have consequences for the public administration's capacity for citizen engagement.

The effects of the global economic and financial crisis have highlighted the urgent need to re-evaluate the Nordic model in light of economic and societal forces that may be making it more difficult to sustain Finland's openness to trade and specialisation in

producing ICT products for export (a main driving economic force in the early stages of globalisation in the mid-1990s). A competitive economy has proved vital to Finland's export capacity. The combination of internal labour market rigidities and increasingly fierce competition in ICT markets from developing countries such as China and India may force Finland to re-assess how it can maintain competitiveness.

The public administration's contribution to Finland's economic success and social cohesion is well recognised. Its ability to respond to new developments will impact both economic growth and citizens' way of life. Future efforts will focus on: the sustainability of small northern towns, based on mining or logging industries; the close proximity of high-quality public services, even in sparsely populated areas; and a tradition of strong local authorities. The Finnish government may not be able to support all of these aspects of traditional life, but it has an important role to play in making communities and regions more economically viable, economic growth and innovation, in encouraging innovative public service delivery, and in reinforcing social cohesion by helping to ease economic and social adjustments. Finally, it is up to the government to communicate the difficult challenges and choices that are required of society as a whole, and then to make those choices on behalf of the citizenry, when the time comes, as the steward of Finnish public values, resources and objectives.

Fiscal consolidation

Finland's strategic ability to adapt to a changing economic environment (as shown during the recession of the early 1990s) and its tradition of fiscal responsibility put the government in a good fiscal position going into the economic downturn, with a strong budget surplus and a pension system adequately structured to cope with an ageing population. However, Finland's fiscal position has declined the most rapidly among OECD countries since the recession began, from a surplus of 5.2% of GDP to a forecasted deficit of 5% in 2011.[29] This is due to both strong automatic stabilisers and the size of the fiscal stimulus package introduced in response to the economic downturn.

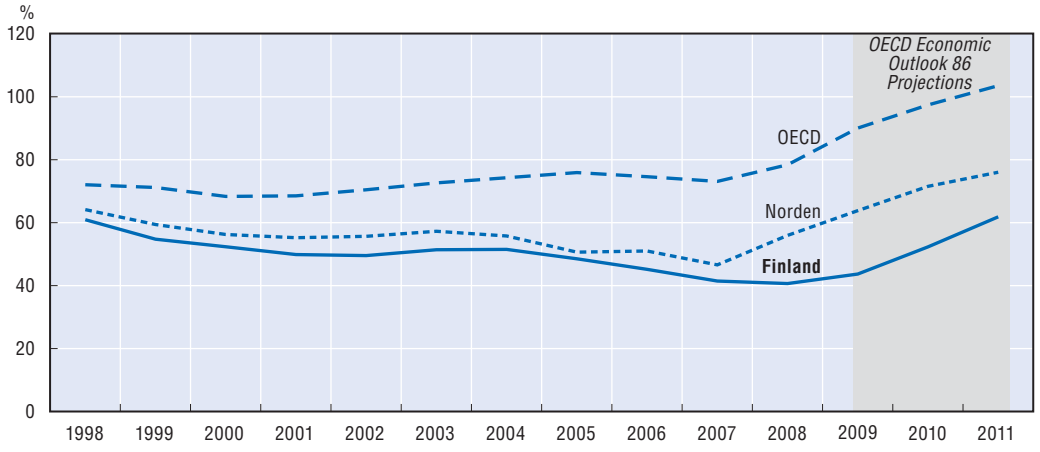
A first stimulus package amounting to 1.5% of GDP was introduced in 2009. As the economic situation worsened, a second stimulus package representing 1.2% of GDP was introduced in 2010.[30] The packages focused on tax cuts, spending on transport infrastructure, reducing social insurance contributions, and additional labour market programmes (such as additional unemployment funds for municipalities). In conjunction with low interest rates, the fiscal stimulus packages seem to have dampened the negative effects of the recession.

While the central government's finances will weaken in 2009 and 2010 – public debt[31] is expected to increase by 28% between 2008 and 2010, rising from 40.7% of GDP in 2008 to 52.3% of GDP in 2010 – Finland's level of public debt is still relatively low compared to other OECD countries. The OECD average is expected to increase from 78.8% of GDP to 97.4% of GDP between 2008 and 2010 (see Figure 2.8). It is therefore expected that Finland will have relatively more room for discretionary fiscal stimulus if needed in response to pressures of the economic and financial crisis compared to most OECD countries.[32]

Most of Finland's fiscal challenges were already in place before the global economic and financial crisis, but had yet to have a significant impact at that time. The population had already started migrating towards urban areas, and demographic dynamics already indicated an ageing population. Furthermore, labour markets had struggled to become

Figure 2.8. **Public debt: General government gross financial liabilities**

% of nominal GDP (1998-2010)



Source: OECD Economic Outlook 86 Database.

more dynamic as participation rates remained relatively low. Though Finland entered the crisis on a sound fiscal base, this position was already unsustainable in the long run. The economic consequences of the recession, such as the drop in output and the fiscal stimulus packages, have further deteriorated long-term fiscal sustainability.

Though they may have had positive short-term effects, many of the measures included in the fiscal stimulus were permanent, and therefore lacked a clear, coherent timeframe for implementation. A long-term exit strategy, through a fiscal consolidation plan, is therefore urgently required. It is crucial that Finland establish a realistic fiscal framework taking into account the dynamic aspect of public deficit, which will not comply with the 3% limit imposed by the Stability and Growth Pact. The sustainability gap is expected to have already reached 8% of GDP.

Current productivity initiatives within the public administration will need to take into account new long-term fiscal obligations. Most importantly, the public administration will need the strategic insight to co-ordinate current reform policies and priorities in light of the fiscal consolidation plan before communicating its goals, targets and evaluation measures to the different branches of government.

Going for growth 2009 – Sustainable development

In accordance with the OECD's *Going for Growth Report*, Finland needs to implement comprehensive public administration reform as a response to the global economic and financial crisis for four reasons. A more productive and efficient public administration is essential to: 1) adapt to the new threats to the Nordic model (strategic insight and strategic agility); 2) foster economic growth (role of public administration in sustainable economic development); 3) consolidate public finances (fiscal sustainability); and 4) maintain and further develop social outcomes (service delivery).

The Nordic model has been praised for its capacity to foster both social equity and economic efficiency. The global economic and financial crisis may create an opportunity to re-evaluate the risk-sharing mechanisms of the welfare state in Nordic countries, and to determine what is needed to make them sustainable in the long run. The crisis also raises questions about the strengths and weaknesses of the Nordic socio-economic model in

terms of its capacity to respond and adapt to financial challenges. The Nordic model will need to be re-invented to fit new social realities and global challenges and to ensure its future effectiveness. This involves re-defining and re-organising the complementary and inter-related components of the existing Nordic model – in particular as they are embodied in the structures and working methods of the public administration. Governments have a rare opportunity to re-examine the needs of the Nordic region moving into the future, and to embed sustainable development values and working methods within the public administration as part of a new consensus on the future of the Nordic model.

Conclusions

The Nordic Welfare Model has successfully supported Finland's performance along most economic and societal indicators. However, the global economic environment and complex policy challenges, such as an ageing population and internal migration from rural areas, pose significant threats to the sustainability of the Nordic model. Citizen expectations for both quality and equality of public service provision, and a deteriorating fiscal outlook, require the Finnish government to take steps to improve the efficiency and responsiveness of the public administration – both at the state and sub-national levels. This review of the Finnish public administration provides the opportunity for Finland to review its public sector institutions and arrangements, with a view to maximise public sector efficiency and effectiveness and to continue in a tradition of stewardship of the economy and society.

Notes

1. Nordic countries refers to Finland, Denmark Iceland, Norway and Sweden.
2. Anderson, T.M., B. Holmstrom, S. Honkapohja, S. Kokman, H.T. Soderstrom and J. Vartiainen (2007), *The Nordic model – Embracing Globalization and Sharing Risks*, The Research of the Finnish Economy (ETLA), Talousieto Oy, Helsinki, p. 14.
3. World Economic Forum, 2009.
4. IFC World Bank (2009), *Doing Business 2010*, Palgrave, Hampshire, UK.
5. OECD (2009), *OECD Employment Outlook*, Table B, p. 252.
6. OECD (2009), *OECD Employment Outlook*, Table B, p. 254.
7. OECD (2009), *Government at a Glance*, Table 2.1, Structure of general government revenues as a percentage of GDP (2006).
8. OECD (2009), *Governance at a Glance*; data for general government revenue and expenditure as a share of GDP is only available for 29 OECD countries; in this example, the five Nordic countries are compared to the remaining 24 OECD countries for which data is available.
9. *OECD Statistical Database*. GDP in Current Prices, National Currency and Harmonised Unemployment Rate.
10. *OECD Statistical Database*.
11. OECD (2009), *Government at a Glance*, Table 4.1, General Government expenditures as a percentage of GDP (1995 and 2006).
12. *OECD Economic Outlook 86*, November 2009, p. 175.
13. *OECD Economic Outlook 86*, November 2009.
14. OECD (2009), *Society at a Glance*, Table 1.1, p. 11.
15. *OECD Factbook* 2009.
16. OECD (2009), *Education at a Glance*, Table A1.3a, p. 39; *OECD PISA 2003 database*, Table 2.5a; and *OECD PISA 2006 Database*, Table A4.1a.

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18. Ministry of Social Development (2009), The Social Report, Wellington, *www.socialreport.msd.govt.nz/economic-standard-living/income-inequality.html*, accessed 16 June 2010.
19. *OECD Factbook 2009*.
20. EU (2009), *Smarter, Faster, Better e-Government*, Prepared by Capgemini for the European Commision.
21. *OECD Economic Outlook 86 Database*.
22. Old-age dependency ratio: measured by the ratio of the population aged 65 over the total population.
23. *OECD Statistical Database*.
24. Ministry of Finance (2009), *Budget Review January 2009*, Ministry of Finance, Helsinki, p. 25.
25. *Ibid*.
26. OECD (2009), *Regions at a Glance*, OECD, Paris.
27. OECD (2009), *International Migration Outlook 2009 – Finland Country Note*, OECD, Paris.
28. *Ibid*.
29. OECD (2010), *OECD Economic Surveys: Finland*, OECD, Paris.
30. *Ibid*.
31. Public debt: measured by general government gross financial liabilities as per cent of nominal GDP.
32. *OECD Economic Outlook 86 Database*.

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Chapter 3

Governance Arrangements

Introduction

As discussed in Chapter 2, the Finnish government is facing a number of complex challenges which threaten the sustainability of the Nordic model: demographic changes due to an ageing population; increased urbanisation; higher expectations for the quality and accessibility of public services provided to citizens and businesses; globalisation; and fiscal pressures compounded by the recent global economic and financial crisis. Because a country's public governance arrangements are a determining factor in the successful implementation of government programmes and reforms, examining these arrangements both provides the context in which the government and public administration operate and helps to identify the challenges faced by the administration in implementing the government's agenda.

Public governance is best defined as the formal and informal arrangements that determine how public decisions are made and how public actions are carried out, from the perspective of maintaining a country's constitutional values as problems, actors, and times change. Public governance actors include agencies, levels of government, parliament, the judiciary, civil society and social partners. Understanding the governance context enables an examination of the actors (both inside and outside the public sector) to determine if the structure of the relationships among institutional actors can be improved to enhance information flows, co-ordination and collaboration, and co-delivery of services. In order to successfully implement reforms, the Finnish public administration must find the right balance of working and carrying out reform initiatives within the political and administrative structure – implying a full understanding of its strengths and weaknesses – and modifying and improving it where necessary.

This chapter provides further context through which to understand the findings and recommendations in the remaining chapters of this report. It describes Finland's governance arrangements and identifies challenges faced by the public administration in implementing public sector reforms, by:

- describing Finland's institutional framework;
- providing an overview of Finland's public administration;
- reviewing past and current reform programmes; and
- identifying the challenges preventing successful public administration reforms.

Finland's institutional framework

Political and administrative structures tend to develop based on historical cultural values. Public administration reforms that fit well with these cultural values are received more favourably and therefore have a greater chance to be implemented successfully and meet their original objectives. Examining the historical construction of Finland's public and administrative structure is crucial in order to understand the challenges faced by the public administration.

Origins and development: A Scandinavian constitution?

Finland was under Swedish rule for over 600 years before it was transferred and annexed to the Russian Empire in 1809. Although it inherited both a Scandinavian culture and a Scandinavian administrative system, today's institutional arrangements have also been strongly influenced by over a century of Russian rule (1809-1917), forming a distinctive autonomous entity. Based on these historical developments, Finnish identity is best understood as being determined by its geopolitical position through history: balanced between the relative individualism of the West (Scandinavian model) and the collectiveness of the East (Russian rule).

The Scandinavian model provides a useful starting point for understanding the Finnish political system.[1] This model does not fit within the conventional Westminster or consensus models of democracy. Rather, its core is "a blend of compromise politics, local government autonomy and corporatism, where party competition is nested together with political and social co-operation".[2] Scandinavian-model politics were initiated throughout Nordic countries, except for Iceland, in the mid-1930s. Conflicting interest groups reached a compromise to protect the institutions of the market economy – but with the guarantee that the public sector would be strongly involved in welfare-state responsibilities such as fighting unemployment, and developing and improving the social security system.

Representative government is a deeply rooted principle in Finnish government. Representatives of the people of Finland elected their ruler, the King of Sweden, over 600 years ago. The current Constitution is partly derived from the Constitutional monarchy of Sweden, which was preserved during the period of Russian rule. Since Finland's independence, the development towards an egalitarian society and democratic state was facilitated by a relatively uniform national structure: there were few conflicts of interest set off by ethnic, cultural, religious or linguistic controversies (which usually tend to split societies). There has never been a feudal system in Finland similar to the ones in Europe and Russia.

Finns have attached great importance to a consensus model of decision making since the period of Russian rule. The Tsar granted considerable internal political autonomy to the Finnish Senate, and would only intervene if agreement could not be reached. It was therefore in the Senate's best interest to find consensus among its representatives, to keep the Tsar re-assured and out of the decision making process. To this day, Finnish politics are strongly based on consensus, which – along with parliamentary elections based on proportional representation – is reflected by the continuous formation of coalition governments.

When Finland gained independence from Russia in 1917, nearly all of the structures required for a self-dependent political system were in place: local communities with self-government, state regional government, a national legislature, a state government, courts of law and political parties. The only missing key element was a head of state. A civil war in 1917 eventually led to the instauration of a mixed and flexible Constitution in 1919. The Republicans – generally liberals and socialists – aimed to institute a system of self-government by the people through parliament, with ministers accountable to the legislature. The Monarchists, on the other hand, tended to be either conservatives eager to return to a Nordic type of kingdom, or members of the upper class who benefited from the Russian rule.

The Constitution of 1919 was a compromise, creating a new system of government that delegated executive power in accordance with the Western European model of

parliamentarism, but it was solidified by establishing a President (the missing head of state) with initial significant governance and regulation functions. The Finnish Constitution was flexible enough to help maintain relative political stability for over 80 years, but compromising dualities – such as rigidity and flexibility, authoritarianism and pluralism, centralisation and decentralisation – resulted in considerable tensions. Today, Finland stands as a highly consensual political community, where the Nordic concepts of self-government and rule of law continue to dominate.

The institutions of Finnish government

Finland is a semi-presidential parliamentary democratic republic with a multi-party political system. The state is unitary, though it has a strong tradition of relatively autonomous local government, which is enshrined in the Constitution. Legislation is based on the Constitution of 1919 and the *Parliament Act* of 1928. The original 1919 Constitution came into force soon after Finland declared its independence from Russia in 1917. The current revised Constitution came into force on 1 March 2000.

The Executive – The President and the government

The President – elected every six years by direct vote – is responsible for foreign policy, is the commander-in-chief of the armed forces, approves bills passed by parliament and the state budget, and appoints senior civil servants. The President's position is less powerful than in France or the United States, but is more influential than in Italy or Germany.

According to the Constitution, the President is the head of state, and thus the highest authority in the administration. However, in practice every decision is made at the suggestion of a minister and becomes law only after ratification by the minister. As such, Finland's President has only modest powers; more recently, the balance of executive power has shifted towards the Prime Minister. The system has therefore gradually progressed towards the Republicans' original aspirations. In other words, the President exercises limited supreme executive powers, and must work in collaboration with the government.

The nation's supreme executive powers are held by the government, also referred to as the Cabinet. The government is comprised of the Prime Minister and ministers, who work in collaboration with the Chancellor of Justice and the Parliamentary Ombudsman as the supreme guarantors of Finnish law. The government drafts bills and the state budget, and conducts foreign policy in collaboration with the President. The Prime Minister is the political leader of the government and, as such, is also responsible for directing government policy and reconciling conflicting views among ministers. The government's decision making process is conducted during plenary sessions or within the relevant ministry.

The Prime Minister is elected by Parliament and is formally appointed by the President. The Prime Minister's Office supports the Prime Minister's work by monitoring implementation of the Government Programme. Though the Prime Minister is the most influential political figure in Finland, the Prime Minister's Office is relatively weak compared to other OECD countries. Attempts to increase the strength of the Prime Minister's Office have included transferring competencies from the President and the European Union Unit (initially in Foreign Affairs). However, due to the fact that it is difficult to have a strong Prime Minister in a coalition government, the office has remained relatively weak. The overall Centre of Government – defined in Finland as the Prime

Minister's Office and the Ministry of Finance – remains strong, however, especially as the Ministry of Finance has recently been strengthened.

The Finnish government is composed of the Prime Minister and a total of 20 ministers based in 12 ministries (see Table 3.1). The Prime Minister proposes ministers for formal appointment by the President. As an informal rule, no party within the coalition can have two ministers in the same ministry. Upon formation of the coalition government, the Prime Minister is appointed from the lead coalition party while the Minister of Finance is appointed from the coalition party with the second most votes.

Table 3.1. **Ministries and ministers in Finland**

Ministry	Minister
Prime Minister's Office (PMO)	Prime Minister
Ministry of Finance	Minister of Finance
	Minister of Public Administration and Local Government
Ministry for Foreign Affairs	Minister of Foreign Affairs
	Minister for Foreign Trade and Development
Ministry of Justice	Minister of Justice
Ministry of the Interior	Minister of the Interior
	Minister of Migration and European Affairs
Ministry of Defence	Minister of Defence
Ministry of Education	Minister of Education
	Minister of Culture and Sport
Ministry of Agriculture and Forestry	Minister of Agriculture and Forestry
Ministry of Transport and Communications	Minister of Transport
	Minister of Communications
Ministry of Employment and the Economy	Minister of Economic Affairs
	Minister of Labour
Ministry of Social Affairs and Health	Minister of Social Affairs and Health
	Minister of Health and Social Services
Ministry of the Environment	Minister of the Environment
	Minister of Housing

Source: Ministry of Finance, Finland.

Legislature – The Parliament

The Finnish Parliament is unicameral. Finland's supreme decision-making authority, its role is to represent citizens, businesses and civil society by contributing to policy making. The 200 Members of Parliament (MPs) are directly elected every four years by proportional representation in multi-seat constituencies. The last elections were held in March 2007 (see results in Table 3.2), and the next are planned for March 2011. Members of Parliament are elected directly – citizens vote for individual candidates, as opposed to a political party. For parliamentary elections, the nation is divided into 15 electoral districts, based on geographical regions. The number of MPs per district depends on the size of the population, and is revised before every election.

During plenary sessions, the Parliament enacts legislation, discusses and approves the national budget, handles government reports and statements and approves international treaties. Parliament is responsible for choosing the Prime Minister and for approving the government's agenda, after which the government remains in power until the next elections unless it receives a vote of no confidence in Parliament.

Table 3.2. **Parliamentary election results, 18 March 2007**

	Number of votes	Percentage of votes	Number of seats in parliament	Percentage of seats in parliament	Change in number of seats since 2003 elections
Vanhanen II	1 618 218	58.5	125	62.5	
Center Party of Finland	640 428	23.1	51	25.5	–4
National Coalition Party	616 841	22.3	50	25	10
Green League	234 429	8.5	15	7.5	1
Swedish People's Party in Finland	126 520	4.6	9	4.5	1
Social Democratic Party of Finland	594 194	21.4	45	22.5	–8
Left Alliance	244 296	8.8	17	8.5	–2
Christian Democrats in Finland	134 790	4.9	7	3.5	0
True Finns	112 256	4.1	5	2.5	2
Others	67 482	2.5	1	0.5	0
Total	2 771 236	100	200	100	

1. Total voter turnout was 65%.
Source: Ministry of Justice, Finland.

MPs work in parliamentary groups organised by political party. These groups influence the composition of parliamentary bodies, organise legislative work, and participate in government and in the election of ministers. They also decide on the composition of Parliamentary Committees.

Parliamentary Committees (including 15 permanent special committees and a Grand Committee) are appointed for each electoral period. They prepare reports, government bills and legislative initiatives for plenary sessions. Reports prepared by Committees are crucial for MPs to take decisions on legislation. Each committee works on issues which fall within the scope of a corresponding ministry, and the strength of committees depends on their composition. Each MP generally sits on two committees.

Finland's proportional representation system, based on the widespread d'Hondt system, favours sparsely populated areas and large political parties. However, it also encourages a multitude of political parties to present themselves during elections, and has resulted in many coalition governments. As a large majority of MPs are also municipal politicians, the interests of municipalities are represented at the centre.

No party has had an absolute majority in parliamentary elections since independence, due to the election system based on proportional representation. Multi-party coalitions have thus become the norm in Finland, and coalition governments have emerged as the main political force. Advantages often associated with coalition governments are consensus-based decision-making processes and MPs who are highly representative of society. Additionally, because at least one party usually remains in power with each renewed government mandate, this system tends to favour greater policy stability over time. However, coalition governments are based on compromise and therefore can be accused of lacking political leadership. Nevertheless, coalition governments and proportional representation are generally considered to be the most democratic form of political representation for highly heterogeneous societies, and where policy programmes proposed by political parties contrast significantly. Finnish society is considered, however, to be relatively homogenous.

Each recent government has included two of the three main political parties: the Centre Party, successor to the Agrarian Party; the Social Democrats Party and the conservative National Coalition party. The three other main parties are the Swedish People's Party; the Left-Wing Alliance, continuing the traditions of the communists; and the Greens. In the last parliamentary elections of 2007, the Centre Party retained its relative majority with 51 seats. The National Coalition party won 50 seats, the Social Democrats Party only achieved 45 (an eight-seat loss compared to 2003). A new coalition, the Vanhanen II Cabinet, was formed among the Centre, the National Coalition, the Greens and Swedish People's Party. The previous coalition cabinet, Vanhanen I, included the Social Democrats, the Centre and the Swedish People's Party.

Elections in Finland are held for Members of Parliament (MPs), the President of the Republic, municipal councils and Members of the European Parliament (MEP).

The Judiciary

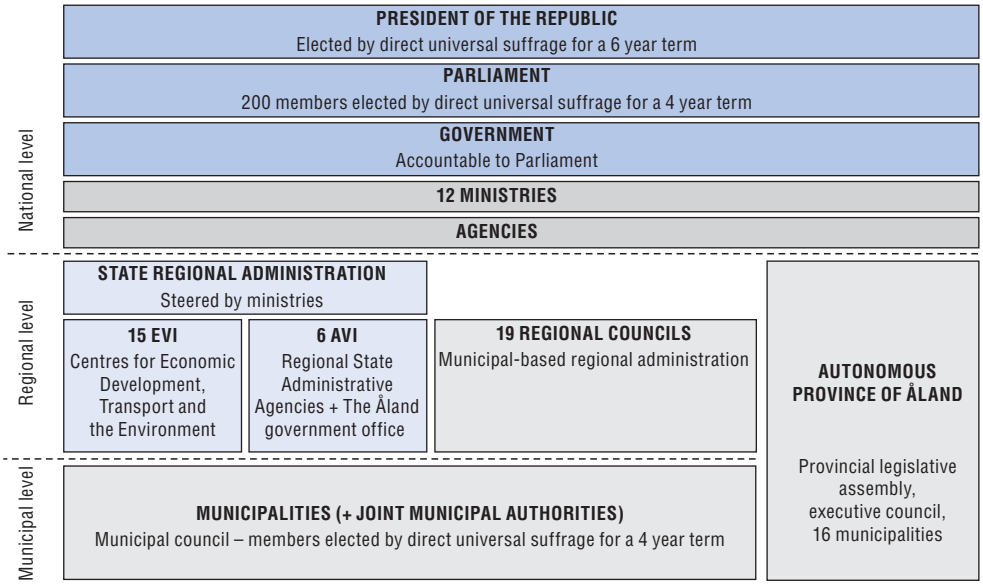
The independence of Finnish courts is guaranteed by the Constitution: no outside institution or organisation can intervene in their decision making. Finnish courts are organised in two branches: general courts, which handle civil suits and criminal cases, and administrative courts, which handle litigations concerning the public administration. The Chancellor of Justice and the Parliamentary Ombudsman provide oversight of the justice system. Although they have many common functions – such as dealing with citizen complaints on the conduct of the public administration – the Chancellor of Justice is appointed for life by the President and is a non-voting member of the Cabinet, while the Parliamentary Ombudsman is chosen by Parliament for a four-year term. The Chancellor of Justice is responsible for monitoring the legality of government action and may be asked to provide advice on legislative proceedings to the President, the government and ministries.

Finland's public administration

Upon gaining independence in 1917, Finland had over a century of experience with its own administration – largely influenced by the Nordic administrative model. The foundations of a socialised and industrialised state were set between 1917 and the 1960s. From that point, the roles and responsibilities of the welfare state have expanded considerably. Until the 1980s, public tasks under the responsibility of the state administration were shared among ministries and central agencies. Public tasks under regional administration were the responsibility of Provincial State Offices, with the regional authorities representing various fields.

Partly due to the economic recession, the state administration underwent considerable reforms in the 1990s. The system of central agencies was abolished, the number of Provincial State Offices reduced and several agencies were replaced by state companies and state business enterprises. Municipalities gained operational and economic independence to boost their economies. The number of public servants under the state budget was reduced from 215 000 in 1988 to 125 000 in 2006. Figure 3.1 provides an overview of the public administration's structure.

Figure 3.1. **Structure of the public administration**



Source: Ministry of Finance, Finland.

State administration

In 2009, the state administration employed approximately 122 000 civil servants, 5 000 of whom were employed in ministries, 24 000 in other central administration agencies and institutions, and 54 000 in regional and local State Administration.[3] Universities and polytechnics employed approximately 31 000 civil servants, whose employment status has been changed due to the introduction of university reforms which came into effect on 1 January 2010 (see Table 3.3 for 2009 figures for employment by sector).

Table 3.3. **Employed persons by sector, in thousands and percentage**

	2009	2008	2007	2006
Employer sector total	2 565 (100%)	2 668 (100%)	2 619 (100%)	2 559 (100%)
Private sector	1 878 (73%)	1 976 (74%)	1 935 (74%)	1 880 (73%)
Public sector	681 (27%)	674 (26%)	677 (26%)	677 (26%)
State	160 (6%)	167 (6%)	154 (6%)	148 (6%)
Municipalities	521 (20%)	507 (9%)	523 (20%)	529 (21%)

Source: Labour statistics, *www.stat.fi*.

The central administration encompasses the ministries and related independent agencies. There are over 100 central administrative agencies and public bodies employing more than 20 000 persons in the administrative sector supporting Finland's ministries. They are of various sizes and their tasks include information management, registration, developing a specific sector, and scientific research.

Regional administration

Territorially, Finland is divided into five NUTS[4] 2 regions (*Suuralueet*): south, west, east, north and the Åland Islands. Most discussions concerning Finland's regional administration, however, focus on the NUTS 3 level consisting of 20 regions (*Maakunta*) including the Åland Islands. Regional administration in Finland is a shared responsibility between two distinct groups: deconcentrated state regional authorities representing the central government, and representative regional authorities with closer ties to municipalities.

The deconcentrated regional government bodies represent the central government and various line ministries[5] throughout the country. The responsibilities of these state regional authorities include evaluating the performance of municipalities' delivery of basic services. They do so on assignment from individual ministries and in co-operation with the Finnish Association of Local and Regional Authorities. The results are compiled into a monitoring report that is submitted to Parliament and individual ministries on an annual basis.

The regional authorities, called Joint Municipal Boards, are responsible for regional development, service provision and hospital care. The most important of the Joint Municipal Boards are the Regional Councils and the independent Medical Districts. Finland's 19 Regional Councils are composed of members of the directly elected municipal councils; municipalities are represented on the Councils in proportion to their population. Each Council's assembly elects a Board and appoints a Chairman. A civil servant heads each Regional Council and serves as managing director of the regional staff office that supports Council in its administrative tasks. The Regional Councils promote common regional needs, and attend to the material and cultural well-being of their territories.[6] Their main tasks include:

- drawing up regional development programmes;
- managing regional land-use planning;
- presenting objectives for regional infrastructure planning;
- fostering regional and international co-operation;
- co-ordinating EU regional development programmes;
- developing a framework for business activities in the region; and
- looking after regional interests.

Regional Councils are financed primarily by their member municipalities (funding is proportional to municipal population) and also receive annual state grants to support independent regional development of the business sector. This, however, exposes Regional Councils to a potential fiscal gap (similar to the one faced by municipalities), where their incomes may not meet the financial requirements to implement regional development plans.

Many of Finland's regions have been eligible for EU Structural Funds (under Objectives 1, 2 and 3).[7] However, this is changing with EU expansion and the integration of new members. During the 2007-13 period, Finland received EUR 1.7 billion in funding (EUR 1.6 billion for Regional Competitiveness and Employment, and EUR 120 million dedicated to European Territorial Co-operation) under the EU Working for the Regions programme. This is a reduction, however, from the 2000-06 period, when Finland received EUR 2.39 billion in EU Structural Funds targeting regional development in areas of low population density and those facing structural difficulties.

Local administration – Municipalities

An integral part of public administration in Finland is relations between the state and municipalities, which largely function autonomously. The state and municipalities are Finland's principal democratic structures. Municipalities have traditionally been closer to citizens than state government. Section 121 of the Finnish Constitution provides for Finland to be divided into municipalities whose administration is based on self-government of their residents – thus the municipalities can only be tasked by the state through legislation.

As of the beginning of 2009, there were 348 municipalities in Finland. The combined annual budgets of all local and joint authorities was approximately EUR 36.5 billion in 2008. Finnish local and joint authorities employ nearly 430 000 people, approximately 20% of the labour force. About 80% of municipal employees work in healthcare, education and social services. Municipalities are mainly responsible for delivering education, social welfare and health, and technical infrastructure maintenance services. More specifically, local authorities are responsible for:

- primary healthcare;
- specialist care and dental care;
- child daycare;
- welfare and other social services for the aged and disabled;
- management of comprehensive and upper secondary schools, vocational institutes and polytechnics;
- adult education, art classes, cultural and recreational services, and libraries;
- water and energy supply, waste management, street and road maintenance and environmental protection;
- public transport development and support;
- promoting commerce and employment in their area;
- supervising local land use and construction; and
- fostering a healthy living environment.

Each municipality has its own political system; their activities are guided by political decision making and their operations must comply with the rules and principles of democracy. Municipalities' highest decision making body is the council, whose members are elected in general elections. The council appoints the members of the municipal board, which is tasked with preparing and executing council decisions. The council also selects committees, which direct the provision of public services in the municipality. The most common committees are education, social welfare and health, and land-use planning. These committees are increasingly becoming purchasers, as opposed to producers, of their own services.

The administrative structure in Finnish municipalities is rather unique and reflects characteristics of the central government. Municipalities are managed by a democratically elected local council, which internally elects a council president (Finland's equivalent of a mayor). This position is political, and it is not unheard of for council members to simultaneously hold other positions in the public sector (for example, as a teacher or a central government official). A municipal manager, who is not a council member, is also selected to perform administrative, experience-based, management functions. Municipal managers can move from one local authority to another.

This division between a political head and an administrative manager mirrors the national level, where there is a clear demarcation between the political representatives in government and career public administrators. It also reflects the political state secretary and administrative state secretary structure recently implemented at the state level.

Local authorities may either produce the services they offer or procure them from other service providers, both public and private. They can also privatise their operations within the limit of the law. A local authority can function jointly with one or more other local authorities by entering into co-operation agreements, or found a separate organisation – a joint municipal authority – to handle their combined affairs. There are a total of 226 joint municipal authorities. Many services, such as hospitals and educational institutions, are managed by joint municipal authorities.

Most state-owned business activities involve basic industry, such as the metal, wood-processing and chemical industries. Establishment and development of state-owned companies continues to play a crucial role in Finland's economy. Public (unincorporated) state enterprises function according to markets and are responsible for their own finances; their fiscal affairs are therefore separate from the state budget. They are steered by Parliament and the government by means of target results and objectives.

In addition to Finnish municipalities, other associations and organisations enjoy the right to self-government: the Provincial Autonomy of the Åland Islands, churches and other religious communities, and universities. The Province of Åland Islands has its own political and administrative bodies responsible for decision making. The Parliament of Åland exercises legislative power within the framework permitted by its autonomous position; otherwise the laws enacted by Finland's Parliament apply. The government of Åland is responsible for regional administration.

Major reform initiatives

Since 1987, successive governments in Finland have implemented public administration reform as a means of modernising government. Over this time, global and domestic challenges have started to threaten the sustainability of the Nordic Welfare Model (see Chapter 2). A recently implemented series of structural and steering reforms across all levels of government is intended to help shore up Finland's public administration.

Within the state administration, reforms have focused on increasing the productivity and efficiency of operations, and achieving greater coherence of cross-sectoral policy issues.

- Performance Management – In April 2009, a project was launched to evaluate the functioning of the performance management system as a means to enhance corporate steering (see Chapter 5 on Collective Commitment).
- Ministry and agency mergers – In an effort to increase cross-sectoral coherence in the development and implementation of government policies and programmes, the State has implemented a number of ministry and agency mergers. A significant example is the creation of the Ministry of Economy and Employment through a merger between the Ministry of Trade and Industry and the Ministry of Labour (see Chapter 5 on Collective Commitment).
- Productivity Programme – Introduced in 2004, the goal of the Productivity Programme is to increase the efficiency and productivity of the Finnish public administration by reducing the number of state-based personnel (see Chapter 6 on Resource Flexibility.)

- E-Government – Since 2003, Finland has undertaken a series of e-government reforms to improve its international e-government rankings (see Chapter 8 on the e-Government Case Study).

The State recently completed a major effort to reform state regional administration, the Reform Project for Regional Administration (ALKU). The ALKU reform, which was completed on 1 January 2010, aimed to rationalise the system of regional state administration by clarifying and re-organising the roles, duties, management and division of all regional authorities (see Chapter 5 on Collective Commitment).

Other recent public administration reforms include:

- University Reform – Originating in 2007, the University Reform is aimed at increasing the autonomy of Finnish universities and operational pre-conditions to allow them to react more efficiently to changes in the international operating environment. The change in legal status of universities means that universities can diversify their financial base to include sources other than the state and staff become direct employees of the university rather than the state.
- Regionalisation (Relocation) Programme – The focus of the Regionalisation Programme is to safeguard the effective execution of government functions and to ensure adequate future staffing by relocating state-based jobs in the capital city of Helsinki throughout Finland's regions. Effective since April 2009, the Programme aims to promote balanced regional development and to foster employment in different parts of the country.
- The PARAS reform programme has aimed to increase efficiency and effectiveness at the municipal level by encouraging voluntary mergers of municipalities. Prior to the implementation of the PARAS programme in 2008, there were 415 municipalities in Finland. After mergers fostered by PARAS, at the end of 2009 the number of municipalities in Finland had decreased by 67 to 348. (The PARAS reform is discussed in more detail in Chapter 6 on Resource Flexibility.)

Identifying challenges preventing successful public administration reform

The Finnish government is well aware of the need for strategic change, and has a long history of innovation and renewal. In the public sector, however, historical and traditional values, and the design of administrative arrangements, can present a barrier to achieving change. In the Finnish context, three key administrative challenges continue to create barriers to the successful implementation of reforms. These barriers, summarised below, are discussed throughout the remainder of this report.

Rigidity as a result of political balance – Finland's coalition government ensures that the government represents citizens' views and necessitates a balance in political decision making. However, an unintended consequence can be increased rigidity within the public administration, which must implement a government programme based on collective agreement – where priorities can be in contradiction or at odds with one another, and where ministries report to ministers of differing political parties. This can lead to differing political priorities and reduced collaboration on cross-sectoral policy issues, where senior officials within ministries are accountable to their individual ministers. This challenge is further discussed in Chapter 4.

Limited horizontal co-operation due to ministerial stovepipes – In the past, the Finnish public administration has operated very efficiently based on a silo-ministry structure. Each ministry fulfilled its sectoral mandate efficiently and effectively, and contributed to the

overall success of the Finnish public administration. However, in an environment of increased policy complexity – where policy issues now require cross-sectoral collaboration – the Finnish public administration struggles to achieve full horizontal co-ordination and collaboration of efforts in the development and implementation of policy initiatives. These stovepipes are reinforced by ministerial accountability for outcomes under their administrative sector budget (*versus* horizontal outcomes in the Government Programme). This challenge of achieving greater horizontal co-ordination and collaboration in the Finnish public administration is discussed in Chapter 5.

Lack of leadership from the Centre – Leadership is essential to achieving change and implementing a coherent government programme. In the public administration, leadership at the Centre of Government is critical to both communicating the government's strategic vision and steering the administration to coherently implement its agenda. Due to the nature of the political system and the design of Finland's administration (as discussed earlier in this chapter), the Centre of Government is somewhat weak. This is exacerbated by a "reluctant leader" culture, where decision making is based on collectivism. In this context, lack of momentum can stall major changes in the administration. This challenge is further discussed in Chapter 5.

Flexibility in both identifying challenges and implementing the necessary changes will be critical for Finland. In a dynamic world and society, the public sector needs to be able to change policy directions quickly and effectively as circumstances demand. It would appear that this is Finland's goal, but the Finnish public administration has recently been struggling to deliver. To meet the emerging challenges, Finland needs a public administration that is flexible, responsive and strategically agile.

Strategic agility[8] refers to a government and public administration's ability to anticipate and flexibly respond to increasingly complex policy challenges, and to determine at what level action is needed (*i.e.*, the whole-of-government level, or a devolved local or sector level). In the public sector context, strategic agility involves the capacity for – and commitment to – strategic insight, collective engagement and resource fluidity (see Box 3.1). These three elements are

Box 3.1. **Building strategic agility – Some key concepts**

Governments must build strategic agility in order to respond quickly and effectively to complex policy challenges. The OECD has adapted the work of Doz and Kosonen (2008) for use in a public sector context in order to identify three necessary components for developing strategic agility:

Strategic insight is the ability to understand and balance government values, societal preferences, current and future costs and benefits, and expert knowledge and analysis, and to use this understanding coherently for planning, objective setting, decision making, and prioritisation.

Collective commitment is adherence and commitment to a common vision and set of overall objectives, and their use to guide public actors' individual work, as well as co-ordination and collaboration with other actors (both inside and outside of government and across levels of government) as needed to achieve goals collectively.

Resource flexibility is the ability to move resources (personnel and financial) to changing priorities if and as needed; to identify and promote innovative ways to maximise the results of resources used; and to increase efficiencies and productivity for both fiscal consolidation and re-investment in more effective public policies and services.

inter-related and work together to ensure that the public administration is responsive to the government of the day, with the flexibility and capacity to respond to complex policy environments by anticipating public sector challenges and possible responses. This includes actively consulting and engaging citizens, using evidence-based decision making, ensuring vertical and horizontal policy coherence, and aligning resources and incentives with outcome priorities.

The three elements of strategic agility form the framework for the findings of the OECD's Public Governance Review of the Finnish public administration:

- Chapter 4 discusses *strategic insight*, which includes the ability of the Finnish public administration to: anticipate public sector challenges and possible responses by employing evidence-based decision making; scanning widely; and actively engage and consult with citizens;
- Chapter 5 examines the ability of the Finnish public administration to gain *collective commitment* through vertical and horizontal policy coherence and the alignment of values and incentives; and
- Chapter 6 presents the findings in relation to the Finns' ability to achieve *resource flexibility* by aligning financial and human resources with changing government priorities.

Notes

1. The Nordic area is a geographical concept that encompasses Denmark, Finland, Iceland, Norway, and Sweden. Scandinavian countries are a subset of Nordic countries with an emphasis on common cultural and linguistic characteristics.
2. Colomer, J. (2008) *Comparative European Politics*, 3rd edition, Routledge, New York.
3. *www.suomi.fr.*
4. NUTS: *Nomenclature des unités territoriales statistiques (NUTS)* provides a single uniform breakdown of territorial units for the production of regional statistics for the European Union. NUTS is a three-level hierarchical classification. It sub-divides each member state into a whole number of NUTS 1 regions, each of which is in turn sub-divided into a whole number of NUTS 2 regions and so on. At a more detailed level, districts and municipalities are labelled as NUTS 4 and NUTS 5 units. (OECD (2005), Territorial Review: Finland.)
5. These ministries are: Interior, Social Affairs and Health, Education, Traffic and Communications, Employment and Economy, Agriculture and Forestry, and Justice.
6. OECD (2005), *Territorial Review: Finland*.
7. Objective 1 under the EU Structural Funds Provisions is intended to promote "[…] the development and structural adjustment of regions whose development is lagging behind, *i.e.* whose average per capita GDP is less than 75 per cent of the European Union average." It covers the most remote regions, as well as those with low population density. Aproximately two-thirds of Structural Funds concentrate on Objective 1 and almost 20% of the Union's total population is affected by measures taken under it. (*www.europa.eu*, accessed on 17 November 2009.)
8. The concept of strategic agility has been adapted from work by Doz and Kosonen (2008) for use in the public sector context.

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Chapter 4

Strategic Insight

Renewing strategic insight will help to counteract a decline in citizen trust and participation

One of government's key roles is to act on behalf of society as a whole as the steward of its patrimony, resources, and values (see Table 4.1). Towards this end, governments are expected to clearly and publicly articulate their vision and programme, to anticipate and prepare for changes, and to act in order to achieve both short- and long-term objectives. While many of these responsibilities fall on the shoulders of elected officials, the public administration plays a vital role in supporting these efforts and increasingly has its own responsibility in developing a vision for society. This requires strategic insight: the ability to understand and balance government values, societal preferences, current and future costs and benefits, and expert knowledge and analysis and to use this understanding coherently for planning, objective setting, decision making and prioritisation. This chapter will show that strategic insight is the first step in achieving strategic agility, but it is also a value in its own right, as it is a necessary pre-condition for gaining the trust of citizens.

Table 4.1. **Administrative elements of government stewardship**

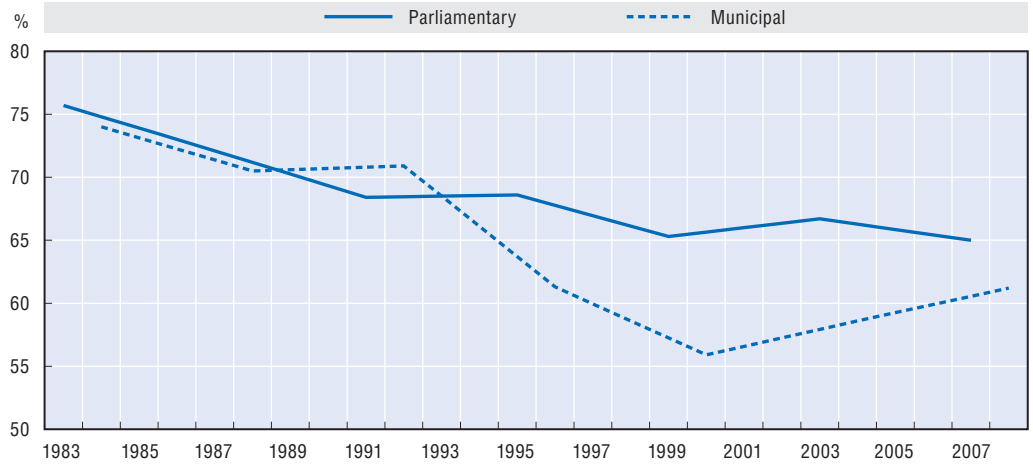
Roles	Hard levers	Soft levers
Anticipating	Government Programme and budget; resource and strategic planning	Consultation/engagement/participation; research and analysis, forecasting, horizon scanning
Convening	Budget and labour negotiations	Consultation/engagement/participation; communications
Vision	Agenda and strategy setting; prioritisation	Consultation/engagement/participation; communications; standards *(e.g.,* customer service charters)
Shepherding	Regulation; budget; setting; tools and frameworks	Moral suasion *(e.g.,* "bully pulpit"), setting values framework for public service *(e.g.,* codes of conduct)
Openness and transparency	Reporting *(e.g.,* annual reports); freedom of information requirements	Availability and accessibility of information
Monitoring	Performance management, evaluation; Ombudsmen	Public transparency through media; QCS/feedback; Ombudsmen
Course-correcting	Performance budgeting; programme review	Continuous internal consultation and engagement

In Finland, as across the Nordic countries, citizen trust in government has traditionally been high. However, public trust has recently suffered a significant blow, falling by 19 percentage points – from the highest in the EU at 73% to seventh position at 54%. This represents the biggest decrease in the EU between January-February and spring 2009.[1] Declining trust in government is a serious concern for both politicians and public sector officials. In addition to supporting governmental legitimacy, citizen trust lowers transaction costs and improves the quality and effectiveness of policy through full engagement in, and adherence to, development of a shared societal vision. Trust lowers barriers to implementation by increasing buy-in and understanding of policies.

In a democracy, citizens can be vocal and autonomous actors who take an active part in public life through both formal and informal channels. However, citizen participation is decreasing in all industrialised countries and this trend is occurring much faster in Finland than in other Nordic countries. Over the last 10 years, government interest in citizen

participation has increased in response to decreasing voting percentages, criticism directed at politicians and political parties, and the shunning of party political activities. Of particular concern is falling voter turnout in national and municipal elections (see Figure 4.1), placing Finland's voter activity within the lowest third among the world's established democracies. Feeding this decline is a lack of interest from younger cohorts, where the voting behaviours of those under 40 years of age are well below the national average. This problem is more significant in Finland than in the other Nordic countries; only a half of the youngest residents entitled to vote do so.[2]

Figure 4.1. **Voting turnout in Finnish parliamentary and municipal elections, 1983-2008**



Source: Statistics Finland.

Concerns regarding declining citizen political participation and trust have led to discussions within the Finnish government on strengthening the role of civil society in Finland. Declining trust in government can signal citizens' dissatisfaction with the actions of government and its ability to fulfil society's expectations.

The increasingly complex nature of policy challenges in areas such as climate change, the global economic and financial crisis, and the ageing population requires both the government and the public administration to be able to change policy directions quickly and effectively as circumstances demand – *i.e.*, strategic agility (see Box 3.1 in Chapter 3). They must also be able to distinguish when action is most appropriate at a whole-of-government level – and therefore requires central action or co-ordination – and when agility is best obtained at a devolved level in order to achieve greater responsiveness.

Strong strategic insight is a key element to achieving strategic agility. In the public sector context, strategic insight requires the capacity and capability to conduct dynamic (rather than static) and inter-related long- and short-term strategic planning based on whole-of-government vision, understanding and knowledge. To achieve strategic insight, governments must actively seek and draw upon the experience and expertise of multiple stakeholders in developing a strategic vision and then operationalise that vision through the development of strategic planning frameworks.

It is important to identify the type of planning and/or decision making required in order to determine the most appropriate input for achieving strategic insight. Citizen engagement and data analysis can help in the identification of long-term and medium-term priorities, for example, but very long-term events may be unpredictable and "discontinuous" (*i.e.,* not based on historical patterns) and so require other types of scenario planning. In addition, consultation may not always be appropriate for short-term decision making when rapid responses are required or when sensitive topics arise. In such areas, however, it is all the more important that decision makers have general information on hand about citizen preferences (see Table 4.2).

Table 4.2. **Analysis horizons: Strategic and decision making needs by planning timeframe**

Analytical Needs	Characteristics	Requirements	Examples
Foresight (long-term: > 10 years)	Anticipation of, and preparation for, both foreseeable and disruptive/"discontinuous" trends; including future costs in today's decisions	Continuous scanning and consultation; pattern recognition; analysis of "weak signals"; futures studies; consensual views	Futures reporting *(e.g.,* on climate change); horizon scanning; long-term budget estimates; scenario planning
Strategic planning (medium-term: 3-10 years)	Anticipation of, and preparation for, foreseeable changes; prioritisation; including future costs in today's decisions; risk management	Analysis of historical and trend data; comparable information and analysis across government; consultation on values and choices	Government Programme; medium-term budget frameworks; workforce planning; spatial and capital investment planning; innovation strategies
Decision making (short-term: 1-2 years)	Responsiveness; rapidity; accountability; ability to determine at what level decisions need to be taken	Quick access to relevant information and analysis; capacity for re-allocation; overview of stakeholder preferences	Executive action; annual and mid-term budgets; crisis response

The challenges facing Finland (and calling the Nordic model into question) are complex, requiring solutions that draw on a wide field of experiences and knowledge and that extend beyond one term of government. While Finland has put many processes in place to build its long-term strategic insight, the OECD has found that using strategic insight in the development of many of its current reforms could help to improve the planning, implementation and sustainability of these efforts.

Capacity for strategic insight will be critical to Finland's ability to manœuvre through the impact of the global economic and financial and economic crisis, and to put strategies in place to secure the future of the Finnish way of life. Finland's public administration already has the foundations in place, but it will take strong leadership to build the capacity to ensure that it becomes more flexible and can adapt to future needs. The following sections of this chapter will address five key areas of strategic insight where capacity should be increased, by:

- embedding evidence-based decision making in policy development and implementation;
- institutionalising citizen consultation, participation and engagement;
- better utilising medium- and long-term fiscal projections;
- broadening the scope of foresight reporting; and
- using strategic insight to create a strategic vision.

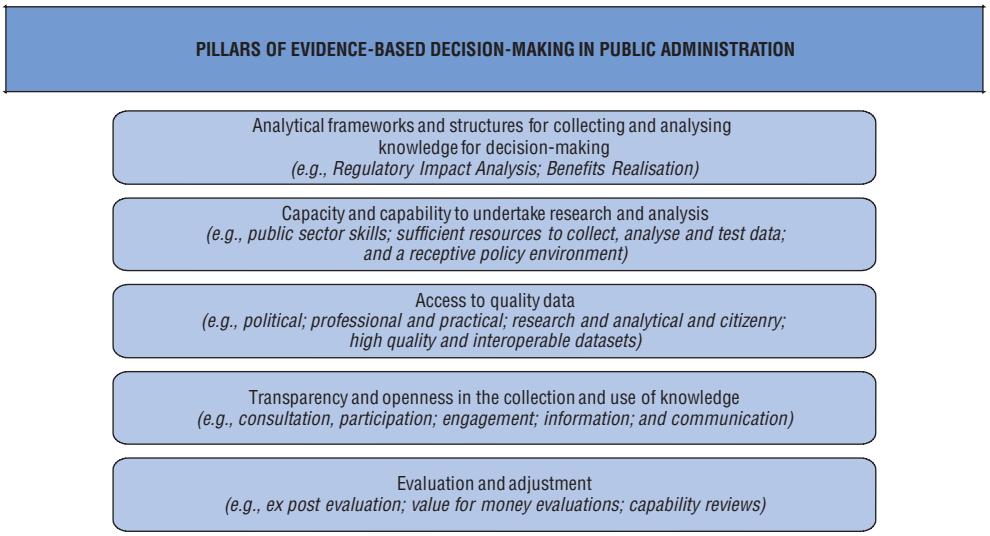
Strategic insight can be improved by better embedding evidence-based decision making

Evidence-based decision making is a key tool by which governments and public administrations gain strategic insight through examining and measuring the likely benefits, costs and effects of their decisions. After undertaking wide consultation and research, and ensuring that all possible scenarios have been taken into consideration, governments can use this information to increase the transparency of their decision making processes. This also provides a "reality check" on the cost of realising government objectives, and gives governments the tools to prioritise competing objectives.

An increased interest in general efficiency and effectiveness in public administrations across OECD countries has led to a rise in evidence-based decision making. As the complexity of policy challenges facing governments increases, so has their use of evidence-based approaches. The key to evidence-based decision and policy making in public administration is using knowledge produced through multiple sets of data and analysis to inform and influence policy, rather than determine it. These multiple sets of evidence enable a fuller appreciation of complex policy challenges. Cross-portfolio and inter-linked policy issues require the involvement of multiple actors within society; seeking this broad participation has opened network approaches to policy processes such as citizen and stakeholder consultation and engagement. Effective policy design, implementation and evaluation depend on several evidentiary bases.

The public administration's role in evidence-based decision making is to actively find, consult and engage with actors in key knowledge areas, and analyse and package that knowledge to inform government decision making. In order to engage in evidence-based decision making, the public administration must commit to this process and put in place the structures and resources to undertake such work. This includes: a framework and tools for collecting knowledge; the capacity to undertake research and analysis; good quality data; sufficient time and resources to collect, analyse and test the data; transparency and openness in the collection and use of the knowledge; and evaluation and adjustment (see Figure 4.2).

Figure 4.2. **Pillars of evidence-based decision making**



Finland has frameworks in place that contribute to an evidence-based decision making culture such as research bodies, some consultation with public stakeholders, the use of impact assessment, and ICT investment business case requirements (see Box 4.1). For example, when new regulations are proposed, the Bill Drafting Instructions require drafters to provide alternatives to the legislation (*i.e.,* non-legislative means to achieve the same goals) and to present the pros and cons for the chosen solution (*e.g.,* by using cost-benefit analysis).[3] However, these practices do not necessarily translate into a coherent, organisational-wide culture and ethos where evidence-based decision making is a systemic and ingrained way of working in the public administration. This may be in part because many of the preparatory decision making processes at the state level take place through informal discussions, where there is no standard requirement for the use of business cases, cost-benefit analysis, comparative analysis, and wide consultation on impacts.

Box 4.1. **Use of business cases in the Finnish public sector**

The term business case refers to a communicated rationale for a reform/project/change, providing the vision and outcomes to be achieved, the methodology for achieving them, a cost-benefit analysis, impact assessment, engagement strategy and evaluation framework. While commonly used and understood in public sector ICT units as a way of showing expected return on investment, this concept has been slow to penetrate into the rest of the Finnish public administration as a means to guide decision making on public sector investments and as a basis for evaluating project success.

Evidence-based decision making also supports the implementation and legitimacy of policies and major government reforms, thereby facilitating the realisation of the Government Programme. For example, clear business cases for major initiatives such as the PARAS (municipal) and ALKU (regional) reforms (see Chapter 5 for ALKU and Chapter 6 for PARAS) have not been communicated to the rest of the public administration, nor has information on projects within the state public administration such as the rollout of Shared Service Centres (see Chapter 8 for e-Government Case Study). As a result, there seems to be a lack of clear targets and/or success indicators for many major public reforms in Finland by which to evaluate and to help communicate the rationale for these reforms. For example, many sub-national officials interviewed by the OECD on the eve of the implementation of the ALKU regional reform were unclear as to the purpose of this programme and the motivation for its implementation.

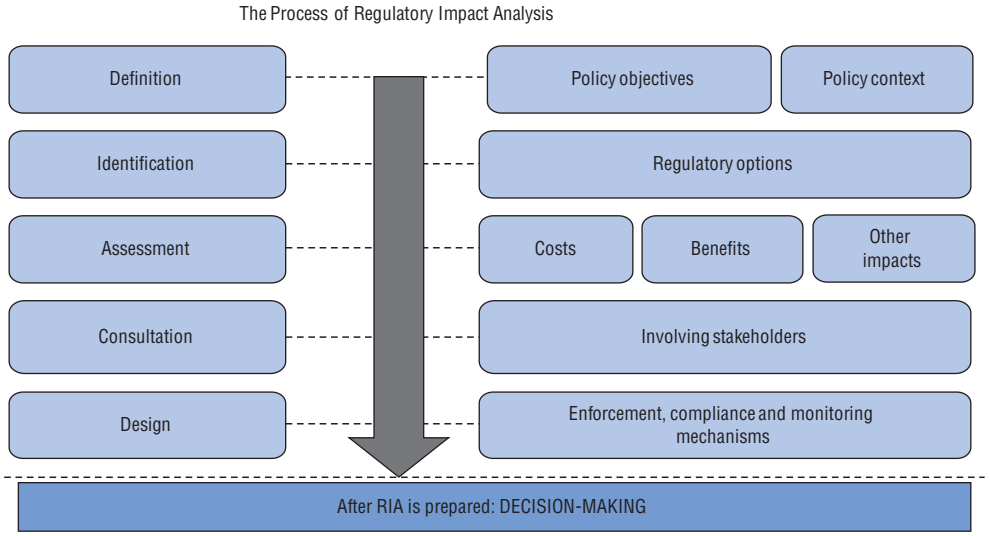
Increasing the use of, and expectations for, evidence-based policy making will require consultation with external experts and stakeholders to harness innovative thinking and strategic insights. This process will also bring in information that is not necessarily available to the public administration, in particular on programmes' local impacts. This way of working requires a change in government's relationship with sub-national stakeholders and citizens to one of consultation and collaboration.

Analytical framework and structures for collecting knowledge

Regulatory Impact Analysis (RIA) is one example of a framework for undertaking evidence-based decision making in government. It is used to examine and measure the likely benefits, costs and effects of new or existing regulations (see Figure 4.3). RIA supports the policy-making process by contributing valuable empirical data to policy decisions, and

through the implementation of a rational decision framework, to examine the implications of potential regulatory policy options. The overall aim of RIA is to assist governments in making their policies more efficient and effective.[4] RIA does not replace policy decision making, but it contributes to its design by providing information, as well as consistent justification, for government action.

Figure 4.3. **The Regulatory Impact Analysis process**



Source: OECD (2008), *Building an Institutional Framework for Regulatory Impact Analysis (RIA): Guidance for policy makers*, OECD, Paris.

The use of RIA has expanded rapidly throughout the OECD in the last decade. Finland is one of a growing number of countries to establish an explicit *Better Regulation Strategy* to support the awareness and use of RIA. A recent OECD review of regulatory capacity in Finland[5] noted that since the OECD's 2003 regulatory policy review of Finland, "regulatory policy has finally become embedded, in principle at least, as an important horizontal policy in its own right".[6] That said, despite concerted efforts to increase the profile of RIA (*e.g.,* mentioning the Better Regulation Strategy in the Government Strategy Document for the first time), it is still not embedded in the culture of the Finnish public administration and thus remains weak. The government is aware of this, and it re-assessed the situation in the mid-term policy review of the Government Strategy Document in February 2009 and launched new initiatives for the second part of its term. One of these aims to strengthen the impact assessment of policy measures. The OECD also made a number of recommendations to improve Finland's RIA practice as part of the 2010 review of better regulation in Finland.

Capability and capacity to undertake research and analysis

Evidence-based decision making requires both a public sector that has the capability and capacity to undertake research and analysis, and a receptive policy environment. Capacity refers to sufficient resources (*e.g.,* financial, human and time) to collect, analyse and test data. Officials interviewed noted that there were insufficient resources available to undertake citizen consultation and engagement as part of the policy-making process (see sub-section in this chapter on citizen engagement). This finding is confirmed by the 2010 review of better regulation in Finland, which clearly shows a serious lack of resources

available for the preparation of national regulations in Finland. An average of 7% of overall staff years goes to the preparation of national regulations, and 4% to EU regulations.[7] Developing evidence also requires sufficient time, which must be built into policy development through the inclusion of data and indicators to facilitate evaluation of programme outcomes (the need for better indicators for policy and programme evaluation is discussed in the sub-section of Chapter 5 on performance management). Interviews with civil society organisations seem to indicate that public comment periods for new legislation have decreased (see sub-section in this chapter on citizen engagement).

The quality of information provided through spending ministries' evaluations has been a concern for Ministries of Finance across OECD countries. Figure 4.4 shows how Ministries of Finance view evaluations which have taken place over a three year period. In general, Ministries of Finance have found evaluations to be satisfactory, relevant and accurate for policy reviews and for reviews of ongoing programmes. However, very few respondents found any evaluations to be of high quality. They were the least satisfied with cost-effectiveness and/or value-for-money evaluations. In Finland, the Ministry of Finance noted that the quality of the information provided across policy reviews, reviews of ongoing programmes and cost-effectiveness and/or value-for-money evaluations was insufficient, incomplete and, in many cases, contained inaccurate information. However, the Ministry of Finance also noted that there had been significant improvements in the quality of data used in evaluations in the five years prior to the survey.[8]

Figure 4.4. **What has been the quality of evaluations commissioned/conducted by spending ministries in the last three years?**

Source: OECD (2005), *Journal on Budgeting* (Vol. 5, No.2).

Evidence-based decision making also requires a public administration with the appropriate knowledge to discriminate between evidence which is reliable and useful and that which is not. Capability therefore also refers to a public sector with appropriate research, analytical and problem-solving, consultation and engagement, and collaboration and horizontal working skills. An overall finding of this review is a need for Finland to establish an evaluation culture in the public administration; this can be facilitated by increasing public sector capability in some key areas, such as citizen-consultation and engagement techniques, and legislative drafting. Several stakeholders indicated that there

are limited staff in ministries (other than the Ministry of Justice) with appropriate legal qualifications and experience to draft legislation at a high level. This has impacted the quality of legislation drafted and ultimately affected end users; when legislative efficiency and effectiveness are reduced through multiple handling of legislation, poorly drafted legislation, and requiring adjustments and amendements.

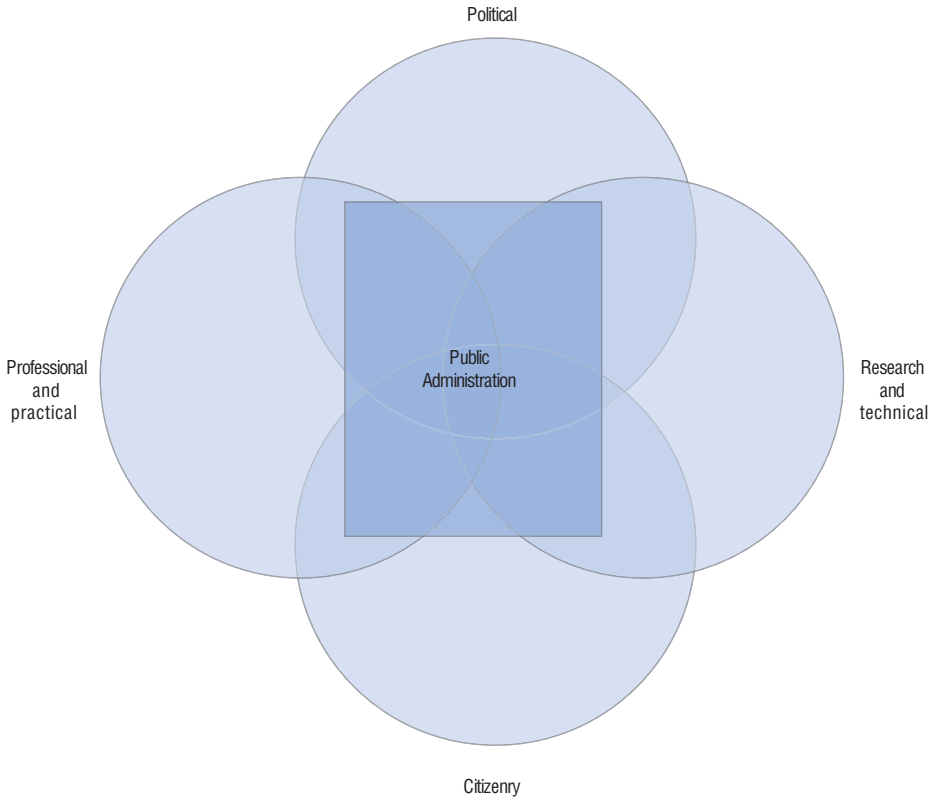
Access and capacity to use quality data

Access to quality data is fundamental to the development of data- and knowledge- bases. Data quality is an essential element of proper analysis, and is recognised as one of the most challenging aspects of evidence-based decision making. It can consume time and resources, and requires a systematic and functional approach. The usefulness of evidence-based decision making depends on the quality of data fed into the decision making process.

Data or knowledge used in evidence-based decision making must be collected from numerous areas to ensure that it is comprehensive. This is particularly important as the complexity of policies increases, requiring consultation with a wide array of involved stakeholders and consultation networks. Evidence-based decision making in public administration provides the methodology for strategic insight. By harnessing multiple evidence bases across a variety of actors, governments inform the decision-making and policy-making processes.

Governments should generally consider four kinds of knowledge and areas of evidence (see Figure 4.5) to consider sufficient breadth of knowledge to appropriately

Figure 4.5. **Four key areas of knowledge for evidence-based decision making**



Source: Adapted from work by Head, B.W. (2008), "Three Lenses of Evidence-Based Policy", *Australian Journal of Public Administration*, Vol. 67, No. 1, pp. 1-11.

inform decision making.[9] These are: *a)* political; *b)* research and technical; *c)* professional and practical; *d)* citizenry; and *e)* public administration.

- Political knowledge includes the political experience, analysis and judgement of political actors (*e.g.,* parliament, government, executive, cabinet, ministers and political staffers and their consultants).
- Research and technical knowledge includes the products of scientific analysis produced by universities, and research and technical institutions.
- Professional and practical knowledge involves information on the practical everyday issues related to policy and programme implementation, made available by professional and managerial communities, typically from the private sector.
- Citizen knowledge is obtained through engaging with citizens, businesses and CSOs (discussed in more detail later in this chapter).
- The public administration is responsible for providing its own impartial advice to government, but it also has a duty to provide analysis of the information collected from the various areas of the evidence-base.

The aim of evidence-based decision making is to allow the public administration to harness and analyse information collected from various sources for consideration within the government decision making process. However, to achieve strategic agility, governments must be able to identify and target the relevant evidence-base required for different types of decisions. For example, to answer complex policy questions, the broadest possible group of stakeholders and knowledge-bases should be consulted. Similarly, a smaller group of stakeholders and evidence-bases may be consulted or engaged in relation to urgent/time-critical policy issues which require immediate decisions. It is also important to match the type of evidence-base with the planning timeframe (see Table 4.2). For example, foresight issues which will be considered for more than 10 years may require a different level of evidence collection than short-term decision making within a one-to-two-year time horizon.

Of all the knowledge evidence-bases, Finland has very strong research and technical capacity and professional and practical knowledge collection bases. Finland has world-class universities, research facilities, and technical and private sector organisations that produce professional and practical research and best practice. However, it is not clear how well these sources are connected into government decision making. Although it is intended that these types of knowledge-bases feed into policy and programme development through the various ministry administrative sectors, the degree to which this occurs is based on the practices within each ministry and agency and the extent of their consultation networks with the relevant research organisations. There is no tradition of think tanks affiliated with political parties in Finland, resulting in more reliance on the public administration for policy ideas and development.

Effective evidence-based decision making also requires governments to implement a framework for collection and analysis of data. Finland's *Statistics Act* identifies four statistical authorities that have the right to collect data for statistical purposes (by virtue of the data supply obligation prescribed in law) in Finland: the Information Centre of the Ministry of Agriculture and Forestry; the National Institute for Health and Welfare (THL); Statistics Finland; and the National Board of Customs. Statistics Finland, Finland's national statistical collection agency, has responsibility for collecting data and providing statistics and information services for approximately three-quarters of Finland's official statistical

needs.[10] Statistics Finland is also charged with developing the Official Statistics of Finland (OSF), a network of authorities responsible for the production of relevant and high-quality official statistics in Finland. The Finnish National Statistical Service delivers key data on society, together with the relevant metadata, to users free of charge.

When looking at the four key areas of knowledge, Finland's knowledge collection is weakest in the area of citizenry. While service delivery agencies such as the Social Insurance Institute (KELA) collect customer-satisfaction-type information, citizen involvement in the development and implementation of government decision making is relatively weak. The issue of citizen engagement is discussed in more detail later in this chapter.

There are two key areas in considering data in the use of evidence-based decision making: access to data, and the use of the data in decision making. It is evident that data deficiencies will inhibit evidence-based decision making. Oftentimes, however, governments have access to more than sufficient evidence-bases but lack either the processes to collect the information or the capacity to bring together various evidence-bases or data-sets and analyse the information for use in decision making.

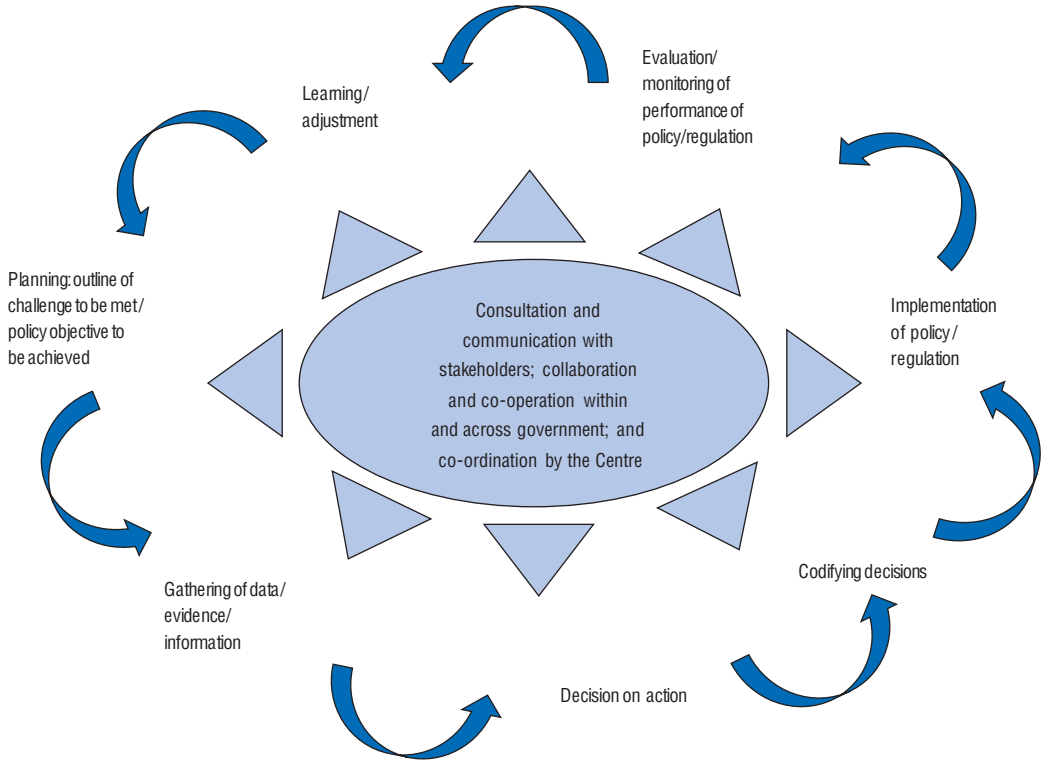
Finland, like other Nordic countries, has long been making good use of common registers for shared data and data re-use. As noted in the OECD's 2004 review of e-Government,[11] Finland's system of registers provides a very complete and high-quality set of data that has been used to improve government efficiency and simplify public administration. The challenge for Finland is to harness the information in these databases, along with operational data that results from transactions with government, to identify trends while limiting the amount of additional reporting or surveillance required. While there are important privacy concerns involved, this type of pattern recognition can result in a quicker and more complete view of upcoming trends – without placing additional reporting burdens on the public administration. An example from the private sector has been Google's Flu Trends[12] service, which uses existing operation data (*i.e.,* keyword Internet searches) to track the likely spread of swine flu (H1N1 virus). The results of preliminary tests of this service are that it is almost as accurate as more formal epidemiological reporting, but provides results much more quickly.

Evaluation and adjustment

Evaluating evidence-based methodologies and the outcomes of the use of evidence-based approaches to decision making are critical for improving efficiency and effectiveness. Evaluation is integral to the policy process and as such, deserves a serious place at the start of any policy formulation process (see Figure 4.6). It must be embedded in organisational culture if it is to succeed and have an impact. The OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes,[13] captures the key arguments for embedding evaluation. These include:

- to establish the impact of policies and programmes against their objectives;
- to make informed decisions about the allocation of funds;
- to show taxpayers and the business community whether a programme is a cost-effective use of public funds;
- to stimulate democratic debate; and
- to achieve continued improvement in the design and administration of programmes.

Figure 4.6. **The role of evaluation in the policy/programme cycle**



Source: OECD, *Strategic Planning: Supporting Coherent Policy Making and Effective Regulation,* Working Paper H1A, *OECD Public Management Reviews: Strengthening Public Administration Reform in Greece (unpublished).*

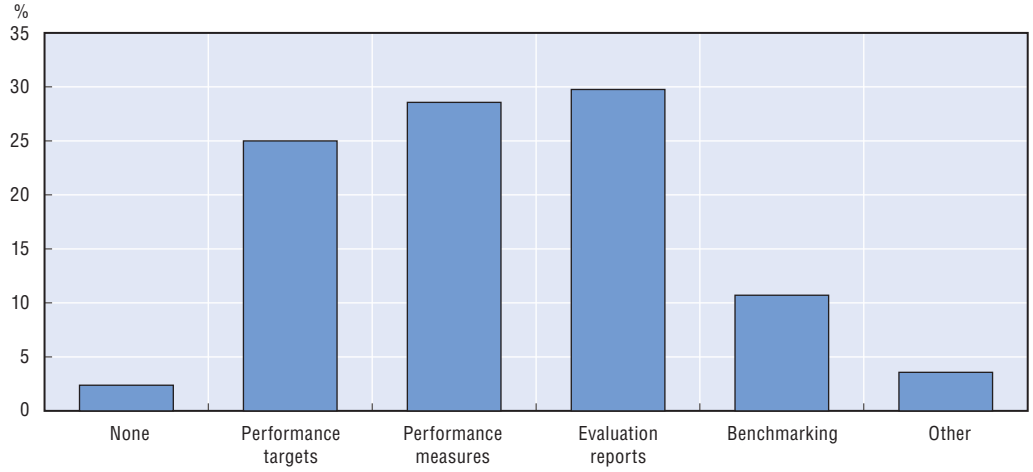
Ongoing reform can create difficulties in measuring reform programme outcomes, particularly when evaluation frameworks are *ad hoc* rather than mandatory for all government policies and programmes. This has been evidenced in Finland, particularly in relation to the implementation of ICT reforms and citizen-democracy projects. Continuous reforms also frustrate citizens, who must deal with changes and may not know where to go for their services. The principal reason for evaluating reforms is to establish whether or not policy changes have contributed to correcting or ameliorating the problems they set out to resolve. Evaluation of policy impacts is facilitated by a clear statement of measurable outcomes from the start of the policy or programme design, and the collection of relevant data throughout its duration. Business cases can be a useful evaluation tool: by clearly providing the rationale for policy/programme measures, establishing measureable outcomes, and ensuring planned data collection, they allow evaluators to determine: *a)* if the measure is achieving its desired outcomes; and *b)* whether there is value for money.

Undertaking evaluations enables governments to make decisions as to whether policies/programmes should be continued or adjusted. Over 60%[14] of OECD countries, including Finland, use both evaluation and performance measures to assess their government's performance (see Figure 4.7). However, approaches to the evaluation of government policies and programmes tend to be *ad hoc* in many countries, and this is certainly the case in Finland. Finland does not currently have a systemic framework for policy and programme evaluation that is embedded within policy processes. As noted in the OECD's 2010 review of better regulation in Finland,[15] while *ad hoc* evaluations of policies

and programmes are an important feature of the Finnish approach, they need to be deployed more vigorously and systematically. *Ad hoc* evaluation fails to capitalise on many benefits that stem from a systemic approach. The almost-constant reform of the Finnish public administration over the past 15 years is a positive indication of Finland's desire to improve public management – but a continuous process of reform can lead to failures in implementation if reforms are not accompanied by measures to ensure their sustainability and to learn from experience. In particular, when reforms are not given sufficient time to be "bedded-down" (*i.e.*, integrated into working methods and habits), there is a risk that projects are not being fully implemented and that appropriate time is not taken for them to become established, and that governments will not learn from these experiences in order to improve successive reform efforts.

Figure 4.7. **Type of performance information produced by OECD countries in 2007**

Distribution of responses in percentage terms



Source: OECD Budget Database.

Both the challenges facing the Nordic Welfare Model, and the need to increase the efficiency and effectiveness of government activities and use of public funds, should provide sufficient urgency to build an evaluation culture in the Finnish public administration. Using evidence-based decision making to collect all relevant information to improve the quality and transparency of government actions – and implementing effective planning and decision making – allows governments to balance competing interests and information, and to anticipate future risks, costs and opportunities. This can only be achieved through stronger inputs and frameworks, and by embedding evidence-based decision making processes within the operations of the public administration and government. Finland could better achieve this balance by placing more attention on its frameworks to consider both evidence and opinion in decision making, and to determine what evidence-base is needed for which types of decisions. In this way, it can better benefit from the expertise and experience of a wide variety of actors in analysing the current context, constantly interact with the surrounding environment to stay aware of the current strategic position, and more effectively look forward to understand the changing environment.

Strategic insight requires citizen engagement in policy making, as well as service delivery

The relationship between citizens and governments has been expanding in OECD countries, with citizens participating as partners in the design, delivery and evaluation of government services. As policy issues become ever more complex, governments can no longer address these issues by working alone. Partnerships with citizens, business, CSOs and other stakeholders are needed to achieve whole-of-society objectives when tackling national and global policy problems. Engaging citizens and allowing them to actively participate with government in addressing these issues increases opportunities for strategic insight and is a critical step in shifting the focus of public administration towards a stewardship role.

Citizen engagement is a key activity of open and inclusive government and is a condition for both effective governance and building trust in government. Open and inclusive policy making is transparent, accessible and responsive to as wide a range of citizens as possible – where information is provided to citizens and policy processes are accessible and responsive, and where a wide variety of citizens' voices are taken into account in the policy-making process.[16] Citizen engagement (see Box 4.2) requires governments to

Box 4.2. **Citizen engagement: Some key concepts**

Citizen engagement includes three areas: information; consultation; and participation.*

In **citizen information**, information is conveyed "one way" from the public administration to the public; there is no involvement of the public (*e.g.*, public feedback is not required or specifically sought), and there are no mechanisms through which to respond. Examples include: access to public records, official gazettes, government websites.

In **citizen consultation**, information is conveyed "one way" from members of the public to the public administration following a process initiated by the public administration, but no formal dialogue exists. Examples include: public opinion surveys, comments on draft legislation, public hearings, focus groups, workshops/seminars, and comment and notice periods.

In **citizen participation**, information is exchanged "two ways", between members of the public and the public administration through a dialogue, where opinions of both parties are transformed. Citizen engagement also involves the "two-way" information flow between citizens and the public administration. Examples include consensus conferences, citizens' juries, dialogue processes, and citizens' fora.

When discussing citizen engagement in the context of public governance, the term "citizen" has a wide and all-encompassing definition which includes: individual citizens, civil society organisations (CSOs), businesses, and municipal and regional authorities.

Governments can benefit from wider public input when deliberating, deciding and doing. In addition to helping governments to achieve greater strategic insight, effective citizen engagement can also facilitate:

- greater trust in government;
- better outcomes at lower costs;
- higher compliance levels with decisions reached;
- equity of access to public policy making and services;
- leveraging of knowledge and resources; and
- development of innovative solutions.

* OECD (2009) *Focus on Citizens: Public Engagement for Better Policy and Services*, OECD, Paris, pp. 23-24.

share in agenda setting and to ensure that policy proposals are generated collaboratively and taken into account in decision making. Thus, citizen engagement is best incorporated into every stage of the policy-development and implementation processes.

Openness is an underlying value in the Finnish administration, and this attitude is reflected in its structural elements: the strong self-government of municipalities, the fact that decision making power is close to citizens, and the strong legislative basis for participation. However, the value of engaging citizens and encouraging their participation in the policy cycle – from identifying policy issues, to developing and implementing a solution and sharing responsibility for achieving outcomes – is not widely recognised in Finland. This results in a great threat to both the legitimacy of, and trust in, the public sector and to its power to act.

During the late 1990s, the Finnish government undertook a number of projects and development initiatives to increase the role of civil society in defining social issues and designing public services. The largest and most concerted of these activities was the implementation of the Citizen Participation Policy Programme, introduced in 2003 (see Box 4.3). By including citizen participation policy as one of the first horizontal Policy Programmes, the status and importance of citizen participation was elevated both politically and within the public administration. However, despite the concerted efforts through the Citizen Participation Policy Programme, and goodwill in some parts of the national public sector, citizen involvement policy in Finland remains weak. While there is still some attention to improving citizen involvement on the political level, there is concern that if this support decreases, interest in citizen involvement policy will fade away. It is not usual business in the public administration, particularly the state administration.

Box 4.3. **Citizen Participation Policy Programme**

The Citizen Participation Policy Programme was a Finnish national democracy project included in the 2003-07 Government Programme. It aimed to promote active citizenship, the operation of civil society, exercise of influence by ordinary people and the effective functioning of representative democracy. The Government Programme emphasised several areas in need of development: schools, civil society, equality of influence, and the administration of democracy-related matters. The objectives of the Programme were related to: 1) civic education; 2) civic activity and civil society; 3) interaction between citizens and government; and 4) the functioning of representative democracy.

The Programme focused on strengthening the knowledge-base for democracy and arranging for the permanent collection of related indicators and information. Its key achievements included increasing efficiency of civic and democracy education, improving interaction between government and civil society, promoting municipal democracy, and enhancing functioning of municipal councils. Evaluating the need for legislative policies was another function.

Several projects promoting citizen participation were implemented by different ministries and in co-operation with civil society and the research community under this cross-administrative programme. The Ministry of Justice, which is responsible for arranging elections and ensuring democracy in legislation, co-ordinated the programme. Other ministries involved in the programme were Education (civic education and research, sports, cultural and youth work); Interior (municipal affairs); and Finance (public management).

Source: Ministry of Justice, Operations and Administration (2007), Final report on the Citizen Participation Policy Programme, Ministry of Justice, Helsinki.

Information

Providing information to citizens is the critical first stage of open and transparent government. Communicating information with citizens on decision making, and policy development and implementation, puts governments in a position to be scrutinised – but it importantly builds citizen trust. Informing citizens helps in educating them about their rights and entitlements as citizens of the country, and can also be used as a means to communicate the rationale, objectives and achievements of government. This is important for ensuring buy-in to changes and reforms, and for providing citizens with a platform from which to engage with government.

The Finnish government has been very effective at providing information to citizens, particularly online. The provision of information to citizens is enshrined in the Finnish Constitution *(Section 12)*, which provides that all people have the right to access public documents and recordings, unless their publication has been specifically restricted by an Act for compelling reasons (for example, in the interest of privacy or national security). In addition, equity in the provision of information is a fundamental right in Finland, where *Section 17* of the Constitution identifies the right to information in one of the two national languages: Finnish and Swedish. As such, all information should be provided in both Finnish and Swedish. It is also routinely provided in English, as well as French and German.

The *Act on Openness of Government Activities (1999)* requires that regulations under preparation be communicated publicly. As such, ministries make a consolidated register of regulations (and any other kinds of projects) available online with public access. The consolidated register of all regulations contains primary laws and all subordinate regulations (*e.g.,* decrees issued by the President, the government and ministries, and regulations issued by the authorities subordinate to the ministries). The register covers all regulations issued, not only those in force (*e.g.,* all primary laws since 1987 and major cases since the 1700s). The same website (*www.finlex.fi/en*) also provides information on pending government bills, treaties and international agreements, judgements of the major courts and translations of primary laws. A government projects register is also provided via the Prime Minister's Office website; it contains information on committees, boards, advisory boards, surveys, working groups and the governing bodies of state offices and institutions (*www.hare.vn.fi*).

While much information is available for citizens, the business case or rationale for implementing reforms and programmes does not seem to make its way to end users (see Box 4.1). In order to harness momentum behind national reforms and societal goals, the government must not only provide information to the public, but also communicate in such a way that knowledge reaches and is used by end users. Without this, the public can become passive and lose interest; participation rates may decline, followed by a loss of trust in government. The public needs to be educated about where to find information and motivated to search for it and to use it. Information needs to be provided in a form and manner appropriate for a wide variety of end users – whether that is online, newsprint and magazines, brochures and leaflets available in public offices or by mail, community gatherings and forums, media, CSOs, etc. An element of the Citizen Participation Policy Programme focused on increasing public education about participation and democracy through teacher training, civic education at schools, and liberal adult education.

The implementation of the PARAS and ALKU sub-national reforms highlights the importance of providing and diffusing a clear rationale for the need for reform. The rollouts of both the PARAS and ALKU reforms have resulted in confusion among municipalities as

to the government's strategic objectives. Although the government has produced information on ALKU and PARAS, municipalities have indicated a need for greater clarity on the government's agenda and increased guidance about its future plans for municipalities. A stronger emphasis on informing stakeholders about the need for the reforms would have helped prepare the way for improved acceptance and also provided the basis for wide consultation and gathering of data on reforms in order to improve their design and implementation. As it currently stands, there are tensions between the PARAS and ALKU reforms due to a lack of information being provided to the sub-national level as to the national rationale for these reforms, how they interact, how individual authorities stand to benefit, the next steps and future vision, and how individual authorities can make informed decisions on how to implement them (see Box 5.4 in Chapter 5 for more on the ALKU regional reform and Box 6.5 in Chapter 6 for more on the PARAS municipal reform).

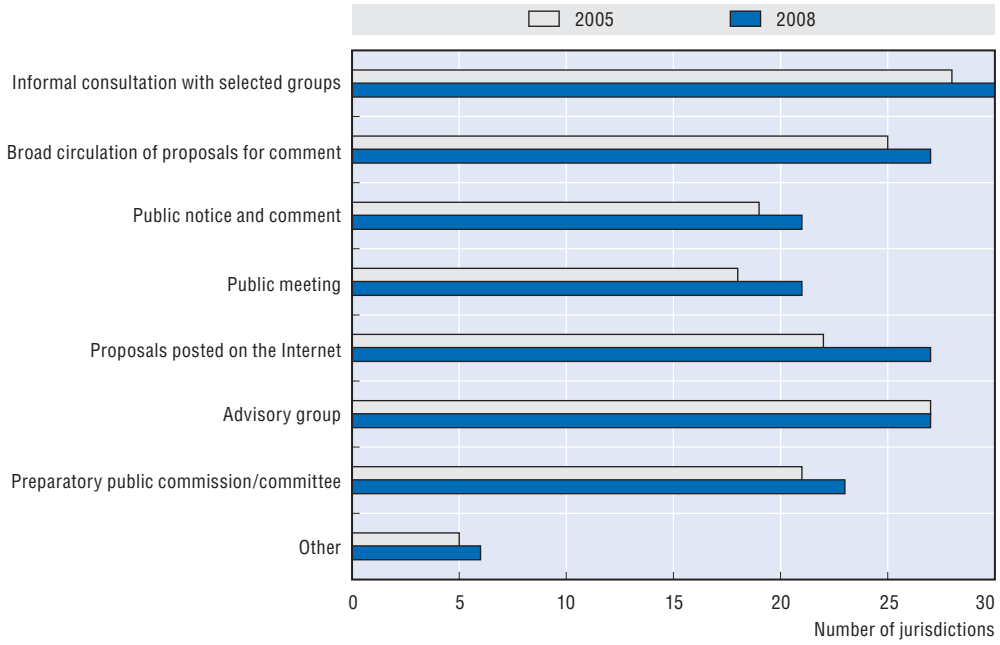
Consultation

Citizen consultation is a two-way relationship where government provides information and citizens are invited to contribute their views and opinions. Citizen consultation is a key part of a citizen-centred approach to policy making, decision making and service delivery. Its main purpose is to improve decision making by ensuring that decisions are soundly based on evidence, that they take account of the views and experience of those affected by them, that innovative and creative options are considered, and that new arrangements are workable.[17] Consultation can occur as citizen feedback or through active, planned public consultation processes on legislation and regulations, government policies, service delivery, societal foresight objectives, etc.

Consultation processes differ widely across countries with respect to the timing, availability of guidelines and the degree of openness of processes. Figures 4.8 and 4.9 provide

Figure 4.8. **Forms of public consultation routinely used at the central government level**

Primary laws, 2005 and 2008

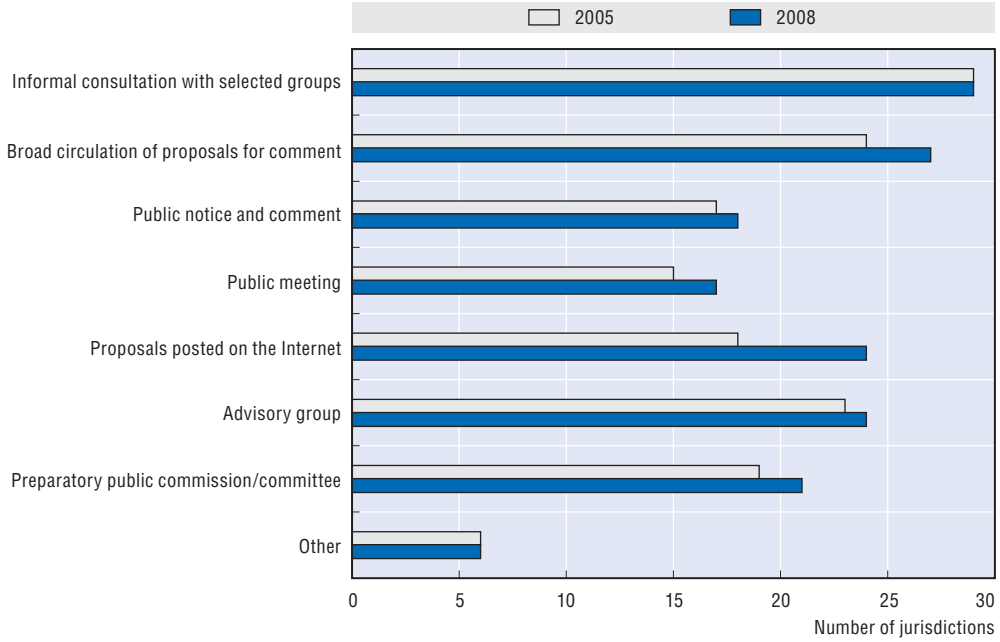


Note: Data for 2005 and 2008 are presented for the 30 OECD member countries and the European Union.

Source: OECD Regulatory Management Systems Indicators Survey 2005 and 2008 (*www.oecd.org/regreform/indicators*).

Figure 4.9. **Forms of public consultation routinely used at the central government level**

Subordinate regulations, 2005 and 2008



Note: Data for 2005 and 2008 are presented for the 30 OECD member countries and the European Union.

Source: OECD Regulatory Management Systems Indicators Survey 2005 and 2008 (*www.oecd.org/regreform/indicators*).

a snapshot of the forms of public consultation routinely used at the central government level for primary laws and subordinate regulations in OECD countries. Between 2005 and 2008, the number of countries reporting the use of the Internet to post proposals for consultation and the use of public meetings and public notices to solicit comments on a routine basis has increased. Finland reported routinely using all forms of public consultation – with the exception of public-notices and calling-for-comments procedures in the development of primary laws and subordinate legislation, and the use of advisory groups in the development of subordinate legislation.

In Finland, the Parliamentary Ombudsman and Chancellor of Justice are examples of institutions which deal with citizen complaints and feedback. The roots of the institution of Ombudsman stretch back to 1809 when it was first established by the Swedish legislature to respond to public complaints against government actions. Citizen feedback overwhelmingly relates to complaints regarding perceived unlawful actions or neglect in duty of care. Each of the two bodies is tasked with the authority to investigate the complaints of individual citizens. The number of complaints received by the Parliamentary Ombudsman increased by 48% over the period 1998-2008, and reports to the Office of the Chancellor of Justice increased by 31% for the same period.[18]

Like other OECD countries, Finland has taken active steps to move towards institutionalising citizen consultation activities in the government and public administration. This effort was enhanced through the Central Government Reform (2000-03) and the implementation of the Citizen Participation Policy Programme (2003-07). During the combined period of these two programmes, key projects focused on enhancing citizen consultation were rolled out.

Finland's activities to raise the profile of citizen engagement have provided a solid foundation on which to build future efforts. Part of the Central Government Reform (2000-03), the Hear the Citizens project, aimed to increase possibilities for citizens and citizen organisations to participate with government. The project asked all ministries to develop strategies to co-operate and have open dialogue with citizen organisations as well as individual citizens. The aim was to also include an information strategy that specified how to inform citizens and citizen organisations. Further to this, four ministries (the Ministry of Foreign Affairs, the Ministry of Justice, the Ministry of Education and the Ministry of Labour) held pilot programmes involving an assessment of current procedures for conducting dialogue with citizens and citizen organisations. The Ministry of Finance developed a discussion forum (*www.otakantaa.fi – share your views with us*) for all ministries to use for consultation with individual citizens. The "Tell Mr. Sailas where the government should save from" initiative was considered to be a successful e-consultation on the designated website, in which citizens were invited to submit ideas of budget savings to the State Secretary of the Ministry of Finance.

Following the Central Government Reform initiatives, the Citizen Participation Policy Programme was launched (see Box 4.2). It promoted active citizenship, full operation of civil society, exercise of influence by ordinary people and effective functioning of representative democracy. As part of this programme a number of successful initiatives which escalated Finland's efforts to embed citizen consultation in government and public administration – particularly at the state administration level – were launched. A key step was to gain buy-in and commitment to citizen consultation by senior officials. To do so, all permanent state secretaries of state ministries, the director of the Association of Local and Regional Authorities, and mayors of several cities were asked to sign the Principles for Public Consultation. Commitment to this declaration is monitored by the Ministry of Finance through a questionnaire sent to ministries every other year. A guidebook on citizen consultation was also drafted for civil servants and public office holders, and strategies for working with civic organisations were required of all ministries.

In 2005 and 2007, the Ministry of Finance sent a questionnaire to state secretaries to assess progress in applying the Principles for Public Consultation in state ministries. The results showed that only about half of the ministries have such a strategy in place. Additionally, while most ministries do list their ongoing projects on the online project register and on their ministry websites, only half of CSOs actually knew that such a register even existed. In addition, the Ministry of Finance has advised that, although all ministries state on their questionnaires that consultation is an integral part of their preparatory work, few indicated what this meant in practice. While consultation was said to occur, in reality reporting greatly exceeds action: for example, the eight-to-twelve week consultation period recommended by the Hear the Citizens project is only achieved in the Ministry of Justice. However, in March 2010, the government adopted new guidelines for consultation including a six-week timeframe for all projects, which is extended to eight weeks for large projects, and can be longer for consultations occurring during holiday periods. The Ministries of Justice and Finance collaborated on these new guidelines. Finally, even though ministries organise consultation more than before, training for personnel on these issues is still mostly absent.

Despite concerted efforts at the state level over the past seven years, citizen consultation in Finland is still not embedded into the culture of the public administration. Discussions with CSO representatives have been generally positive regarding consultation

on domestic affairs (as opposed to international or EU policy issues). However, while CSOs noted that engagement of representative bodies at the state level does take place, they suggested that this has been declining. This perceived decline in influence may be due to the short timeframes provided by the state when seeking input or comment on legislation and/or regulation and government policies. In addition, CSOs have raised concern that that the consultation that does occur is targeted towards larger CSOs and those with pre-established relationships with members of government or the administration. As such, groups that are new, small or less organised claim to have few opportunities to represent their members at the national level. Harmonizing how CSOs are heard could be helpful.

CSOs also raised concerns regarding consultation on matters of EU affairs, highlighting that the state administration consults more on domestic affairs than EU affairs. This was of concern to some CSOs which believe EU legislation is encroaching on their ability to effectively deliver third sector services. They advised that some EU legislation prevents CSOs from being involved in a service area, due to preferences that the service be provided by a registered business. Some fear that EU legislation increasingly requires the third sector to compete with businesses, which do not always necessarily hold the well-being of those they are servicing as a priority. Additionally, in a geographically dispersed country such as Finland, it can be difficult to operate services as business in very remote areas (for example, it may be feasible to run a service as a business in Helsinki, but not in Lapland). CSOs indicated that in EU affairs, there is the Nordic model *vs*. "the rest of Europe" and that they are concerned about insufficient consultations to protect their way of operating under the Nordic model. Finally, they highlighted that the volunteer sector is the glue between different society actors and expressed fear that this will be lost under greater influence of EU legislation. CSOs advised that their connections to civil society networks at the EU level have been their only way of advocating – as they are not involved in EU processes by the Prime Minister's Office (which has responsibility for EU affairs), as they may be on domestic issues. Whereas CSOs and unions were once consulted prior to government decisions being made and then during the development of programmes, in recent years, they claim that they are now only consulted in the latter case and have less influence, with negative outcomes for citizens.

The Finnish government relies heavily on consulting with CSOs to gain external input. Citizen consultation should include a wide variety of society's actors – including individual citizens, businesses, and CSOs – to improve the variety of data received as part of foresight/horizon scanning and to increase the quality and cost-effectiveness of policy development and implementation through co-design. No individual, body or organisation can represent all stakeholders' opinions and emotions. Thus, CSOs should not be used in isolation as the primary source of information. While CSOs are important, and can play a key role in communicating with the government, they alone do not define the meaning of citizen engagement.

Citizen participation

Citizens can make an active and original contribution to policy making when their relationship with government is founded on the principle of partnership. Active participation recognises the autonomous capacity of citizens to discuss and generate policy options; it requires governments to share in agenda setting and to commit to taking policy proposals generated jointly into account in reaching a final decision. Last but not

least, it requires citizens to accept a higher responsibility for their role in policy making that accompanies greater rights of participation.[19]

Active participation, or citizen engagement, is based on "shared agenda-setting for all participants, a relaxed time-frame for deliberation, an emphasis on value-sharing rather than debate, and consultative practices based on inclusiveness, courtesy and respect".[20] Tools for active citizen participation in policy making include:

- citizens' fora: which provide a means to deliver policy proposals generated by citizens or their representative organisations directly to policy makers;
- citizens' juries: which allow a group of citizens – selected to reflect the population at large – to question experts in a quasi-courtroom setting and to offer recommendations after deliberation;
- dialogue processes: which enable governments to engage large numbers of citizens directly in identifying needs and developing policy solutions; and
- consensus conferences: which enable a panel of laymen (non-experts, with access to a range of experts) to discuss a complex issue over several days and report on their conclusions.

In 1998, the Finnish government passed a resolution stating its aim to create possibilities for the active participation of citizens, which would promote the role of the State and the municipalities, as well as civic organisations, in addressing common issues. However, despite the good intentions of this resolution, citizen participation activities in Finland are still generally *ad hoc* in nature. The Finns have increased activities relating to communication and consultation, but full active participation of the Finnish citizenry in policy making still has some way to go before it is mainstreamed into the daily practices of the Finnish public administration.

Providing information to citizens and undertaking citizen consultation is much easier than citizen participation, which requires the full engagement of citizens in policy development and implementation, and government decision making. Government and the public administration must view citizens as partners – where government steps into a stewardship role. In operating as a steward, government creates the conditions to identify and harness the innovative practices needed to stimulate collective responses to the increasingly complex policy challenges of the future. This involves a shift from the simple delivery of services to monitoring, anticipating and course correcting, and shepherding of all society's actors (including government) to achieve collective outcomes.

Despite its name, the Citizen Participation Policy Programme focused on educating citizens in democracy; there were no *active* citizen participation projects launched or piloted to encourage genuine dialogue between government/public administration and citizens. The Citizen Participation Policy Programme therefore provided a solid base on which to build the conditions for citizen participation in Finland, but further work is needed to embed this way of working within the public administration. This has been acknowledged by some officials, to some respect. After the Citizen Participation Policy Programme ended, the Ministries of Justice and Finance launched a joint project (in 2008-09) to review Finland's existing Civil Society Strategy and evaluate citizen participation activities. Citizen participation is also being addressed in the Ministry of Justice's work to improve the quality of regulation.

Citizen engagement in policy development and implementation is a critical piece of open and inclusive government. It makes concrete citizens' right to have an informed say in the decisions that affect their lives. Citizens are affected by decisions made at many levels of government, but generally have the most contact with local governments – which deliver a major share of public services. While feedback from citizens on service delivery provides an important source of information for governments, citizens also seek other more direct ways to receive information on, and participate in, the policy-making process. In Finland, individual citizen participation and engagement seems to occur more at the municipal level and less at the state administration and political levels.

Finnish officials hold differing views as to who is responsible for encouraging participation and engagement of citizens, as well as the derivable benefits from investing in such practices. Some state officials told the OECD that the municipal level is most appropriate to hold responsibility for citizen engagement, given its proximity to citizens. Because municipalities deliver basic services, there is a general feeling that citizen participation and engagement needs to occur only at this level. However, with decentralised power structures, it is essential that the state has a strong steering capacity and provides strategic insight. As such, the state has an equally compelling need to consult with citizens and hear their ideas and needs, so that it can formulate whole-of-society approaches to the complex policy problems arising today and into the future.

In fact, both municipalities and CSOs suggested to the OECD that neither the state administration nor government are in tune with the needs of citizens, and are not taking these requirements into account in the development of national policies and legislation. This lack of citizen consultation in the political process at the state level of administration is a key factor in the perceived distance between the state and the citizen. It has been suggested that staff employed by the state government need to learn how things work "on the ground" at the local level, and that increased knowledge transfer between the municipalities and the state is necessary. Sharing information both supports principles of citizen participation and helps to broaden the scope of public servants' experience and skills; this contributes to increased strategic insight at the individual and organisational levels. As an added benefit, it also contributes to decreasing silo working in state administrations by exposing staff to more than the inner workings of their own ministries.

While participation activities were found to be *ad hoc* at best in the state administration, participation proved to be a more systematic part of everyday work at the sub-national level; this is understandable given the proximity of local authorities to citizens. Communication at the local level is more frequently two-way, and parties seem to have a clear understanding of how the outcomes of dialogue will be used. It is important, however, to ensure that any debate is not "captured" by one or two particularly strong interested parties. This was experienced in Kainuu, where the Regional Council took a very proactive approach to improving service delivery by consulting residents in the region's municipalities regarding the type of healthcare services available (see Box 4.4).

Despite concerted efforts, citizen participation remains weak. A contributing factor may be too much focus on the use of e-participation methods; some observers in Finland feel that there is an over-emphasis on e-participation and e-democracy as methods for engaging and consulting with citizens. Electronic methods appear to have been pushed as a way to get around traditional Finnish reluctance to direct verbal public engagement. However, active citizen engagement can also benefit from face-to-face contact. While ICT

is a useful tool for strengthening government-citizen connections, it should not be used in isolation from other consultation and participation mechanisms. The two approaches are not mutually exclusive; ICT solutions can also be used in innovative ways to engage citizens in rural and remote locations. For example, the Social Insurance Institution (KELA) is rolling out videoconferencing as part of service delivery in its one-stop shops. This could be expanded to use videoconferencing as a way of engaging citizens in geographically dislocated areas of Finland in policy-making activities.

Box 4.4. **Incorporating a citizen perspective in Kainuu healthcare service provision**

The provision of health and social services (excluding child daycare) was among the competences transferred from municipalities to the Kainuu Regional Council as a result of the Kainuu Regional Experiment in Self Government (see Box 6.9 in Chapter 6). When the Kainuu Regional Council assumed these service responsibilities, it developed a series of guiding principles for service provision, including: a client perspective; freedom of choice; three levels of services; prevention; equal access to services; and cost-efficiency.

In keeping with the principle of a client perspective, the Kainuu Regional Council, through the Joint Authority of the Kainuu Region (responsible for healthcare provision), developed the "Happenings" programme to better identify and respond to the needs of healthcare users. Under this programme, the healthcare team visited all municipal health clinics twice. During the first meeting – open to all citizens who wished to participate – the team presented the different services available at/or through the clinic, followed by a question-and-answer period with the regional healthcare team, the clinic service providers, and the municipal residents. After approximately 10 days, the team returned to the municipal clinic for an evening session, where they shared the input and feedback they had heard during the previous visit. They then worked together with citizens to identify solutions to some of the most pressing concerns. The team noticed that sometimes the small things mattered most. For example, the healthcare providers at both the regional and municipal levels believed that everyone knew the telephone number for a 24/7 nurse call-centre. This, however, was not the case – and a quick, easy and low-cost solution was found to ensure that all citizens were aware of and had easy access to the appropriate number.

Through "Happenings", the Kainuu healthcare team built awareness of the variety of services available to citizens. In addition, rather than depending strictly on feedback from clinic practitioners, the team listened directly to the end users of the services. This allowed the development of more targeted and community-tailored solutions, increasing the effectiveness of the services provided, as well as their efficiency. Because reform to healthcare systems at any level is a highly sensitive issue, by developing a two-way communication channel and acting on citizen input, the Council increased the potential for residents to feel that they had a role in the process. This, in turn, could increase trust in the reform process and a sense of "ownership" of the services available in their community.

Undertaking in-person citizen participation can be costly, and requires active effort on behalf of the public administration – but its benefits can also be rewarding. Evaluation of proposed legislation through Finland's efforts to develop better-quality regulations showed that most projects included advance consultation. However, the Ministry of Finance noted that the consultation methods and participation were rather traditional and that dialoguing was not very widespread. The public administration is clearly aware of the

importance of engaging citizens, but its focus needs to be broadened from the provision of information to citizens and *ad hoc* consultation to include citizen participation activities with genuine dialogue between citizens and the public administration and government. In Australia, for example, community cabinet meetings are used by both state- and federal-level governments to engage citizens in a dialogue process with members of government (see Box 4.5). Community cabinet meetings are held in various locations across Australia (including cities, rural and regional centres, and remote locations) multiple times each year. Finland could benefit from adopting a similar approach as part of a new wave of citizen engagement, focus and commitment.

Box 4.5. **Australia's community cabinets**

Community cabinet meetings are used by federal and some state governments in Australia as a mechanism for ensuring close consultation with citizens on issues of concern.

Federal level

Community cabinet meetings were introduced in November 2007 at the federal level to give people in the community an opportunity to meet Cabinet members in person and to ask questions directly about issues that are important to them – whether they are national or local matters. The meetings are run in two halves; Cabinet members take questions from individuals during a public forum, and then individual Cabinet ministers meet with individual members of the public on issues relating to their respective portfolios. All questions or comments are followed up in writing by the appropriate Cabinet minister and also collated in a database within the Prime Minister's department, which is used to track issue trends. Media are invited to attend the forums, but are only permitted to film during the first half of the meeting to ensure the privacy of citizens in personalised ministerial meetings.

Since November 2007, over 20 federal community cabinet meetings have been held in various locations across Australia, ranging from cities to regional centres to very remote locations. Community cabinet meetings are managed by the Prime Minister's Department.

www.dpmc.gov.au/community_cabinet/index.cfm

State

The Victorian Government has also established a community cabinet programme to give citizens an opportunity to speak directly about issues and concerns with members of government. The programme consists of up to 10 visits per year to metropolitan and regional locations across the state. Each visit comprises a formal Cabinet meeting and may include formal and informal community consultations, as well as a range of site visits and activities.

The aim of the programme is to actively demonstrate the government's commitment to restoring democracy, growing the whole of the state, improving services, and optimising government resources in partnership with Victorian citizens. It also reinforces the government's ability to listen and lead.

www.premier.vic.gov.au/community-cabinet.html.

The Citizen Participation Policy Programme gave citizen participation a higher status than in previous governments, and contributed to improved co-operation among ministries. Elevating citizen participation to a horizontal Policy Programme under the Government Programme increased awareness of the issue within government and the state administration. Under the Policy Programme, citizen participation had a dedicated

co-ordinating minister (the Minister for Justice) and programme director, which raised its profile significantly (although enhancing participation had received political support during earlier governments). Given the importance of citizen participation in both supporting the use of evidence-based decision making and in fostering active democracy, the role of the Minister of Justice should be expanded (it already includes overseeing better regulation and democracy) to include direct responsibility for whole-of-government citizen participation.

Finland could benefit by implementing a broader whole-of-government citizen engagement strategy which includes information, consultation and participation activities. Individual ministry strategies for citizen consultation should be broadened to include citizen engagement strategies. Like government-wide strategic planning (further discussed in Chapter 5), citizen engagement activities within individual ministries should flow from a whole-of-government citizen engagement strategy. Each ministry's activities should support the achievement of the overall strategy as it relates to the programme of work in its sector. State secretaries must be made accountable for developing and achieving citizen-engagement processes in their ministries through performance-management processes.

A continued focus on citizen participation could lead to a closer relationship between citizens and businesses and the state. It may be that the stakes for stronger citizen engagement need to be more clearly identified and discussed within the public administration, and with Parliament and civil society, in order to develop a consensus about the direction of citizen engagement and the means to further advance such efforts (where citizen engagement includes interaction with both the general public, and business and CSOs). Citizens want feedback on what happens with the ideas they propose, which the State is currently unable to provide. Turning whole-of-government agendas to citizen consultation and engagement will be critical to ensuring greater trust in government and better outcomes through enhanced strategic insight.

As discussed throughout this chapter, citizen engagement initiatives in Finland tend to be *ad hoc* and limited in time and scope. To achieve success, citizen engagement must be institutionalised within government operations. This requires both structural and cultural elements that embed citizen engagement into policy development and implementation processes. Parliament, government and the public administration must also recognise and commit to the value of citizen engagement. Adoption of citizen engagement activities will also improve if ministries are given information and good practice examples that show how their work can benefit from this action, and the tools to help decide what type of engagement is the most appropriate for their planning and/or decision making needs. The timeline, political sensitivity and level of citizen interest in an issue all determine what type of engagement is needed. Fitting initiatives to needs will help to better make the case for citizen engagement.

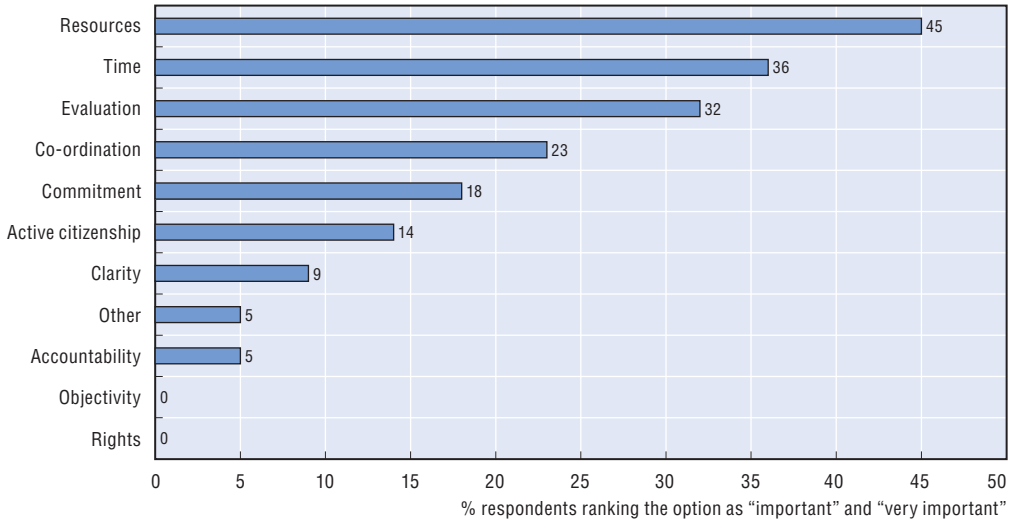
Barriers to citizen engagement

Finland has made significant efforts to institutionalise citizen engagement in state administration; it is therefore important to consider the barriers to successful information, consultation and active participation of citizens in policy making. The OECD's "Guiding Principles" for successful information, consultation and active participation of citizens in policy making include: commitment, rights, clarity, time, objectivity, resources, co-ordination, accountability, evaluation, and active citizenship.[21] In 2007, the OECD asked governments, including Finland, which of these principles they found easiest to apply and

which had been the most challenging. Finland's survey response showed that, while progress is being made to achieve active citizenship, it faced a *lack of evaluation, resources, co-ordination, time, clarity and commitment*[22] in implementing the guiding principles. These results differ somewhat from the results for the 23 OECD countries that responded to the survey (plus Chile and Slovenia), of which 45% considered a lack of resources, followed by a lack of time (36%) and evaluation (32%) as the biggest obstacles to citizen engagement. (see Figure 4.10).

Figure 4.10. **Guiding principles for successful information, consultation and active participation of citizens in policy making which were the most difficult to meet**

% respondents, n = 25 countries



Note: Percentage of respondents ranking the option as "important" or "very important".

Source: OECD (2009), *Focus on Citizens: Public Engagement for Better Policy and Services*, OECD, Paris.

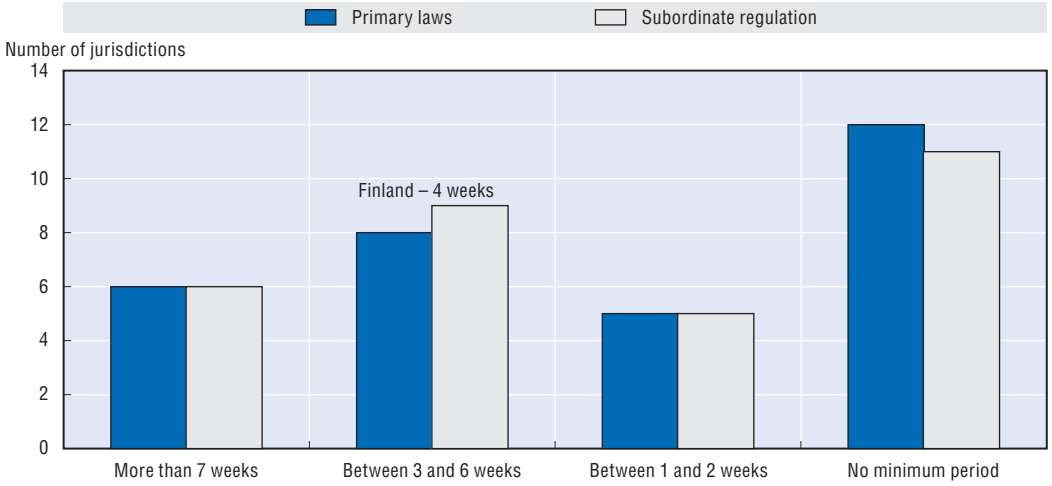
The findings of the 2007 survey differ somewhat from the qualitative research undertaken in 2009 for this review, where those interviewed considered time as a significant barrier to undertaking citizen engagement in state administration, in addition to a lack of resources. Civil society representatives identified time constraints and a lack of co-ordination across government units for horizontal policies/programmes as the largest barriers. It would thus appear that a combination of factors is affecting Finland's ability to institutionalise citizen engagement in public administration: the resources to allow workers to integrate citizen engagement activities into their everyday working practices, as well as horizontal co-ordination in undertaking engagement activities and *ex post* evaluation of efforts. But remedying these issues requires clarity of purpose and commitment from government, parliament, senior public sector officials and staff to develop appropriate engagement practices that fit the Finnish context, and to embed these into policy making, performance management and evaluation frameworks.

Time and resources

When citizen engagement is institutionalised within public administrations it becomes a routine, and structured mechanisms for consultation are put in place to permit adequate time for consideration of proposals and submission of views. OECD countries specify various minimum time periods for citizen consultation. Finland identifies four

weeks as the minimum period for consultation comments from both inside government and the public on primary laws and subordinate regulations[23] (however, from 15 March 2010, the minimum consultation period was increased to six weeks, and to eight weeks for large projects). Figures 4.11 and 4.12 show the minimum period for consultation comments by the public and government sources in OECD countries. It is notable that almost half of countries have no specific period for consultation, which reflects a lack of formal policy rather than an absence of well-institutionalised practices. The other half of OECD countries have some minimum time period for consultation, ranging from between one and seven weeks or more (up to 12 weeks).

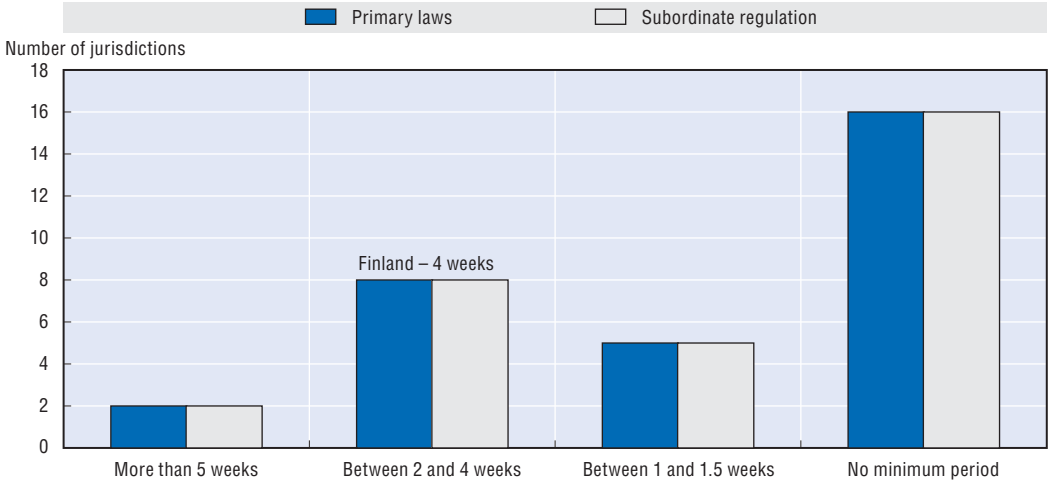
Figure 4.11. **Minimum period for consultation comments by the public, 2008**



Notes: Missing answers are considered as "No minimum period".
Data presented for the 30 OECD member countries and the European Union.

Source: OECD (2009), *Indicators of Regulatory Management Systems: Regulatory Policy Committee 2009 Report*, OECD, Paris.

Figure 4.12. **Minimum period for consultation comments from inside government, 2008**



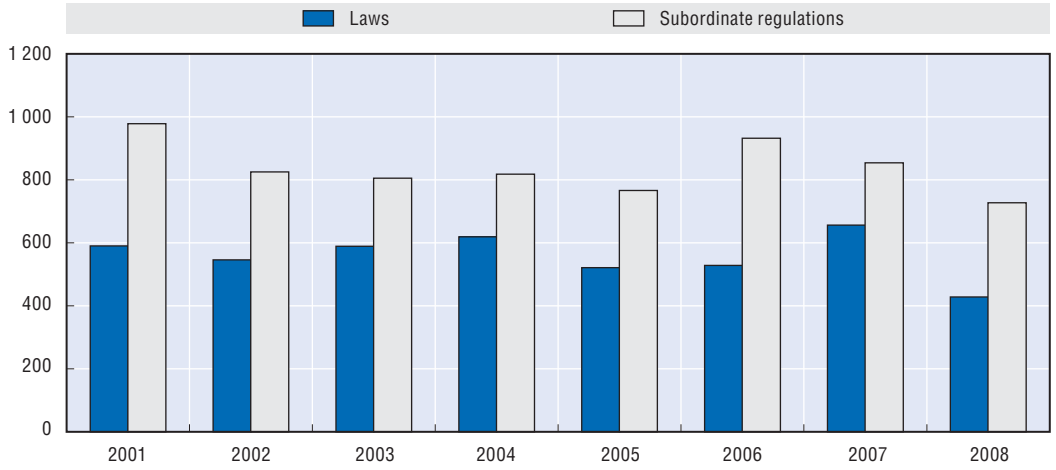
Notes: Missing answers are considered as "No minimum period".
Data presented for the 30 OECD member countries and the European Union.

Source: OECD (2009), *Indicators of Regulatory Management Systems: Regulatory Policy Committee 2009 Report*, OECD, Paris.

Some Finnish interviewees – both CSO representatives and public servants – considered the current timeframes for public consultation to be too short and prohibitive. CSOs commented that they would prefer more time to consult on the proposals brought forward by government within their own organisations and with their members or constituents at the local level. They indicated that because time for such dialogue is not provided, they can only give the point of view from the centre of their organisations. This prevents their own consultation processes from being truly democratic. They believe, however, that most ministries would be willing to co-operate, if they had the time to do so. This means that government must change the way it works to allow time for citizen consultation, and to make consultation with stakeholders, other authorities, etc., part of its daily business. This requires prioritising citizen engagement within performance and reward frameworks.

Time for consultation needs to be balanced with the length of time taken to develop and pass legislation. While there has been an overall downward trend in the volume of regulations enacted in Finland during the period 2001-08, the volume of regulations made by regulatory agencies is increasing. The challenge for Finland, however, is that it continues to amend laws frequently; this is due in part to the tendency to adopt detailed laws which do not necessarily have the flexibility to stand the tests of time and changing needs. Ensuring effective *ex ante* consultation could help to address this, but legislative drafting in Finland is compounded by a number of factors, including meeting the EU requirement of transposing or giving effect to EU decisions (this usually requires legislative action); and, in particular, a lack of staff with appropriate legal training within ministries to draft legislation. Figure 4.13 shows the number of regulations introduced each year between 2001-08.

Figure 4.13. **Number of regulations introduced each year in Finland from 2001-08**



Source: OECD (2010), *Better Regulation in Europe: Finland 2010*, OECD, Paris.

The government itself can create timing issues when it is slow or reluctant to act on EU decisions and thus holds off implementing a law until the last possible moment; this puts intense pressure on law drafters and stymies public consultation. For example, when the government waited to implement a law on the taxation of automobiles until the courts ordered it to do so, the resulting measure had to be drafted quickly. It seems that the government systemically pushes issues to the last minute when it is reluctant to address them due to costs/funding of implementation. The pressures to quickly draft legislation

impact the public administration's ability to devote time to citizen consultation and participation. Shorter timeframes for legislative drafting dictated by the EU also limit consultation opportunities. If EU policies are not translated into Finnish Law within the timeframes imposed by the EU, Finland can be prosecuted.

To follow the Citizen Participation Policy Programme, the Ministry of Justice ran a project in 2007-08 to devise a strategy for e-consultation and e-participation. The government created an Advisory Board to enhance dialogue between the administration and civil society, and the Ministry of Justice set up a Democracy Network among the ministries to co-ordinate the administration's work to enhance participation. The Democracy Unit – in consultation with the Democracy Network and the Advisory Board – has developed a strategy for e-democracy, which aims to create an environment in which public organisations can consult with citizens and civil organisations, and where citizens can also contact each other about public matters. However, funding has only recently become available to implement the strategy. The Ministry of Justice is working co-operatively with the Ministry of Finance/SADe project to operationalise the programme.

Co-ordination

The changing policy environment and new global challenges also limit the state administration's ability to foster engagement and participation. As policy issues become more horizontal and must be addressed at the whole-of-government level, some stakeholders feel that it is more difficult to engage and lobby government and to be consulted. A different consultation model is required, and the government and administration have not effectively adapted.

When consultation efforts are not co-ordinated across the public administration, duplication of efforts can lead to "consultation fatigue". Stakeholders also risk missing consultation opportunities due to a lack of awareness of what consultation processes are available in the field. The government could implement a common consultation portal to raise awareness of consultation processes in train, both within the public administration and in the community at large. The public administration could use the portal to better co-ordinate and target consultation efforts, and to share information. It could also be made available to raise community awareness of public policies and programmes in development, and to provide CSOs, citizens and businesses an opportunity to participate in the development of public policies and programmes by submitting comments or ideas online.

Long-term fiscal projections

Long-term fiscal projections are key for both providing governments with strategic insight and communicating strategic choices to citizens and other stakeholders. Projections assess fiscal sustainability of current (expenditure and revenue) policies based on a number of demographic and economic parameters. They provide governments with invaluable signposts that enable them to make decisions that respond to known fiscal pressures and risks in a gradual manner; such proactive responses prevent governments from adopting sudden policy changes. Planning ahead also helps to stabilise the fiscal future, costing governments less than if they had acted at the last minute.

Finland publishes fiscal projections annually for a time horizon of 41-50 years. Twenty-seven of the 30 OECD member countries (as at May 2009) produce fiscal projections (up from only four OECD countries in 1999).[24] The time horizon used for projections varies,

from 25 years in Korea to approximately 100 years in the Netherlands. However, most use a time horizon of 41-50 years (see Figure 4.14). Over half of all OECD countries prepare fiscal projections on an annual basis, five countries prepare them on a regular periodic basis (every three to five years) and two prepare them on an *ad hoc* basis.

Figure 4.14. **Coverage and frequency of long-term fiscal projections[1] by central government (2007)**

Frequency produced	Years covered					
	21-30	31-40	41-50	51-60	61+	Total
Annually			Austria, Belgium, Finland[8], France[8], Greece, Hungary, Ireland, Italy[8], Luxembourg, Poland[8], Portugal, Slovak Republic, Spain, United Kingdom[8]	Czech Republic[2, 8], Sweden[3]	Denmark[8], United States	18
Periodically (every 3-5 years)		Australia, New Zealand	Germany[4, 8], Norway, Switzerland			5
Ad hoc basis	Korea	Canada[5]	Japan[6]		Netherlands[7]	4
Total	1	3	18	2	3	

1. No fiscal projections reported by Iceland, Mexico and Turkey.
2. Czech Republic: Fiscal projections until 2060 in 2009, previously until 2050; otherwise identical to other EU member countries.
3. Sweden: Fiscal projections until 2060 in 2009, previously until 2050.
4. Germany: Fiscal projections are also published annually as part of its stability programme reports to the European Commission. The projection for the Commission is adapted from the government's Report on the Sustainability of Public Finances, published within four years of the previous report.
5. Canada: Fiscal projections have been published in staff working papers on an *ad hoc* basis.
6. Japan: Fiscal projections were prepared in 2007 by the Council on Economic and Fiscal Policy until 2025 and by the Financial Systems Council within the Ministry of Finance until 2050.
7. Netherlands: Fiscal projections are also published annually as part of its stability programme reports to the European Commission. The projection for the Commission is adapted from the independent CPB Bureau for Economic Policy Analysis ageing reports published on an *ad hoc* basis.
8. Countries also publish an approximation of the inter-temporal budget constraint. In the case of European Union member states, this corresponds with the S2 indicator, *i.e.,* the size of the permanent budgetary adjustment necessary for the gross consolidated debt to reach 60% of GDP over an infinite period of time.

Source: Anderson, B. and J. Sheppard (2009), "Fiscal Futures, Institutional Budget Reforms and Their Effects: What Can be Learned?", *OECD Journal on Budgeting*, Vol. 2009/3, OECD, Paris.

Finland's Stability Programme updates are prepared based on the government's annual spending limits for central government, the annual budget as approved by Parliament, and the short-term forecast as published by the Ministry of Finance.[25] As in the case of many EU OECD countries, Finland produces its projections primarily as part of its European Commission Stability and Growth Pact requirements. Under the provisions of the Stability and Growth Pact, euro area countries prepare annual stability programmes and other EU member states draw up convergence programmes. The aim is to ensure more rigorous budgetary discipline through surveillance and co-ordination of fiscal policies within the euro area and the EU.

The government discusses Finland's Stability Programme update during its plenary session and presents it to the Parliament during the drafting stage. The Stability

Programme update details planned measures to address the challenges to general government finances. The 2009 update focuses on responding to population ageing. The European Commission's assessment and the EU Council's statement on Finland's Stability Programme are submitted to the Parliament in connection with Ecofin preparations.[26]

Despite the use of the Stability Programme update as a vehicle for communicating fiscal projections, it is unclear how fiscal projections are discussed in the context of wider decision making. Finland should broaden its use of fiscal projections beyond European Commission Stability and Growth Pact requirements, and embed their use in the annual budget processes. The government could also explore how such information could be used to better inform current policy making, as well as to stimulate informed debate with the Finnish citizenry about issues such as the ageing population and the sustainability of public service provision under the Nordic Welfare Model.

In terms of generating a policy discussion about the future of the Nordic model in Finland, the government might use fiscal projections to raise the profile of fiscal sustainability, provide a framework to discuss the sustainability of current policies and the possible fiscal impact of reforms, and centralise responsibility for long-term policy analysis. In the Finnish context, the outlook of public finances has been overshadowed by rapid population ageing that will take place over the next two decades as the baby boom generation, born after the Second World War, retires from working life. The continual lengthening of life expectancy will also have an impact (see Chapter 2).[27]

To manage the short-term political incentives shaping government spending, governments must communicate effectively, and link projections to decision making practices and procedures and subsequent political action.[28] Clearly presented information about a country's possible fiscal future helps to stimulate public debate and allows policy makers to take future costs and benefits into account in today's policy decisions. It is important to keep in mind that fiscal projections are just that, and not predictions.

It is difficult to transparently determine how effectively governments are utilising the information generated through fiscal projections to inform policy debate and feed into decision making processes. Although most OECD countries prepare fiscal projections, linking these projections to other budget practices and procedures remains weak in many OECD countries.[29] As a result, in many countries, fiscal projects risk being considered solely as analytical exercises by economists, far beyond the policy-making realm. In addition, only a small number of countries present projects together with the budget.

The scope of foresight reporting could be broadened to enhance strategic insight

The policy environment faced by governments is no longer dominated by predictability. It has become ever more complex, unpredictable and immediate, with multiple actors taking concurrent action both domestically and internationally. Such an environment requires governments, supported by public administrations, to be proactive in scanning, gathering and analysing information to guide decision making and priority setting. Strategic foresight reporting helps governments look ahead to identify future risks and opportunities as a means of prioritising and focusing government policies; it is an essential component of achieving strategic insight. Indeed, many OECD countries have been undertaking strategic foresight activities for many years.

Box 4.6. **Key elements for fiscal projections**

A recent OECD report examines the analytical and institutional dimensions of fiscal projections in 12 OECD member countries. Based on their assessment, the authors suggest that fiscal projections should:

- Be prepared on an annual basis to draw attention to the long-term fiscal consequences of current policies, and to eliminate discretion over when projections are produced.
- Incorporate comparisons with past government assessments to highlight whether the government's fiscal position has improved or deteriorated.
- Include sensitivity analysis (or "alternative scenarios") for changes in demographic and macro- and microeconomic assumptions to illustrate the exposure to fiscal risks and the general impact of this exposure.
- Clearly present changes in the methodology, key assumptions, and data sources to provide an assurance of their credibility and quality. By their very nature, projections are uncertain and sensitive to underlying assumptions. Disclosure and justification of changes in underlying assumptions are one way to affirm the quality of projections and a basis for an independent review of a country's fiscal future.
- Be used by countries to illustrate the fiscal consequences of past reforms and general policy options. This can show policy makers that while improvements to the country's long-term fiscal position are possible, they may not eliminate long-term fiscal challenges altogether. However, when creating projections, governments should carefully review the types of forward-looking simulations used to ensure that policy options are not presented as prescriptions or means of circumventing political consultation about reforms.
- Be directly tied to the annual budget process and linked to other budget practices and procedures to ensure that adequate attention is given to the fiscal consequences of current policies. One method could be to link the results of fiscal projections to fiscal rules, such as medium-term expenditure ceilings, or to entitlement benefit formulas through either hard or soft budget triggers.

Source: Anderson, B. and J. Sheppard (2009), "Fiscal Futures, Institutional Budget Reforms and Their Effects: What Can be Learned?", *OECD Journal on Budgeting*, Vol. 2009/3, OECD, Paris.

The systematic launching of efforts to foresee societal development, emerging risks and opportunities started in Finland's universities in the late 1970s. However, it was not until the 1990s that the Finnish government, Parliament and ministries became more engaged in futures reporting. Government foresight reporting has been in practice in Finland since 1993, when the first horizontal Government Foresight Report, titled Finland's Options, was tabled in Parliament. This initial report presented views on major future developments and optional scenarios for Finland posited in the context of future research and the then-government's priorities; it also provided a plan for the kind of future society that the government was seeking to create through its actions in office.[30] Since then, a horizontal Government Foresight Report has been submitted to Parliament during every electoral period (see Box 4.7). While the first report mainly examined Finland's future from a relatively wide variety of angles, subsequent reports have been organised around selected themes focused on a core future issue that affects a number of social and administrative sectors.

Box 4.7. **Finnish horizontal Government Foresight Reports**

Horizontal government foresight reporting is a formal process regulated by the Finnish Constitution. In Finland, the foresight reporting procedure is used to provide dialogue between Parliament and the government on futures-related issues. The reports have two purposes: *a)* to allow governments to outline their long-term objectives and choices relating to the issue under consideration, and provide a framework for subsequent government decision making while advising individual ministries on points of action; and *b)* to create opportunities for public debate on long-term future developments.

Past reports include:

- *Finland's Options* (given to Parliament in 1993).
- *Finland and the Future of Europe* (Part 1 – 1996) and *Fair Play and Skill* (Part 2 – 1997).
- *Finland 2015: Balanced Development* (2001).
- *Finland for People of All Ages – Government report on the future: demographic trends, population policy and preparation for changes in the age structure* (2004).
- *Long-term Climate and Energy Policy: Towards a thriving low-carbon Finland* (2009).

Source: Prime Minister's Office (2007), *Improving the Government Foresight Reporting Procedure: Summary*, Prime Minister's Office Reports 1/2007, Helsinki, Finland.

Horizontal Government Foresight Reports set forth the Finnish government's long-term views and proposed objectives and policies on selected issues. Presented to Parliament as government decisions, they outline the government's aims while serving as policy statements directing administrative actions. For each report, the government passes a resolution in its plenary session to give Parliament a report addressing a topical or otherwise important subject, prepared by the relevant ministries. Although the report is prepared by the Prime Minister's Office and under the authority of the Prime Minister, the subject of evaluation in the foresight reports has, to date, been selected by the Prime Minister in consultation with Cabinet members. Finland's coalition government system ensures that the plenary session reaches consensus on the selected foresight issue, which in principle should secure commitment across the coalition parties to the issue under investigation. This, in theory, means that Finland should be able to secure momentum and commitment to achieving outcomes in horizontal foresight reports for more than one electoral cycle, which can prove more difficult in single-party systems.

Since the release of the first horizontal Government Foresight Report, the scope of reporting has shifted from a whole-of-society approach to a more narrow focus on a single, albeit still cross-cutting, issue/area. The most recent Government Foresight Report – Long-term Climate and Energy Policy: Toward a Low-carbon Finland[31] – released in November 2009, is focused on climate and energy policy and linked with ongoing work on a national strategy for climate and energy issues. The Foresight Report aims to consider climate and energy policy in the broader context of sustainable development. It highlights ecological, social and economic sustainability; gender issues; ancillary impacts of climate policies; and other factors in defining well-being. While issue-specific foresight reporting is important to progressing and achieving sectoral outcomes, this narrower focus reduces the ability of the government and the public administration to scan and report on the wider policy challenges and opportunities on the horizon and impacts the government's capacity for strategic insight.

Expanding the scope of horizontal Government Foresight Reporting to whole-of-society challenges and opportunities will ensure that Finland further builds its capacity for strategic insight. Broadening the scope of these reports will enable debate and exchange of ideas between the government and Parliament on the broader issues, rather than a specific issue. Citizen awareness of the broader issues will also be increased. Reports on cross-cutting specific future challenges should continue, but they should link back to the broader foresight report.

Finland has been a leader in foresight reporting. However, as policy issues become increasingly complex and unpredictable, the government will have to take its current activities to a higher level if it is to remain a high-performing country. The global economic and financial crisis demonstrates that, rather than narrowing the focus of foresight reporting, governments should look beyond individual issues to include the experience and expertise of a wider group of stakeholders. Solutions to the policy challenges of today and tomorrow (such as the sustainability of the Nordic Welfare Model in Finland) require government co-operation with society's actors and also go beyond any one government (as evidenced by climate change). These types of policy challenges require "a diversity of perspectives coming from the interactions with multiple actors, a diversity of skills and disciplinary knowledge bases and a diversity of approaches where linear thinking, non-linear systems-thinking and emergent understanding co-exist".[32]

Governments alone do not have all the answers: in order for countries to continue to thrive into the future, they will need to draw on the expertise, experience and ideas in the broader community. This function must be embedded as part of everyday working. Given that it has been over 15 years since the first whole-of-society *Government Foresight Report*, Finland could benefit from holding a summit similar to the recent Australia 2020 Summit to bring together a wide range of individuals from different backgrounds, and with different expertise and experience, to brainstorm the long-term challenges affecting the country's future (see Box 4.8).

Responsibility for the horizontal Government Foresight Report rests with the Prime Minister's Office, which prepares the report in co-operation with individual ministries. A Steering Group and project manager direct the work, in collaboration with experts and representatives of various organisations (*e.g.,* ministries, universities and research centres). The Prime Minister's Office also commissions overviews, statistics, surveys and studies directly from individual researchers and research institutes to serve as a basis for the project. Throughout the report's development, the Prime Minister's Office discusses its progress with political decision makers (*i.e.,* Prime Minister and other Cabinet members). This occurs through an initial seminar, chaired by the Prime Minister, to define the subject matter in more detail and discuss different perspectives, and the government's evening plenary session, where initial findings and positions are reviewed. Written comments are also invited. While external consultation on the reports does occur, and appropriate research organisations are included, the process fails to capitalise on a wider breadth of input (from citizens and other interested parties). Thus, consultation for the horizontal Government Foresight Reports should be expanded, enabling the government to receive a greater variety of input and strengthening strategic insight capacity.

Foresight reporting in Finland is supported by a parliamentary committee. The formation of a special parliamentary committee to address future-related issues is unique by international standards, and the Finnish model has attracted interest from other

Box 4.8. **Australia 2020 Summit**

In April 2008, the Australian government convened the *Australia 2020* Summit to foster a national conversation on Australia's long-term future. The Summit aimed to harness the best ideas for building a modern Australia ready for the challenges of the 21st century. The Summit brought together 1 000 participants – "some of the best and brightest brains from across the country" – to think about long-term challenges confronting Australia's future, requiring responses at a national level beyond the usual electoral cycle period.

The Summit, held in Canberra, the nation's capital, generated more than 900 ideas over two days. Participants debated and developed long-term options for Australia across 10 critical areas:

- the productivity agenda – education, skills, training, science and innovation;
- the future of the Australian economy;
- population, sustainability, climate change and water;
- future directions for rural industries and rural communities;
- a long-term national health strategy – including the challenges of preventative health, workforce planning and the ageing population;
- strengthening communities, supporting families and social inclusion;
- options for the future of Aboriginal and Torres Strait Islanders;
- towards a creative Australia: the future of the arts, film and design;
- the future of Australian governance, renewed democracy, a more open government (including the role of the media), the structure of the Federation and the rights and responsibilities of citizens; and
- Australia's future security and prosperity in a rapidly changing region and world.

The Summit was co-chaired by Australian Prime Minister Kevin Rudd and Vice Chancellor of the University of Melbourne, Professor Glyn Davis.

Summit participants were invited by a 10-member non-government Steering Committee, which asked up to 100 participants in each of the Summit areas to attend in a voluntary capacity. The participants were drawn from business, academia, community and industrial organisations and the media, and included a number of eminent Australians. Summit participants were invited in their own right rather than as institutional representatives from any particular organisation. Each of the 10 Summit areas was co-chaired by a Federal Australian Government Minister and a member of the Steering Committee. The Leader of the Federal Opposition – together with State Premiers, Chief Ministers and their Opposition counterparts – were also invited to participate in the Summit. All Australians were invited to make submissions on the 10 future challenges, and 8 800 of these were presented to participants.

The Summit had the following objectives:

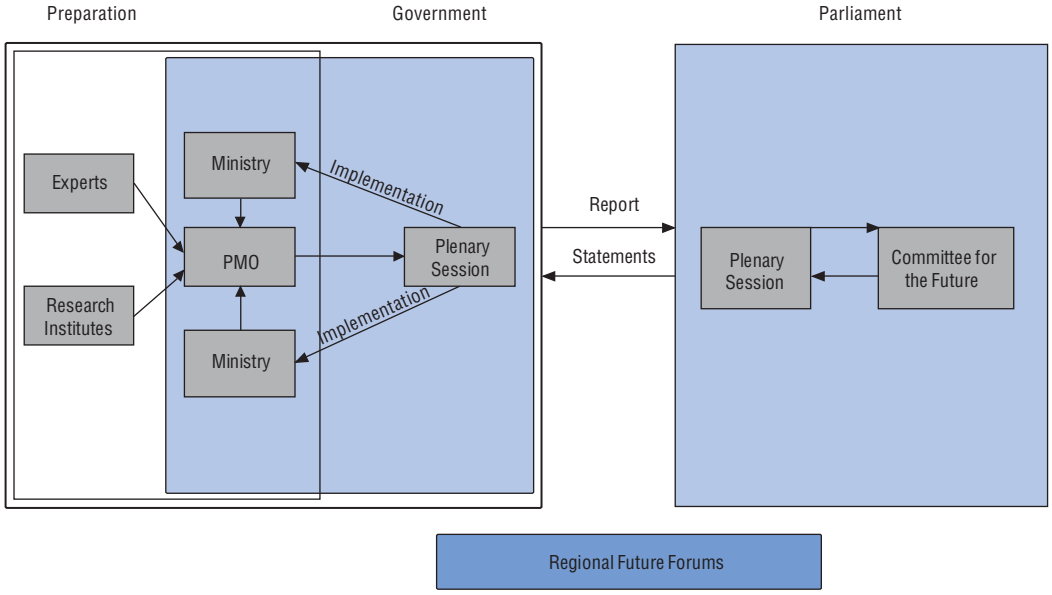
- to harness the best ideas across the nation;
- to apply those ideas to the 10 core challenges for Australia identified by the government in order to secure the long-term future of Australia through 2020;
- to provide a forum for free and open public debate in which there were no pre-determined "right" or "wrong" answers;
- to produce options for consideration by the government for each of the Summit's 10 areas following the meeting;
- to allow the Australian government to produce a public response to these options with a view to shaping the nation's long-term direction from 2009 and beyond.

The Department of the Prime Minister and Cabinet provided the secretariat for the Summit and was responsible for co-ordinating the development of the Summit report and the Australian government's response to the Summit, as well as the implementation of forthcoming policies and programmes.

Source: www.australia2020.gov.au.

countries.[33] The Committee for the Future was appointed by Parliament in 1993 to evaluate and respond to policies outlined in the government's horizontal foresight reports (in 1996, the Committee's responsibilities were extended to include technology assessment activities). The Committee has two key functions: *a)* to review the government's foresight reports; and *b)* to assess the social impact of technology (Figure 4.15 illustrates the horizontal government foresight reporting procedure). Its existence shows Finland's commitment to generating strategic insight capacity, and its work evaluating the government's horizontal foresight reports provides an environment for open debate about the report's findings and future outcomes and objectives. This is important for open and responsive government, and also provides a layer of scrutiny which supports public trust in government. However, it is unclear how the advice of this committee and the ensuing debate feeds into any changes to the Government's report or flow-on agenda. Thus, transparency could be enhanced by the preparation and publication of a Government Response to the Committee of the Future's statement on the report.

Figure 4.15. **Horizontal government foresight reporting procedure**



Source: Prime Minister's Office (2007), *Improving the Government Foresight Reporting Procedure: Summary*, Prime Minister's Office Reports 1/2007, Helsinki, Finland.

Regional Future Forums – Taking foresight reporting to the community

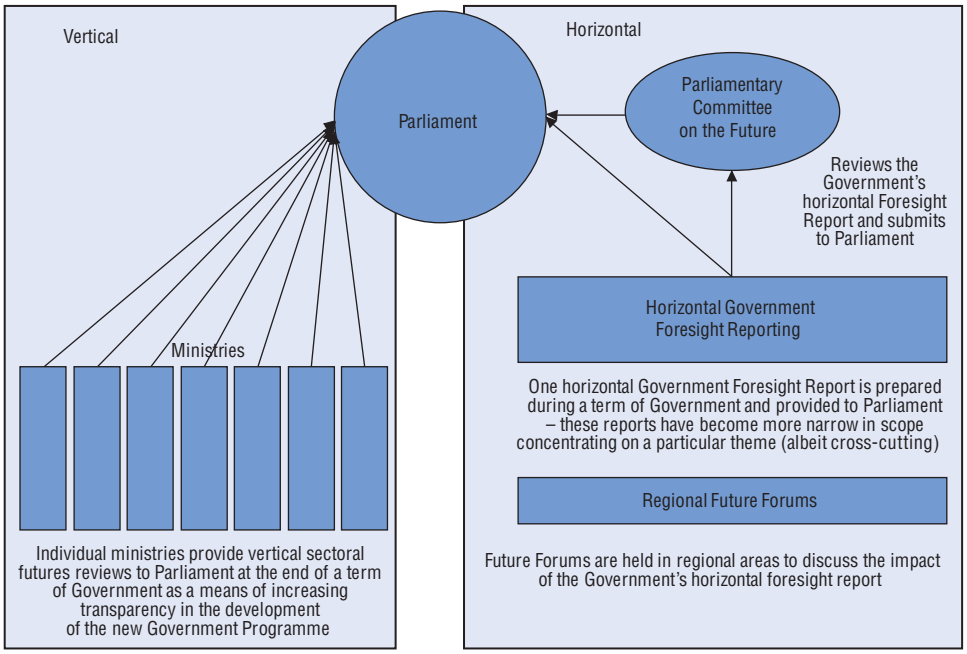
Regional Future Forums are held to open dialogue concerning national and regional challenges, opportunities and lines of action. The events are focused around themes in the Government's Foresight Report and the statement on the *Report* issued by the Committee for the Future. The government – in collaboration with the Committee of the Future – held Regional Future Forums in 1998, 2000, 2002, 2005, 2009 and 2010 (six to seven sessions were held each year).

The Future Forums are one-day events addressing the major challenges and opportunities in the host region; two Cabinet members and representatives of the Committee of the Future provide introductory lectures. Approximately 150 to 200 people are invited, including municipal decision makers, regional and local authorities,

entrepreneurs, and representatives of non-government and labour market organisations. However valuable, this dialogue occurs *after* the preparation of the government's report and after the review by the Committee of the Future (although before the preparation of the Committee's report). Strategic insight capacity requires participation by all key actors, which allows governments to look out for future issues, challenges and opportunities and allows openness to all solutions and policy responses. In Finland, municipal and regional authorities are equal partners with the national government. This relationship should be further developed.

For the current report on energy policy and climate change, the Prime Minister's Office reports that regional actors were involved in the preparation of the Foresight Report through participating in panel discussions and online surveys. A special background report dealt specifically with regional-level climate policy, and another addressed vertical policy co-ordination across levels of government. The climate policy expert heading the project also attended seminars throughout Finland to discuss issues with key regional leaders.

Figure 4.16. **Futures reporting activities in Finland**



The national government cannot tackle the more complex policy challenges of the future without expertise and buy-in from the sub-national level. It therefore needs to genuinely consult with municipal and regional authorities and encourage their participation in the selection of foresight topics, and in the report preparation and implementation. The Regional Futures Forums serve as an education or selling tool "after the horse has bolted", rather than an active dialogue which can influence and shape the national futures agenda.

Vertical foresight reporting

In addition to the horizontal reporting, the public administration provides vertical sectoral futures reports at the end of each term of government for consideration by the parties in Parliament in the preparation of a new Government Programme. These sector-based reports are produced by individual ministries. Before the 2003 and 2007 Parliamentary elections, ministries prepared future reviews outlining sectoral prospects and proposing optional strategic policies. The reviews were sent to all political parties represented in Parliament as a means of increasing transparency in the preparation of the Government Programme.

In many respects, this type of foresight reporting is quite advanced, but more could be done to strengthen the information in these reviews. For example, there is further opportunity to consolidate the vertical sector futures reports at the central level before they are provided to the parties represented in Parliament, allowing further analysis to map issues at a whole-of-government level. The Parliament could then benefit from a horizontal, whole-of-government futures report (corresponding to the perspective of its own Futures Committee), accompanied by the supporting vertical sector futures report, providing a wider scope of vertical and horizontal reporting on current and future risks and opportunities.

Other foresight activities

Finland also has a Government Foresight Network, an inter-ministerial forum for co-operation and exchange of information on issues relating to "anticipation of the future". The purpose of the network is to improve co-operation among individual ministries and to make foresight work an integral part of strategic planning and the evaluation of future challenges by ministries. The Network is appointed by the Prime Minister's Office and lasts throughout the government's term of office. Its membership includes representatives of all ministries; the presidency rotates among ministries. "Anticipation activities" of relevance to each administrative sector involve the systematic and inclusive process of collecting, assessing and analysing information and outlining projections and visions for the medium- and long-term future. In 2006, and again in 2009, the Government Foresight Network issued reports describing the Finnish policy-making environment, to serve as background material for the ministries' future reviews. These documents were intended to provide a "common ground" on which to base sectoral futures reports, therefore improving horizontal continuity.

The Government Foresight Network is complemented by the National Foresight Network, which was established by the Finnish Innovation Fund (SITRA) in 2005. The purpose of the SITRA network is to identify future challenges and opportunities available in Finnish society, intensify co-operation among Finnish foresight organisations, and assist Finnish decision makers in more efficiently using foresight data. Using networks in this way is a positive action to develop strategic insight capacity in government and the public administration.

Other foresight activities in Finland tend to be of an *ad hoc* nature. FinnSight 2015 was a joint foresight project between the Academy of Finland and Finnish Funding Agency for Technology and Innovation (TEKES), which ended in 2006. The project sought to explore competence areas required to advance science-, technology-, society- and business-related priorities in the future. The Finland Futures Research Centre at the Turku School of

Economics is a key actor in the field of foresight expertise and research. It provides training and development services for organisations, and co-ordinates the activities of the network academy of the Finland Futures Research Centre.

By its nature, foresight work does not result in monolithic views and is most useful when different perspectives and assumptions feed various scenarios, resulting in a rich discussion about vision, objectives, aspiration and trade-offs. A common understanding of how the different sets of foresight work fit together and complement one another would be useful in supporting these efforts. Co-ordination of futures work involves both greater clarity about the focus of respective sets of work *(e.g.,* public vs. private sector innovation, scientific and technological change, etc.), as well as the relationship between expert/academic work and efforts that are more focused on feeding into the decision-making process.

Where to now? – Horizon scanning

Despite Finland's concerted effort to increase its strategic insight, the challenge will be to extend its foresight activities (both horizontal and vertical) to the complex policy issues which require anticipatory, flexible and agile responses. Some governments are already moving down this path by utilising horizon scanning methods. Horizon scanning refers to foresight activities that aim to improve organisations' capabilities to deal with an uncertain and complex future by systematically gathering a broad range of information and evidence about upcoming issues, trends, advancements, ideas, and events in its political, economic, social, technological, and ecological environment. It involves proactively viewing and searching for information. Horizon scanning expands awareness of emerging issues and situations, and supports strategic thinking, by presenting a range of possible future scenarios.[34]

Horizon scanning is a relatively new phenomenon: some governments have only recently explicitly started to experiment with cross-cutting horizon scanning to respond to the requirements of an increasingly interconnected and complex world.[35] Horizon scanning is defined by the British Chief Scientific Adviser's Committee as "the systemic examination of potential threats, opportunities and likely future developments, including (but not restricted to) those at the margins of current thinking and planning."[36] Horizon scans lead to the early detection of emerging issues and weak signals (see Box 4.9). This information is used to generate foresight for futures projects, and to develop policy options by applying scenario techniques. Horizon scanning may explore novel and unexpected issues as well as persistent problems or trends. It sees beyond usual policy terms and boundaries of disciplines and ministries/departments. "It entails a rapid, systematic process of pattern recognition that apprehends both positive and negative signals. All signals that can have a future impact, including weak signals, are noticed, whereby possible interactions between signals can also be researched."[37]

Three programmes at the forefront of horizon scanning are: the United Kingdom's Foresight Programme, which commenced in 2004; Singapore's Risk Assessment and Horizon Scanning system, initiated in 2005; and the Netherlands' Horizon Scan Project, from 2005. Examining the horizon scanning projects in these three countries allows a list of key common elements of horizon scanning to be identified:[38] mainstreaming horizon scanning and foresight throughout government; supporting horizon scanning across government; building networks across professional communities; guaranteeing the inflow of expert knowledge; securing broad political support; ensuring policy impact through mutual understanding among stakeholders; and establishing horizon scanning as a permanent process that is regularly repeated (see Box 4.9).

Box 4.9. **Key common elements of horizon scanning across the United Kingdom, Singapore and the Netherlands**

Mainstreaming horizon scanning and foresight throughout government

If horizon scanning is to provide a cross-governmental perspective that complements the horizon scans of individual departments, it is essential to pursue a holistic perspective and to focus on a broad policy perspective.

Supporting horizon scanning across government

Horizon-scanning programmes usually aim to be centres of excellence, but lack the knowledge to provide topical expertise on all potential future issues. Instead, their task is to support others in implementing their own foresight and horizon-scanning structures and to provide a higher-level strategic context for these government initiatives. Proponents of cross-cutting horizon scanning strive to find the right balance between centralisation of their support and co-ordination roles, and decentralisation with respect to the topical analysis performed by a variety of competent bodies across government.

Building networks across professional communities

All programmes aim to extend their activities to other professional communities, particularly private businesses, think tanks, and the academic sector. The participants realise that a multi-stakeholder approach, drawing on a multitude of internal as well as external sources of knowledge, is preferable to a process that is exclusively centred on experts from within government. There is a trend towards linking several national scans in a joint horizon scanning effort to reveal issues that are overlooked in the separate scans. This may serve as a tool to create a common understanding and shared awareness of futures issues.

Guaranteeing the inflow of expert knowledge

Horizon scanning and foresight must be based on the best available scientific and other evidence. This safeguards the credibility and longer-term reputation of the programme.

Securing broad political support

Horizon scanning and foresight are directed at generating insights and ideas for senior decision makers. However, these innovations may often be situated on the margins of current thinking and may challenge conventional wisdom. Without clear support and backing from senior policy makers, it is difficult for lower-level professionals to implement and pursue new or altered policies.

Ensuring policy impact through mutual understanding among stakeholders

It is critical that the results and recommendations that arise from horizon scanning be used to effectively inform the decision making process. Policy impact can only be achieved when all concerned stakeholders and the foresight project team reach a mutual understanding of all partners' needs and goals.

Establishing horizon scanning as a permanent process that is conducted regularly

Horizon scanning needs to be conducted regularly and must stand on a solid (institutional) footing.

Source: Habegger, B. (2009), *Horizon Scanning in Government: Concept, Country Experiences, and Models for Switzerland*, Centre for Security Studies, Switzerland.

Comparing Finland's activities against the core common elements of horizon scanning programmes in the UK, Singapore and the Netherlands shows that Finland already has many futures activities in place. However, key areas for growth are clear: expand the existing horizontal government foresight reports to wider horizon scans, improve the use of existing data to detect patterns, and consult with citizens on the process. The Netherlands' experience in establishing the Horizon Scan Project could provide a useful framework to adapt (see Box 4.10).

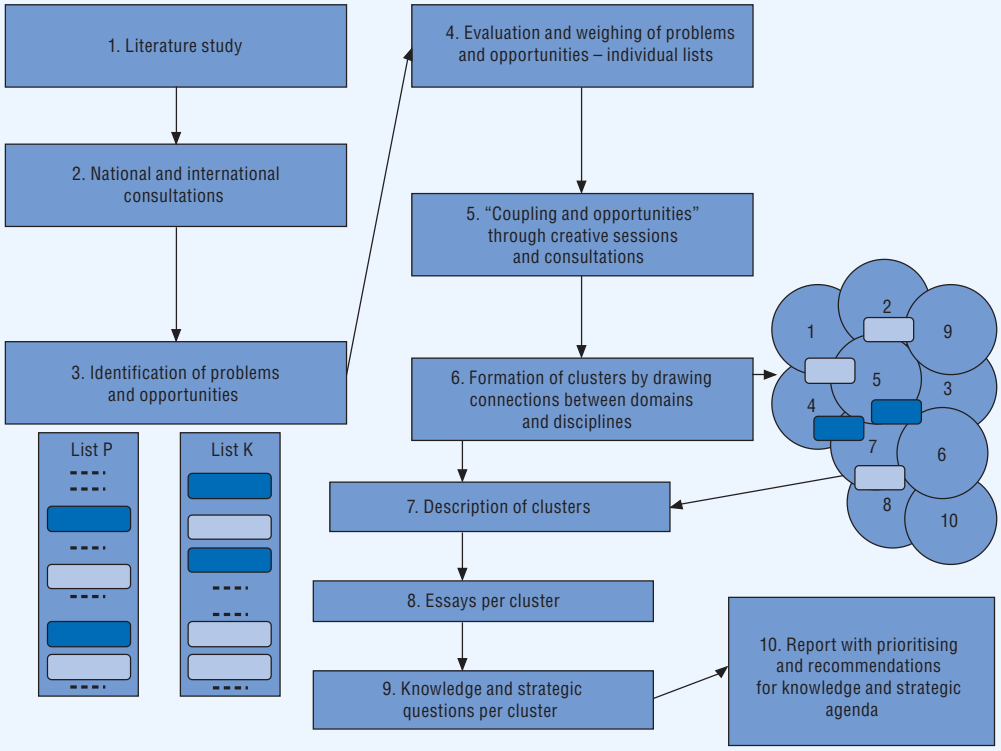
Box 4.10. **The Netherlands Horizon Scan Project**

The first Netherlands Horizon Scan was carried out in 2007 by a specially established project under the communal responsibility of the Consultative Committee of Sector Councils for research and development (known as the COS). The aim of the COS Horizon Scan was to help decision makers and agenda setters, researchers and developers think about future societal problems, threats and opportunities.

In February 2008, the tasks of the COS were transferred to the Knowledge Directorate of the Netherlands Ministry of Education, Culture and Science. The Knowledge Directorate functions as a provisional facility for the continuation of the national scan and the European Horizon scanning activities.

The project included four steps, or stages (see Figure 4.17):

Figure 4.17. **Schematic presentation of the Dutch Horizon Scan process**



Source: Commission for Consultation of Sector Councils (2008), Horizon Scan Report 2007: *Towards a Future Oriented Policy and Knowledge Agenda*, The Hague.

Phase 1 (steps 1-3 from Figure 4.17)

During the first phase, a list of threats and opportunities was constructed based on an extended study of general future literature. This list was separated into threats and opportunities and tested before a broadly constituted panel of specialists. The focus was the value and utility of clustering. The vetted list was validated through a comparison with results of a British scan. The selection criteria for problems and threats were: the chance of damage; seriousness and size of the (possible) damage (lives, quality of life, economic damage, etc.); and responsibility/who owns the problem (to what extent it is a public issue). The selection criteria for opportunities in the horizon scan were: the size of possible consequences (saving lives, improvement of welfare, benefit to nature, etc.); and the probability that these positive consequences might actually occur.

Box 4.10. **The Netherlands Horizon Scan Project** *(cont.)*

Phase 2 (step 4 from Figure 4.17)

The list of some 150 opportunities and threats was made available to sounding board members and to the public via the Internet. Visitors to the website were asked to give their view of the importance of the listed developments and the probability of their occurrence.

Phase 3 (steps 5-7 from Figure 4.17)

Opportunities and threats were linked to one another and ordered into trans-domain and trans-disciplinary clusters to reveal the coherence between expected developments with potentially major social consequences. The results of this first clustering attempt were reviewed by the sounding board group for refining. Ten clusters were established to search for other problems and opportunities that strongly interacted with the original 10 clusters. A specifically developed card game, which facilitates open discussion by training participants to provide creative answers to challenging tasks and hypotheses, helped to uncover interactions among subjects within and across clusters. The 10 clusters developed by the Horizon Scan project were:

- Infrastructure for the future.
- Changing economic and political world order.
- A global approach to dangerous infectious diseases.
- Work and education in a new context.
- Opportunities for robotics and inter-connectivity.
- Two related transitions: creating and utilising space.
- Handling conflicts and security policy constructively.
- The engineerable and self-mutating human.
- Accelerating the development of new energy sources.
- What does "the greying of society" mean?

Phase 4 (steps 8-10 from Figure 4.17)

Cluster decisions were presented to a number of scientists, journalists and politicians, who were asked to present their views in essays about possible future developments. The clusters and essays provided building blocks for the recommendation of strategic policy and knowledge questions and spurred insight into new relevant (knowledge) questions based on broad future analyses; and gaps in knowledge in relation to knowledge questions for research and strategic questions for policy making. Based on this exercise, a final report was drafted to kick-off an intense dialogue within and across government on the results and their implications.

Source: Commission for Consultation of Sector Councils (2008), *Horizon Scan Report 2007: Towards a Future Oriented Policy and Knowledge Agenda*, The Hague.

Futures, or foresight, reporting can provide a useful tool for the development of a shared forward vision with which to focus current and future government decision making. It can also help build both horizontal and vertical coherence in the development and implementation of the government's agenda. An open discussion on the future of the sub-national sector, such as the Australian 2020 Summit, could build ownership of municipal and regional reforms. Finland's foresight reporting efforts have been progressive, but these efforts lack a shared vision for the future of Finland: a vision that would survive successive governments and set the footprint for policy making into the future. The key to developing such a shared vision is the active consultation, participation

and engagement of society's actors in its development – which requires a culture of open and transparent government.

In order to achieve strategic agility, horizon scanning should be used in conjunction with foresight reporting. At the start of its four-year term, the government should determine what should be accomplished in four years, starting from a longer-term political vision for Finland's future, and then adapt its actions to reach these aims by bringing in resources (personnel and funding) in a flexible way (see Chapters 5 and 6).

Foresight reporting should be integrated into strategic planning to increase innovation and competitiveness. All stakeholders in society should be involved in a systematic foresight process that includes monitoring the work of foresight practitioners and taking into account citizens' views of the future. This provides the basis for ongoing futures dialogue among public authorities, academia, companies, civic associations and citizens.

Strategic insight provides the tools to create a strategic vision

The use of evidence-based decision making, citizen engagement, medium- and long-term budget planning and foresight reporting provide governments with the information needed to achieve strategic insight, incorporating both present and future concerns and contexts. From these efforts, governments are able to create a strategic vision for the country and for the public administration – based on available information and input from citizens, businesses and civil society, and mindful of future opportunities and risks. Strategic vision can occur at two levels: a shared whole-of-society vision for the future of the country, and the government agenda for a term of government.

Strategic vision is a desired or intended future state. If communicated effectively, it can be a powerful tool for providing a clear strategic direction for government and the public administration. Strategic visions should ideally be developed in consultation with appropriate stakeholders and take account of foresight reporting and horizon scanning. Strategic visions that are clear and communicated effectively can assist in gaining collective commitment to the future state goals (see Chapter 5).

Finland has very strong practices in place for communicating the government vision, and is a leader in incorporating horizontal, government-wide priorities into its public administration steering system. This begins with a high-level strategic vision for the term of government, communicated through the Government Programme. The Government Programme is primarily developed by the Cabinet and largely follows the political manifesto as agreed by the coalition partners for the term of the government. The Government Programme is negotiated by the parties represented in Parliament before the Prime Minister is elected and prior to the appointment of government ministers and assignment of ministerial duties.[39] This is different from Westminster systems where the government programme/agenda is based on commitments made during election campaigning. It sets out the main tasks facing the incoming administration. The implementation of the Programme is monitored by the Prime Minister's Office based on indicators described in the Government Strategy Document. Horizontal Policy Programmes were added to the Government Programme in 2003 as a means of better identifying the horizontal priorities of the government (Horizontal Policy Programmes are discussed in more detail in Chapter 5).

The Government Programme is a constitutional requirement, not just a political tradition.[40] Negotiation of the Government Programme is usually concluded within one day in a closed meeting of members of the parties represented in Parliament. This is purely a political process and there is no involvement of the public administration in the deliberations.

A Government Strategy Document outlines the government's policy priorities in more detail and provides effectiveness objectives, including detailed measures and targets, for programmes and policies. The measures defined in the Strategy Document are implemented within the framework of the overall spending limits and the state budgets. The Prime Minister's Office is responsible for compiling the Government Strategy Document and the material needed to monitor its progress, and for co-ordinating ministries' activities and inter-sectoral policy programmes. The Government Programme is currently only reviewed mid-term. Under the previous government (2003-07), the Government Programme was reviewed yearly; earlier governments did not review the Programme (except for self-assessment).

Flowing from the Government Programme is the Government Strategy Document, the plan which presents outcome targets on policy programmes and other important issues. The Government Strategy Document details the most important cross-sectoral matters on which the government will be taking significant decisions, and measures that are to be monitored at the whole-of-government level. The Strategy Document contains indicators for monitoring the implementation of the Government Programme and the measures it defines are implemented within the framework of the overall spending limits and the state budgets.[41] The implementation of the Government Programme, through the Government Strategy Document, is monitored by the Prime Minister. From December 2008, the incumbent government has also decided to evaluate the Government Strategy Document as part of a mid-term policy review.[42]

While Finland has a strong Government Programme, officials interviewed by the OECD indicated that the government's strategic vision was not clear enough and that relations and/or links among some programmes (such as the municipal and regional reforms) were not evident. These views impact the operationalisation of the strategic agenda (see Chapter 5).

Creating a strategic vision that includes sub-national governments

Strategic insight at the sub-national level requires a strong strategic vision from the central level based on consultation, participation and engagement with sub-national actors. The vision needs to be based on a whole-of-society approach and thus requires ideas, information and buy-in from all key stakeholders; this allows all of society's actors to work towards a common goal, which is much more powerful in achieving final outcomes. Developing whole-of-society strategic insight supported by key stakeholders requires the central government to adopt a stewardship role rather than bearing full implementation responsibility. Sub-national government is a key partner and deserves to be treated as such. This includes involving the sub-national level in a meaningful dialogue regarding strategic vision, consulting and engaging stakeholders in the development and implementation of government policies, and consulting the sub-national level as part of futures-reporting and evidence-based decision making processes. It also requires the central government to assist in building capacity at the sub-national level by providing tools to enable local initiative.

A key example of the importance of strategic vision at the sub-national level is the implementation of sub-national reforms. Finland has recently undertaken two reform processes to strengthen the municipal and regional levels of administration: the PARAS and ALKU programmes. PARAS is intended to ensure a sound structural and financial basis for municipal services in order to secure the organisation and provision of such services into the future, whereas ALKU addressed the regional level (see Box 5.4 in Chapter 5 for more on the ALKU regional reform and Box 6.5 in Chapter 6 for more on the PARAS municipal reform).

The PARAS and ALKU reforms highlight the importance of using business cases to determine when and how reforms should be implemented. The rollouts of these efforts have created confusion among some municipalities as to the government's strategic objectives and the benefits they would reap from these reforms. As highlighted in the sub-section on citizen engagement, this confusion has meant that some municipalities are putting off implementing reforms until they determine which programme has the most government support. Municipalities have indicated that it would be helpful if the government was clearer about its agenda so that they can take definitive steps regarding plans for the future.

As discussed earlier (see Box 4.1), the use of business cases brings the benefit of cost-benefit analysis, and wide consultation and data harvesting on impacts; it also provides a basis from which to clearly communicate the rationale of reform efforts to stakeholders. Two strategy documents were co-ordinated – one for AVIs, co-ordinated by the Ministry of Finance; and one for ELYs co-ordinated by the Ministry of Employment and the Economy (see Box 5.4 in Chapter 5 for more on the AVIs and ELYs) – and were released following the January 2010 rollout of ALKU. These documents articulate strategic aims for regional bodies and tie them back to the Government Strategy Document and other Government Programmes. Each set of bodies also has one strategic performance target agreement linked to their Strategy Document, which can be revised annually. While only recently available, these documents may serve to better inform sub-national authorities about the purpose and structure of the ALKU reforms and result in greater buy-in to the programme. These strategic planning documents are necessary and beneficial, but would have been even more powerful if developed in conjunction with the reform plans.

The PARAS and ALKU reforms have different objectives, take place at different levels of government (PARAS at the municipal level and ALKU at the regional level), and have followed different, but overlapping timelines. That said, both impact many of the same sub-national actors, and it is therefore all the more important that those actors understand how the reforms interact. Further consultation with municipalities could be useful to determine what other material is needed: how the PARAS and ALKU reforms interact, how individual authorities stand to benefit, next steps and future vision, and how individual authorities can make informed decisions on implementing reforms.

The desired outcomes of the PARAS reform are unclear. A lack of strategic vision translates into a lack of clear targets for the reform, which results in difficulty determining its success. For example, the number of Finnish municipalities has been reduced from 418 to 348 as a result of mergers through the PARAS reforms, but this does not reveal much about the success of the mergers. In some regions, 10 municipalities merged into one; in another, three merged to form one of 130 000 inhabitants. Some officials told the OECD that the number of

municipalities should be significantly reduced, to perhaps only 100. Because the parameters of "success" have not been articulated, it is difficult to know when objectives have been achieved. While the final number of municipalities is probably not a useful indicator of success, efficiency targets and implementation timeframes – as well as parameters concerning the establishment of joint municipal bodies – would help guide implementation.

PARAS appears to be the result of a political compromise between two different visions for development which share the same overarching objective: to ensure that citizens continue receiving high-quality public services efficiently and effectively. On one side are coalition partners who would like to see stronger, larger municipalities accomplished via mergers. On the other side are more cautious coalition partners who do not want to "force" mergers or risk regions with very large, strong municipalities that could potentially "capture" Regional Councils and diminish the "voice" of smaller municipalities. While one side favours integration strategies (*i.e.*, mergers), the other makes room for quasi-integration options (*e.g.*, joint partnership areas) in order to realise economies of scale. The result is a reform that is acceptable to all but which is vague in how to realise its objectives and does not establish clear expectations or milestones. While this may play to the traditional argument of municipal autonomy, it leaves municipalities in a void with unclear expectations and guidelines for implementation. As a result, municipalities question why they should merge when the benefits are not immediately visible; some municipalities proliferate joint partnership areas as a means to meet catchment requirements, but this creates potential for greater administrative inefficiency. Finally, some have adopted a "wait and see" attitude, assuming the central government may change its position again. Thus, there is no driver for the reform: the central government is at odds with itself in terms of the reform's parameters – quantifiable objectives, timing, guidelines, and nature of the integration mechanism – and the municipalities have no direct incentive to undertake the reform on their own.

Given that the aim of PARAS is to increase efficiency via larger municipal catchment areas (thereby building economies of scale), there has been some questioning of the role of, and need for, regional administrations in some parts of Finland. Other sub-national arrangements are in place, regions have no legislative or political influence, and Finland's population is relatively small. There is an indication that the complexity of Finland's sub-national reforms may reflect a political agreement, but this complexity has created a challenge both for implementation and for achieving the intended objectives. It is therefore critical that the national and sub-national levels work together to develop a clear strategic vision for sub-national arrangements and strive to maximise coherence in sub-national policies. Perhaps a national strategic vision for the sub-national level could be to reach agreement on the use of varying arrangements based on regional differences. This scenario could enable diversity in the administrative structure at the regional level, by taking into account the characteristics and needs of each particular area. For example, placing greater emphasis on joint municipal bodies or vesting Regional Councils with the authority and resources to undertake the competences traditionally reserved for municipalities could be useful in sparsely populated central and eastern Finland, whereas a municipal merger approach would be a better fit in the more densely populated southern areas of Finland (with the exception of the Helsinki area, where a metropolitan region model could be adopted). In any case, developing a shared strategic vision between the sub-national and national levels will require collective commitment by both levels to ensure the outcomes are achieved.

With respect to Finland's sub-national reforms, there appears to be a commitment and leadership issue, due at least in part to a coalition- and consensus-driven political system, and a current government that has divergent visions about the future role of regions and urban municipalities in the administrative landscape. Since all parties needed to agree, though each has their own agenda, the PARAS and ALKU reforms cater to all interests. Because those interests may be in opposition (*e.g.,* greater power for regions and Regional Councils *versus* larger and stronger municipalities), the result is reform that risks giving rise to incoherencies if applied uniformly across the country. Because both ALKU and PARAS are central-level reforms built around consensus, they must maintain broad-based government support. Political considerations have watered down leadership for both of these reforms (particularly PARAS), as the programmes must be designed to cater to all parties equally.

Conclusions

The use of evidence-based decision making, horizon scanning, and active engagement with citizens and businesses helps governments and public administrations to achieve strategic insight, providing them with the ability to anticipate future challenges and to put responses in place early to have maximum effect. As discussed in this chapter, Finland has many of the mechanisms in place to achieve strategic insight. Regulatory Impact Analysis is used (albeit still sporadically) in an attempt to integrate evidence-based decision making into policy development processes; the Citizen Participation Policy Programme was implemented as a means of promoting active citizenship; and foresight reporting is used to provide a dialogue between Parliament and the government on futures-related issues. However, despite concerted efforts, Finland has some way to go to maximise efforts to enhance strategic insight capabilities within the public administration.

Decision making at all levels still tends to lack a consistent and explicit use of evidence-based policy making (*e.g.,* better use of data, analysis and consultation). This is partly cultural, stemming from a tradition of informal consultation and decision making in a coalition government context, but also results from a lack of an articulated rationale for when and how decision making inputs can improve policy results. This can, at times, result in weak consultation efforts. By the same token, it is unclear how futures reporting informs strategic planning, which can reduce the quality and strategic focus of analytical work done under the foresight programme.

Finland has the basic structures in place to enhance its strategic insight capabilities. A combination of requirements (*e.g.,* mandatory comment periods) and tools and guidance are needed to support more systematic engagement and analysis. What is most important, however, is that both politicians and the public service develop an understanding of the value of an evidence-based approach, and the frameworks to determine what type of consultation and analysis is needed for what type of situation and/or issue. While the OECD does not foresee the need for dramatic changes to be made to Finland's existing arrangement, there is a need to adjust operations to better focus the public administration on strategic insight objectives and to make better use of existing data.

Key recommendations: Strategic insight

Raise expectations and capacity for analysis to support policy development.

- Require and diffuse *ex ante* business cases and implementation plans for major initiatives above a certain cost threshold, including new initiatives negotiated under the coalition agreement (*i.e.*, the Government Programme – see also recommendations under Resource Flexibility in Chapter 6).
- Make better use of existing operational data for trend analysis and horizon scanning, and use this to complement vertical futures reporting to support a constant scan of upcoming challenges and opportunities.
- Rebuild legislative drafting and analytical capacity in ministries.

Build and maintain stakeholder buy-in by reinforcing engagement and communication with citizens, civil society, social partners, and local government.

- Design and implement a broad citizen engagement strategy that creates an enabling environment for stakeholder engagement by state government with a focus on values, tools, and frameworks to decide when and what type of engagement is appropriate in order to achieve desired results (rather than a mandatory tick-box approach).
- Improve co-ordination with universities and agencies to harness analytical work for policy-making. A Futures Summit would be one way to focus attention on existing work and to promote dialogue on possible policy directions.

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Chapter 5

Collective Commitment

Introduction

Strategic insight enables governments to create a shared vision and policy agenda that takes into account current and future contexts and that draws from expertise and information from a wide variety of actors. However, in order to adapt to the changing and increasingly complex policy environment, governments need to build collective commitment among key stakeholders to coherently implement such a shared vision. Agreement and commitment to a common agenda also provide a framework allowing all societal actors to identify the subsidiary actions needed to realise the vision, and thus ensure that it comes to fruition.

While governments often attempt to institutionalise collaborative work through structural changes, effectively collaborating across sectoral and siloed ministry boundaries towards a common vision involves changing the way public sector staff think about and approach their work. Achieving collective commitment therefore requires an understanding of the main engine that delivers the will of government – the public service – and its capabilities, values, incentives, and limits. In the public sector context, collective commitment depends on clear incentives and values that are aligned with the strategic vision. Towards this end, a performance management framework provides a useful tool to communicate goals and objectives within an overall strategic planning vision, and helps to support the development of subsidiary goals and actions and link them back to the Government Programme. Strong leadership from central agencies, and political and administrative leaders in line ministries, encourage staff to commit to and implement a collective vision by instilling the values and understanding needed to drive collective working.

The following sections of this chapter will address four key areas in terms of Finland's ability to achieve collective commitment:

- operationalisation of the government's whole-of-government vision;
- reforming structures to improve collective commitment;
- aligning incentives through performance management; and
- managing change through effective leadership.

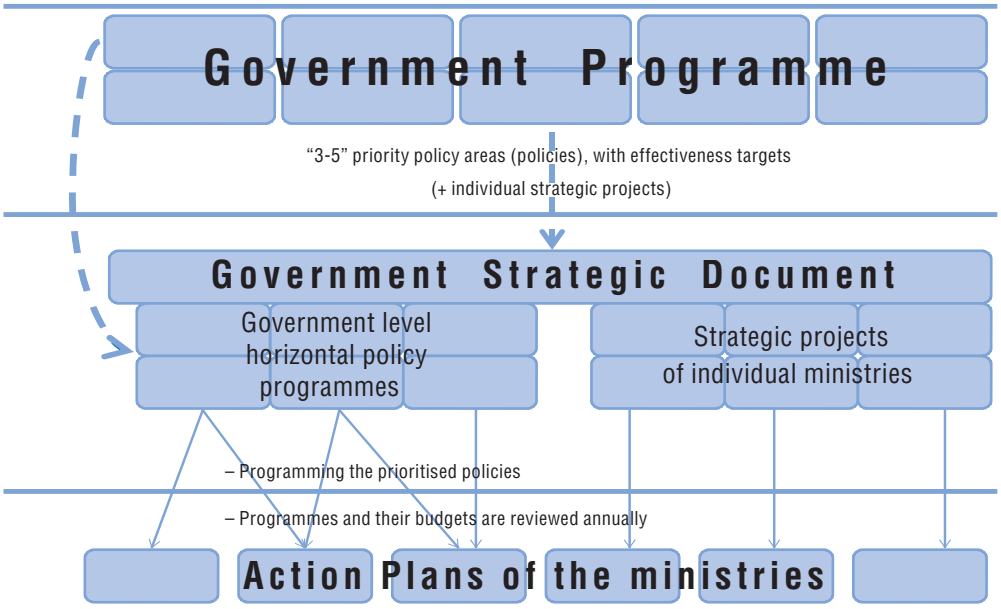
Finland's whole-of-government vision is not being realised at the operational level

Collective commitment is required for the effective implementation, or operationalisation, of the government's strategic agenda. Like businesses, public sector organisations can suffer from a disconnect between the development of strategic visions and plans, and the successful use of those plans to achieve intended outcomes. While formulating strategies based on political manifestos can be challenging, putting those strategies into action can be even more difficult. Without effective implementation, even the best-made strategic plans will not succeed.

Collective commitment vertically within state government

As discussed in Chapter 4 on Strategic Insight, the whole-of-government agenda in Finland is communicated through the Government Programme and supported by the Government Strategy Document. The government's strategic vision is operationalised through the public administration's translation of the Government Strategy Document into central government operational and financial planning (also known as ministry Action Plans). Together, these form the Finnish government's strategic steering tool (see Figure 5.1).

Figure 5.1. **Finnish government's strategic tools**

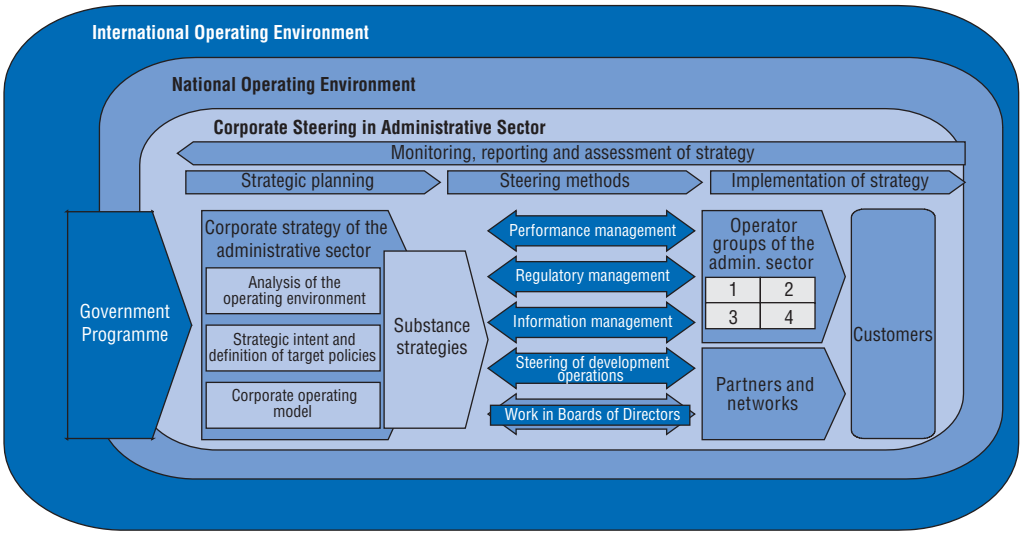


Source: Ministry of Finance, Finland.

The Government Programme (and related Government Strategy Document) and the Budget Framework are used to set a multi-year central government operational and financial plan for the public administration. This central plan comprises the operational and financial planning for the administrative sectors and for the government agencies. Each administrative sector has such a plan, and each agency within the sector is also obliged to have its own plan.[1]

The corporate steering framework for the new Ministry of Employment and the Economy (MEE) is an example of the Finnish strategic framework in action. The MEE has been tasked with a bold agenda: to provide a structural framework to increase co-ordination and collaboration of policies and programmes among the former Ministry of Trade and Industry, the Ministry of Labour and the unit responsible for regional development under the Ministry of Interior in order to meet the challenges of the changing operational environment. As part of this merger, considerable attention was paid to the development of a corporate steering framework for the administrative sector under the responsibility of the MEE, which includes four separate operator groups (see Figure 5.2). The new Ministry has only been operational since 1 January 2008, so time will tell if the ambitious merger will result in increased operational efficiency and productivity, and effectively meet the policy outcomes assigned to it by the government.

Figure 5.2. **Ministry of Employment and the Economy corporate steering framework**



Source: Ministry of Employment and the Economy, Finland.

Despite their links to the detailed Government Programme and Government Strategy Document, the operational and financial plans developed for each ministry, which should cascade from the Government Strategy Document, are not necessarily precise enough on policy priorities to allow divisions and individual staff within ministries to elaborate on how they will meet their objectives or work in a collaborative/holistic way. In addition, there does not appear to be any document at the organisational level (such as a strategic plan) which pulls together all the different directives into a coherent vision for communication to staff and subordinate actors. This lack of clearly articulated direction at the organisational level appears to be impacting the public administration's ability to effectively operationlise the government's strategic agenda. The situation is further muddied by weak linkages between the Budget Framework and Government Programme, which impact the government's ability to prioritise policies and programmes (see the sub-section on performance management in this chapter; and Chapter 6).

The successful operationalisation of the government's strategic agenda depends on inter-departmental co-operation at the ministerial and ministry levels, collaboration between ministries and the Ministry of Finance, effective communication and steering of subordinate agencies by ministries, and the provision of technical and methodological assistance to ministries and agencies by the centre. In an increasingly complex policy environment, strategy and implementation need to be developed in collaboration and consultation with appropriate stakeholders to ensure collective achievement of the whole-of-government vision. Strategies developed without consideration of how they will roll out on the ground are at a higher risk of implementation failure. Similarly, developing strategy and implementation plans without consulting and collaborating with key stakeholders can also lead to implementation failure, if the plans do not take users' needs and requirements into account.

While the Government Programme details the government's strategic sectoral and horizontal priorities, there is no clear business case for inter-ministerial co-ordination and collaboration on policy development; horizontal priorities therefore do not seem to flow to

clear incentives to work in a more joined-up fashion at the individual level. For example, a policy programme for youth may require any number of ministries/agencies – health, social welfare, employment, sports, etc. – to collaborate. This requires each ministry/agency to identify both how their work contributes to the achievement of the government objective, and how it will be operationalised within the ministry/agency and how that work links to and supports efforts being undertaken in other ministries/agencies.

A silo-based approach to policy development and implementation is one of the most significant problems in the Finnish public administration. This way of working is reinforced by the Finnish Constitution, which provides for a requisite number of ministries which must operate within their "proper purview" on "matters distributed among them" *(section 68, Finnish Constitution)*. This way of working has in the past been the strength of the Finnish administration; ministries developed around sectors efficiently and effectively implemented their mandated work programmes as they related to a particular set of policies. However, more complex and inter-related policy challenges require ministries to look outside the purview of their "own" work programmes to see how their area of work is impacted by issues happening in others sector and how their own sector influences and impacts other sectors. The ageing of the Finnish population, for example, is a complex policy issue that cuts across multiple ministries and requires a united, concerted effort to develop innovative solutions that will sustain the level and quality of services citizens receive under the Nordic Welfare Model. Ministries carry out the work programme as mandated. A continuation of silo thinking and working methods will only further limit the public administration's ability to gain flexibility in responding to the needs of government and in harnessing collective momentum to commit as a whole to the implementation of the government's agenda.

In addition, historical and traditional ways of working have not provided staffs within ministries with opportunities to see how horizontal co-operation will benefit them; they therefore do not have any incentive to collaborate (or sanctions for non-collaboration). The most effective incentive to work in a horizontal way is linking performance management to strategic planning frameworks. This strengthens organisational and individual commitment to a shared vision and provides accountability and incentives for such work. The Finnish context over-emphasises performance management in itself, reducing its strategic and steering possibilities (see sub-section of this chapter on performance management).

Collective commitment horizontally within state government

The increasing complexity of policy challenges has required whole-of-government action, where public servants work across sectoral and ministry boundaries to develop and implement cross-sectoral policy responses. Such policy issues as the global economic and financial crisis, climate change, ageing population and health and natural disaster emergencies do not fit neatly within organisational competencies, and require joint efforts to achieve efficiencies across organisational boundaries. The capacity for public servants to genuinely collaborate, formally and informally, is fundamental in enabling a public administration to be strategically agile in serving the government. While strategic insight provides governments and public administrations with needed information to make rational decisions based on all appropriate evidence, horizontal co-ordination and collaboration enable that strategic vision to be operationalised in a coherent manner.

The Finnish public administration has an exemplary achievement record for implementing the government's agenda. However, this has been based on a traditional public administration working style where policies have been implemented within the boundaries of the silo sector ministries. Finland is aware of the need to increase its capacity for horizontal co-ordination and collaboration within the public administration and has been implementing structural measures to force this way of working. Despite these efforts (such as the introduction of the horizontal Policy Programmes, ministry mergers and detailed co-ordination and collaboration frameworks for certain policy issues), formal horizontal co-ordination and collaboration is not a natural way of working in the Finnish public administration. It relies on an informal system of co-ordination to gain consensus for decision making. In a changing environment which increasingly requires whole-of-government policy responses, Finland must also alter traditional ways of thinking and working to cut across sector silos and move to a culture of open collaboration and co-ordination while maintaining the best elements of this type of consensual decision making.

The ability to collaborate across ministries and with agencies and sub-national partners starts with being able to collaborate internally within ministries. In a public sector context, horizontal work across ministries, departments, agencies, and levels of government in a co-ordinated, co-operative and collaborative manner is necessary for both strategic development of government policies and implementation of a whole-of-government agenda. Coherent horizontal co-ordination and collaboration in implementing the government's strategic agenda improves the public sector's ability to both respond to complicated policy challenges and build trust and commitment to shared vision.

Effective horizontal co-ordination and collaboration must occur formally and informally, and must be practiced at all levels of the government and public administration. It should be embedded in everyday work practices and contribute to the achievement of collective commitment. This requires formal processes that provide for greater cross-ministry co-ordination and collaboration on policy development and implementation at the political and administrative levels. However, a supportive informal culture for horizontal co-ordination and collaboration is also necessary. This allows collaboration to be achieved through trust and shared values, and reinforced through collaborative skills and leadership.

At the ministerial level, the coalition system of government means that each new term's Government Programme is generally developed based on collaboration of ideas among the elected parties. While coalition-style governments can have the disadvantage of being stifled by compromise, they also have the benefit of more coherent policy agendas across different terms of government. While the Government Programme is based on collaboration across parties, the government's agenda is still operationalised within silo ministries. In recognition of this, in 2003 the Finnish government launched the horizontal Policy Programmes as a means of achieving greater horizontal coherence in addressing the most important subject matters in the Government Programme (see Box 5.1).

Responsibility for each Policy Programme rests with a lead minister, and implementation is managed by a Programme Director located in the lead minister's ministry. Each Policy Programme includes a number of cross-sectoral impact objectives that are to be achieved through collaboration in a number of sectoral areas. This requires

Box 5.1. **History of the horizontal Policy Programmes**

The Policy Programmes comprise measures, projects and appropriations that fall within the mandate of different ministries. Each Policy Programme is run by a designated ministry whose minister is responsible for the Programme. The Prime Minister's Office is responsible for the overall co-ordination of Policy Programmes and the general development of the Programme Management system. The State Secretary in the Prime Minister's Office chairs the Programme Management Steering Committee, which functions as a co-operation body.

The Ministers responsible for the Policy Programmes are assisted by a Programme Director within the relevant ministry. Other ministries involved in planning and implementing the Policy Programmes can also appoint civil servants to prepare and monitor the Programmes. The co-ordinating ministers and Programme Directors organise the implementation of the Policy Programmes as they best see fit to obtain their objectives. They also make decisions on the division of responsibilities and on the organisation of detailed preparation, implementation and monitoring of the Policy Programmes. Project groups can be established for implementation of the different sub-sectors of the Programmes.

Government Policy Programmes – 2003-07

- Information Society Programme (led by the Prime Minister).
- Employment Policy Programme (led by the Minister of Labour).
- Entrepreneurship Policy Programme (led by the Minister of Trade and Industry).
- Citizen Participation Policy Programme (led by the Minister of Justice).

Government Policy Programmes – 2007-11

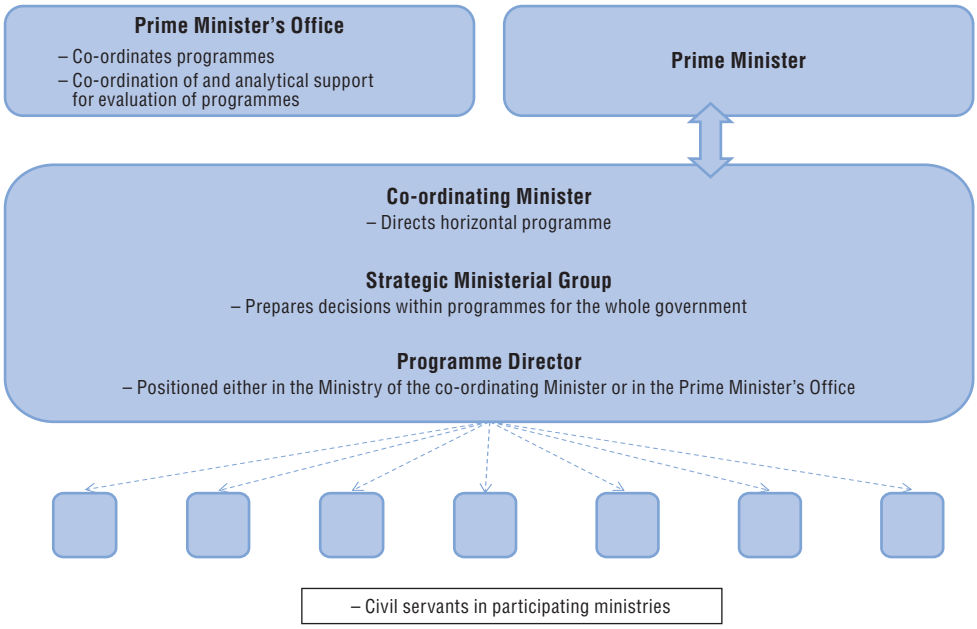
- Policy programme for employment, entrepreneurship and work life (led by Minister of Economic Affairs).
- Policy programme for health promotion (led by the Minister of Health and Social Services).
- Policy programme for the well-being of children, youth and families (led by Minister of Culture and Sport).

Source: Ministry of Finance, Finland.

the co-ordination and collaboration of ministry resources for the achievement of shared policy outcomes (see Figure 5.3).

Because the Policy Programmes (part of the Government Programme) are not aligned with the Budget Framework, only limited operating funds are appropriated specifically for these projects. In theory, each of the participating ministries is to contribute funds to achieve the horizontal Policy Programme. However, the lack of specified funding for the Policy Programmes means that the lead minister must ask his/her colleagues to re-focus some of their funding towards these horizontal priorities. As ministers and ministries are not held accountable for the achievement of horizontal priorities, vertical sectoral programmes are the first priority for individual ministry funding. Thus, it can be difficult for the Programme Director to influence activities in silo ministries and foster collaboration for horizontal policy outcomes. The creation of a dedicated funding stream for horizontal Policy Programmes would help to align strategic objectives and operational measures, but only if it is accompanied by greater accountability for results, a weakness in

Figure 5.3. **Current responsibility flow for the horizontal Policy Programmes**



Source: Ministry of Finance, Finland.

the existing performance management system (see sub-section of this chapter on performance management).

Given the make-up of the Policy Programme framework, Programme Directors need to be strong leaders to negotiate with ministries and sub-national governments, and to achieve buy-in to the Programme's objectives. This requires gaining agreement to shift resources and align other programme objectives to the achievement of the horizontal Policy Programme. The Policy Programme for Health Promotion is a good example of the importance of an effective Programme Director, who effectively co-ordinated a large number of stakeholders to develop an action plan for horizontal coherence across health promotions strategies at the local level and across sectors. Other Policy Programmes have been more programme implementation-oriented, based on the commissioning of projects (rather than purely co-ordination through the development of an action plan) such as the former Citizen Participation Policy Programme and the current Policy Programme for Employment, Entrepreneurship and Worklife which are based on the implementation of a number of projects.

Although the Policy Programmes were implemented to increase horizontal coherence in the implementation of cross-sectoral government objectives, the placement of the Programme Director in the lead ministry has hindered horizontal collaboration due to the silo nature of Finland's ministries. Placing Programme Directors in the silo ministries means that work is strongly influenced by the lead ministry, making it harder to achieve buy-in from other participating ministries. Placing the Programme Director in a central agency, such as the Prime Minister's Office, might increase cross-agency collaboration. This would reduce the perception of any one sectoral area having sole ownership of the Policy Programme. It would also place the ultimate responsibility for co-ordinating participating ministers and fostering collaboration to achieve shared outcomes with the Prime Minister. This would increase accountability for the achievement of horizontal outcomes.

The introduction of the horizontal Policy Programmes has had a positive effect on increasing coherence in achieving shared policy outcomes. Interviews with staff in the state administration and at the sub-national level indicated that the horizontal Policy Programmes have led to greater awareness of the horizontal goals they should be working towards. In this respect, the horizontal Policy Programmes have helped to highlight the need for and benefits of horizontal co-ordination and collaboration to achieve the government's agenda. However, at this stage, this new "horizontal awareness" appears to apply only to the specific horizontal Policy Programmes; and horizontality more generally is yet to be mainstreamed into the organisational culture of the public administration. In this way, the Policy Programmes have been a good first step to focusing the public administration to co-ordinate and collaborate on the development and implementation of policies. However, once the Policy Programmes end, the issue loses strategic priority – and in some cases, such as the Citizen Participation Policy Programme – the work ends as well. It can become lost among the other government programmes, and can struggle to continue and keep momentum.

The Policy Programmes model could be taken further through the introduction of shared strategic outcomes. In this way, the focus of all government programmes would be to achieve these shared strategic outcomes, and the entire public administration would need to co-ordinate and collaborate horizontally and vertically to meet this objective (rather than just parts of the public administration for a few Policy Programmes). The Government Programme could be used to communicate the shared strategic outcomes. Better aligning the Government Programme with the Budget Framework and the performance management system would ensure that the whole public administration is working in the same direction and that there are incentives for working in such a way (see sub-section of this chapter on performance management; and Chapter 6).

Outside the scope of the horizontal Policy Programmes, examples of highly successful horizontal co-operation exist but these relate mainly to policies where there is an impetus to come together and succeed at a national level, such as defence and international forums like EU affairs. In these examples, horizontal work is achieved through a clearly defined framework agreed by all actors. The Ministry of Defence, for example, has marshalled horizontal working relationships within the public administration and with external stakeholders through the co-ordination of a comprehensive society approach. The Ministry has responsibility for co-ordinating the cross-ministry and cross-society functions of society which are imperative at a time of war or crisis. This horizontal working arrangement succeeds due to a combination of: senior officials' strategic management of the Security and Defence Committee (members include all non-political state secretaries and representatives from the Defence portfolio); the specific identification of a comprehensive approach and need for collaboration in legislation; the critical nature of the work in the Defence portfolio and a rigid hierarchical working environment; and the genuine need to be prepared in times of war or crisis.

The management of EU affairs policy provides another example; the government has been able to achieve buy-in and commitment from key stakeholders to ensure coherence for the successful negotiation of EU policy and representation at the international level. The overall system for managing EU affairs, which is more carefully orchestrated than arrangements for domestic policy and rule making, is highly regarded by the Parliament and a range of other stakeholders.[2] This success is necessary – Finland is a small country which represents a Nordic (*versus* European view) at the European Parliament, and has to

"fight harder" on the international stage. It is also in Finland's interest to effectively manage EU affairs, as a significant, and increasing, proportion of Finnish laws originate in EU legislation. Some ministries estimate that about 80% of the legislation they produce per annum derives from, or directly relates to, the EU[3] (see Box 5.2). The success of the EU affairs model is based on clear processes and frameworks which are agreed by the public administration, government and Parliament. The responsibilities in relation to handling EU affairs are outlined in the Finnish Constitution.

Box 5.2. **Horizontal coherence in the handling of EU affairs**

The Finnish Constitution places responsibility for negotiation of EU matters in the remit of the Cabinet. The Prime Minister's Office has a substantive, not just co-ordinating, role in this respect:

- It prepares the general guidelines of Finnish EU policy and co-ordinates preparation and handling of all issues relating to the EU in the ministries.
- It handles the distribution of EU documents, maintenance of a register of documents, filing of documents and information services. These services are used by civil servants preparing EU affairs, mainly in ministries.
- It is responsible for action relating to any institutional questions and the general development of the EU.
- It is responsible for the preparation of European Council meetings and co-ordination of issues considered at the Council meetings.
- The Prime Minister chairs the Cabinet Committee on EU Affairs.

A Cabinet Committee on European Union Affairs meets weekly to discuss key EU affairs issues and sets Finland's priorities. This is supported by official-level committees, comprising a Committee for EU Affairs chaired by the Prime Minister's Office (PMO) (which also meets weekly as needed), and a network of 40 sectorally based sub-committees chaired by the relevant ministries (which the PMO also attends). The ministries are represented by permanent state secretaries or their deputies. The sub-committees may include representatives of various interest groups, which allows them to voice their opinions. Decisions are generally taken by consensus. They may be submitted for a final decision to the Cabinet. There are also horizontal co-ordinating networks and working groups within and across ministries, which often reflect EU Council formations (for example, competitiveness). The PMO is also represented in such horizontal work.

The Government Secretariat for EU Affairs within the PMO oversees all these efforts. It serves as the secretariat for the Cabinet Committee on European Union Affairs and as the chair and secretariat for the Committee for EU Affairs, and is represented on the sub-committees. The Secretariat's duties also include preparation for European Councils. It ensures the flow of information between Finland's Permanent Representation in Brussels and the government, and is involved in training, information dissemination and documentation relating to EU affairs. It also nominates national experts to EU institutions.

The Ministry of Justice also has an EU Unit, which was founded in the early 1990s prior to Finland's accession to the EU. This Unit acts as an expert on issues of EU law and provides guidance, assistance and advice to individual ministries regarding EU legislation – both during the negotiation phase when draft texts are being negotiated and debated, and during the transposition and implementation phases once agreement has been reached in

Box 5.2. **Horizontal coherence in the handling of EU affairs** *(cont.)*

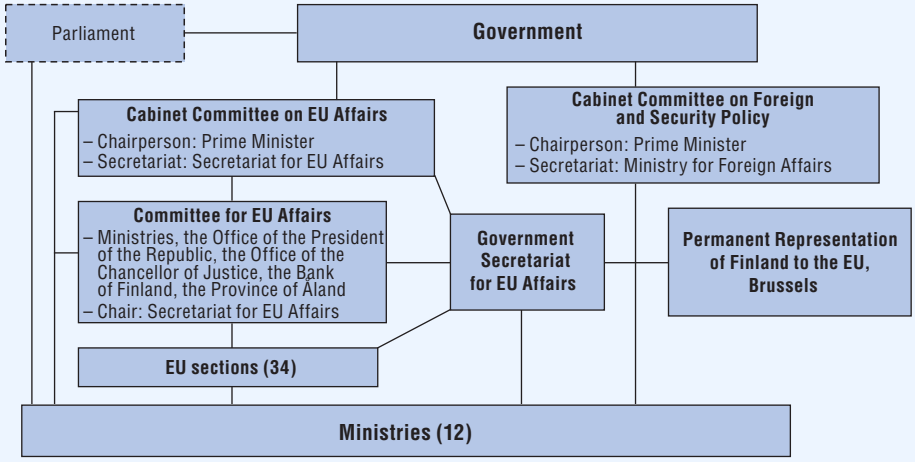
Brussels. The unit has developed co-operative links and structures within different ministries to help it fulfil its role. It also co-ordinates with Parliament.

Individual ministries take the lead in monitoring, preparation and transposition of affairs relating to the EU in their areas of competence. Once a draft law has been published by the EU Commission, the Government Secretariat for EU Affairs assigns the file to the competent ministry. The issues are discussed as necessary by the relevant EU section official sub-committee, and if a position cannot be agreed at this level, it goes to the Cabinet Committee on European Affairs (and if necessary, to the Cabinet).

Since the early days of membership, the Parliament has played a key role in formulating Finland's stance on EU issues. Its role is determined by the Constitution. While day-to-day negotiations are handled by the lead ministry and the Permanent Representation in Brussels, the government is constitutionally obliged to consult the Parliament for a negotiation position and opinion on EU legislative matters. Once it receives notice from the European Commission that a draft regulator proposal is published, the government sends a communication on the proposal to the Parliament. The parliamentary committees have guaranteed access to information and updates on EU developments including the agendas and results of EU Council meetings.

Close co-operation between the Parliament and the government is an important asset in Finland's EU policy. This system allows Finland's representatives to draw upon the direct support of the Parliament when matters are discussed in the EU. It is therefore important that the government ensures that the Parliament is provided with timely information on EU issues.

Figure 5.4. **Co-ordination of EU affairs within the Finnish government**



Source: www.valtioneuvosto.fi/eu/suomi-ja-eu/asioiden-kasittely/pdf/en.pdf; OECD (2010), *Better Regulation in Europe: Finlan 2010*, OECD, Paris.

Strategic planning is action-oriented and useful only if it is carefully linked to implementation – this is often where the process breaks down.[4] In Finland, the whole-of-government vision is not being realised at the operational level. While the Finnish government has put much effort into strategic planning, its ability for collective commitment to a shared vision is hampered by: *a)* a lack of communication of the

government agenda at the organisational and programme/project levels; and *b)* a lack of horizontal collaboration in the development and translation of strategic priorities among organisations within an administrative sector and between administrative sectors.

Collective commitment at the sub-national level

The relations between levels of government are not only characterised by mutual dependence, but also by a series of co-ordination gaps between the levels of government concerned. The most common are capacity, resources, information, administrative boundaries, policy and accountability. Present to different degrees within a country, these gaps are often experienced simultaneously. Finland's current programme of extensive structural sub-national reforms, designed to alleviate the demographic and fiscal pressures on service delivery, is taking place in an environment of growing complexity in the production and provision of public services and is further challenged by a need to close a series of co-ordination gaps – in particular those related to administrative boundaries, capacity, fiscal resources, and accountability. These issues often exist in multi-level governance relations, regardless of the country.

The Finnish regional administration structure presents a co-ordination challenge, with different regional boundaries, the number of state regional bodies, the type and number of Joint Municipal Boards, and the number of Regional Councils. Such fragmentation has the advantage of permitting a careful targeting of administrative needs, and helps to more evenly distribute public sector funds and employment opportunities throughout the country. The drawback, however, is greater difficulty for co-ordination and coherence in policy and programme implementation. Thus, fragmentation generates the need for reinforced vertical and horizontal co-operation among national and sub-national authorities in order to develop and manage effective and efficient approaches to policy implementation and service delivery.[5]

Co-ordination between state regional (de-concentrated) authorities and Regional Councils is essential to realising broad-based policy goals (*e.g.,* social cohesion) and regional development plans. On the one hand, the central government and the state regional bodies are responsible for implementing policies and programmes in line with central-level strategies (both government-wide and sectoral) including those that can impact regional development. On the other hand, Regional Councils are responsible for devising and implementing regional development strategies – for example, building economic development by fostering a supportive business environment, and/or through tourism. If a state regional administration's goals and priorities are not aligned with those of a Regional Council, there is a risk of incoherent and ineffective policy making and implementation. Avoiding this requires an exchange of information among the various stakeholders and across levels of government, as well as clear communication regarding policy objectives. Mechanisms of co-ordination become critical.

This need for co-ordination extends to the horizontal dimension at the central level as well, particularly given a risk for incoherence within the government with respect to regional policy. When different ministries involved in regional policy develop a regional strategy based on strategic needs by sector, rather than taking a common approach, they open a policy gap which can create incoherence between national policy initiatives and sub-national policy needs. Neglecting to consider the sub-national perspective can reduce the possibility for successful cross-sectoral policy development and implementation at this

level. The possibilities for maximising efficiency and effectiveness in cross-sectoral public services may be lost, and sub-national development adversely impacted.

Policy initiatives that begin at the central level for application at the sub-national level are a good example of the necessity to co-ordinate across ministries. Overcoming a policy gap requires co-ordination at the central level, and ongoing consultation with the sub-national level to determine needs and implementation capacity, and to maintain open channels of information exchange in order to monitor and evaluate policy impact.[6]

Achieving collective commitment across levels of government in Finland will require a new relationship between the state and sub-national levels in which the state sector enhances its stewardship role with the sub-national governments as partners. For example, while regions have been a traditional sub-national administrative structure in Finland, municipalities have played a larger role in policy implementation (particularly with respect to service delivery), leading to a strong ability to co-operate in order to achieve public policy outcomes. However, for policy coherence at the regional level, regions, and particularly Regional Councils (comprised of municipal representatives), have a large role to play. Thus, a shift in the relationship to view Regional Councils as partners in a policy-implementation process rather than opposing parties in a negotiation, may be beneficial for all levels of government. The ALKU regional reform took some steps in this direction, but it is not clear to what extent the reform promotes or permits a shift in the nature of this relationship.

In addition to ensuring coherence between national and sub-national objectives, strengthening collective commitment at the sub-national level also requires consultation and dialogue; this will increase potential for policy "buy-in" and successful policy implementation at lower levels of government. Furthermore, ensuring that sub-national authorities have the capacity and tools necessary to implement policy in an efficient, effective and sustainable fashion is key. Performance-measurement systems become essential to this process; they can help both the national and sub-national levels in evaluating when and how objectives have been met, where problems arise and how they may be addressed, and finally where successes can produce valuable lessons. The Association of Finnish Local and Regional Authorities can play a key role in developing or promoting these mechanisms to support collective commitment at the sub-national level.

Reforming structures to reinforce collective commitment

Despite good examples of horizontality in action, the challenge for Finland will be achieving horizontal working across the whole-of-the public administration. Structural change is a common way to try to build collective commitment. Combining portfolios and creating co-ordinating bodies clearly signals a desire for greater horizontality, while demonstrating clear, concrete, and rapid change – this makes these reforms particularly attractive to politicians who are looking for immediate results. In reality, however, such changes require alignment of incentives and cultural change in order to be successful. More often than not, the absence of accompanying reforms to embed change leads to the failure of structural reforms.

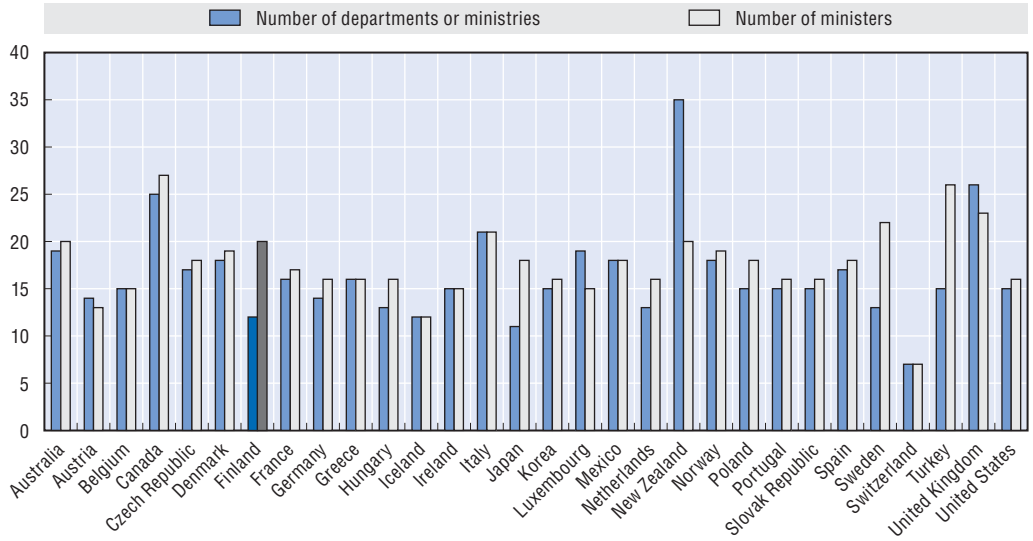
Structural reforms at the state level

Finland is like most other OECD governments in that its ministerial departments are structured along sectoral function lines. This way of working has, in the past, provided

opportunities for everyday policy decisions to be made within the boundaries of a ministry. Part of the Finnish success story to date has been the public administration's ability to create ministries of experts to define and solve discrete sets of issues. In considering co-ordination across ministries, it is important to examine the size of the public administration, the number of ministries, and the size of the ministries. These factors can determine the ease with which co-ordination arrangements are adopted (or not) in the public administration.

Governance structures can make co-operation difficult. Other OECD countries show wide variation in the number of central government ministries – with New Zealand's 25 ministries at one end of the scale and Switzerland's seven at the other (see Figure 5.5). Finland has 12 ministries, but almost double the number of ministers (20) (see Table 3.1 in Chapter 3). This large difference in the number of ministries and ministers is only seen in Sweden (another Nordic country), Japan, and Turkey among other OECD countries. New Zealand also has a large difference between the number of ministers and ministries, but with more ministries than ministers: 25 ministries to 20 ministers.

Figure 5.5. **Number of departments or ministries and ministers at the central level of government, 2008**

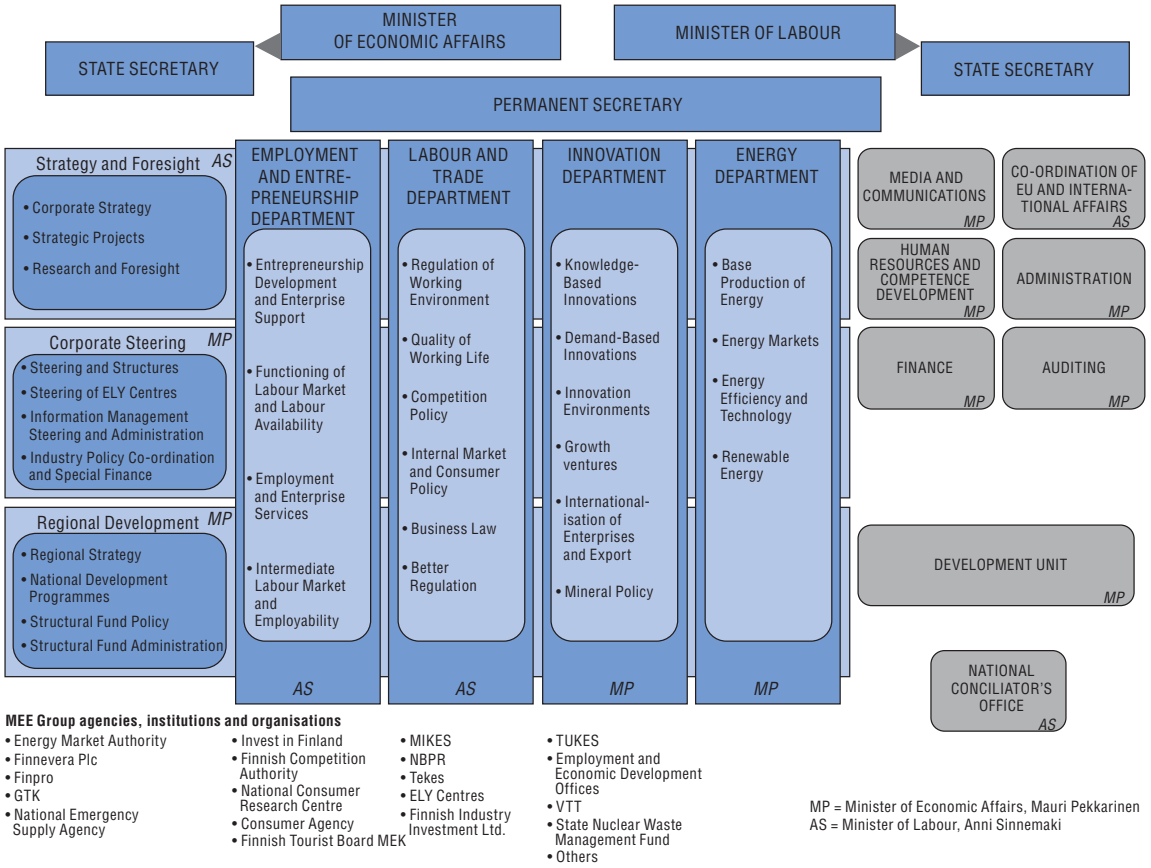


Notes: Data collected from member country government websites.
Data current as of 31 December 2008.

Source: OECD (2009), *Government at a Glance*.

In an attempt to further institutionalise horizontality, the government reduced the number of ministries from 13 to 12 in January 2008, and merged the Ministry of Trade and Industry, the Ministry of Labour and the unit responsible for regional development under the Ministry of Interior to form the Ministry of Employment and the Economy. As discussed earlier, the Ministry of Employment and the Economy was established to increase co-ordination and collaboration in the handling of economic and employment policy issues and particularly the management of the "Programme for reduction of administrative burden". The newly formed ministry is following a matrix organisation model aimed to fully utilise synergies of three horizontal units: the Strategy and Foresight Unit, the Corporate Steering Unit, and the Regional Development Unit (see Figure 5.6). The goal is to

Figure 5.6. **Organisation chart for the Ministry of Employment and the Economy, Finland**



Source: Ministry of Employment and the Economy, Finland.

foster stronger inner cohesion and an outward-directed focus through common tasks, low boundaries between departments and units, and strategically focused organisation that foresees directions of change and reacts quickly. However, important challenges remain. The MEE has two ministers from different political parties, which may lead to co-ordination challenges within the Ministry.

The Ministry of Employment and the Economy merger is not an isolated example, and it illustrates the limitations of structural changes alone for improving collaboration. Other, less intense mergers have also been initiated to reduce silos and to increase horizontality and rationalise administration: the merging of rail, road and sea sectors in the Ministry of Transport and Communication; the integration of the units responsible for state, regional and local administration and municipal IT from the Ministry of Interior into the Public Management Department of the Ministry of Finance; and the transfer of the Department of Municipal Affairs from the Ministry of Interior to the Ministry of Finance.

The government also relies on a number of committees for co-ordination and collaboration at the Cabinet level and throughout the public administration (see Box 5.3). It utilises Government Evening Sessions, which are convened by the Prime Minister, for informal cross-government collaboration ("Night School"). In keeping with their informal spirit, no formal decisions are taken at these evening sessions.

Box 5.3. **Government and Public Administration Committees**

Cabinet Committees

- Cabinet Committee on Foreign and Security Policy.
- Meeting of the Cabinet Committee on Foreign and Security Policy and the President of the Republic.
- Cabinet Committee on European Union Affairs.
- Cabinet Finance Committee.
- Cabinet Committee on Economic Policy.
- *Ad hoc* Cabinet committees and ministerial working groups.

Source: Ministry of Finance, Finland.

Finally, the issue of co-ordination across sector silos extends beyond the purview of the state administration. In particular, the Social Insurance Institution (KELA), which falls under the Finnish Parliament, is one of the most important public service providers in Finland. It has 263 offices throughout Finland, and has responsibility for such areas of social security as family benefits, health insurance, rehabilitation, basic unemployment security, housing benefits, financial aid for students and basic pensions. In addition, KELA provides disability benefits, conscripts' allowances and assistance for immigrants. KELA is not subject to government steering or the government budget. Significantly, however, this does not mean that KELA does not co-ordinate with other service delivery areas. Over the last 20 years, the government has been centralising payment delivery into KELA in order to take advantage of its expertise, customer relations, and economies of scale. An inter-governmental committee, the SATA Committee, chaired by the Ministry of Social Affairs and Health, and including KELA, is now looking at how social protection in Finland can be further simplified by integrating payment schemes that fall under the responsibility of municipalities. The government established the committee in June 2007 and asked it to submit a proposal for the total reform of social protection by the end of 2009. Finally, in 2007 KELA was assigned responsibility for implementing and providing the service of the national health record archive for the public and private sector and a national system of electronic prescriptions. While typically, one would expect the implementation and administration of the social security schemes to fall under the responsibility of the government, this has not seemed to have been a barrier to co-ordination and collaboration in the Finnish public sector.

Finland has implemented many structures to facilitate horizontal co-ordination and collaboration in the public administration. Despite these changes, however, horizontality has not been embedded in the Finnish system. Achieving genuine horizontality requires strong leadership, trust, incentives and culture change. Collaboration requires trust and shared values, reinforced through collaborative skills and leadership. The development of collaborative capabilities requires agencies and individuals to not only learn new values and behaviours, but also "unlearn" many old habits. Collaboration requires investments of time, trust-building and training. Successful collaborative communities are those whose innovative contributions support, and are supported by, strong social values.

Structural reforms between the state and sub-national levels

Collective commitment to the government's programme and objectives is even more challenging at the sub-national level. The recent implementation of the ALKU regional reform provides an example of the need for collective commitment at the sub-national level. The ALKU reform aimed to improve regional co-ordination and co-operation among state sectors; there is a view, however, that the effort did not go far enough. The establishment of AVIs and ELYs (see Box 5.4), and the clarification of roles and responsibilities, will indeed simplify arrangements and provide greater transparency regarding duties. However, ALKU did not include mechanisms to build and strengthen relationships between the state AVIs and ELYs and the Regional Councils. Thus, opportunities for coherence may not be as strong as they could be. In addition, the new structure does not sufficiently address the disconnect between who develops the strategy and who manages the budget; central authorities retain budget control and the state is responsible for funding, while the Regional Councils set development policy for their territories. Therefore, while a goal of ALKU may be to strengthen Regional Councils by increasing their participation in the regional development process, their persistent lack of budget authority reinforces a *status quo*. For these reasons, ALKU should be viewed as a first step towards a fuller regional reform process.

While the ALKU reform streamlined the existing regional structure, it does not guarantee greater efficiency or more effective horizontal co-ordination among de-concentrated central authorities. Grouping ministerial functions differently will not necessarily promote greater horizontal co-ordination without an incentive structure in place. In addition, co-ordination between the state and the Regional Councils is not necessarily strengthened through the obligatory acceptance of plans. Thus, ALKU did not address potential co-ordination gaps between the policy objectives and responsibilities of the central government and the needs of the Regional Councils. This could result in incoherent responsibility allocation and unaligned policy planning and implementation. Such incoherence could be overcome by an incentive structure to reward collaborative work and by strengthening the networks between the two types of regional bodies. If development plans are co-ordinated at the regional level among all stakeholders, coupled

Box 5.4. **The ALKU Regional Reform Programme**

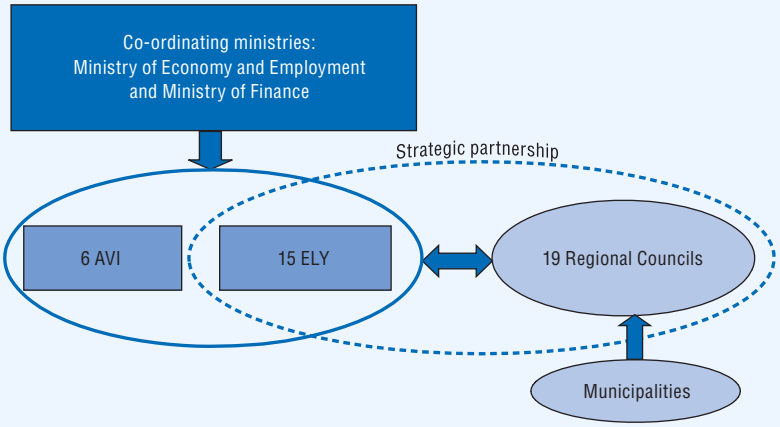
Finland's regional administration reform initiative – *Aluehallinto kehittyy ja uudistuu* (ALKU) – became effective on 1 January 2010. Its objective is two-fold: to enhance co-ordination among regional-level state sector bodies in order to boost their citizen and customer orientation, and to improve efficiency and productivity in regional administration.

The ALKU reform envisions reducing administrative costs by 1 100 person-years by 2015, which aligns with the demands of Finland's Productivity Programme. It streamlines the former de-concentrated state administrative structure of six State Provincial Offices, 15 Employment and Economic Development Centres, 13 Regional Environmental Centres, 9 Road Districts, 6 Occupational Safety and Health Inspectorates, and 3 Environmental Permit Authorities into two types of bodies – Regional State Administrative Agencies (AVI), of which there are six, and Centres for Business and Industry, Transport and the Environment (ELY), of which there are 15. The agencies have varying areas of responsibility (*i.e.,* some are responsible for all three areas of responsibility, others are focused only on specific functions).

Box 5.4. **The ALKU Regional Reform Programme** *(cont.)*

ALKU does not modify the existing Regional Council structure. Ministries continue to guide the regional development process via regional strategic programmes, and Regional Councils remain responsible for developing the associated implementation plans in consultation with central government authorities, sub-regions, municipalities and funding organisations. Before ALKU, Regional Councils individually negotiated their implementation plans with the state. ALKU established one negotiation among all parties, where all Regional Councils discuss their implementation plans with the central government (represented by the Ministry of Employment and Economy), and the regional state structure (AVI and ELY) simultaneously. ALKU aims to increase the role of the Regional Councils in regional development, in part by binding the state regional authorities to the negotiated implementation plans, and in part by complementing region-specific development strategies through the Coco Programme. The state, however, continues to control the regional development budget.

Figure 5.7. **ALKU regional administration structure and functions**



Source: Ministry of Employment and Economy, Finland.

with an appropriate incentive structure, then the co-ordination capacity would be boosted, interests better aligned, and policy outcomes strengthened.

The objectives of the ALKU reform were well established and supported by systems that flowed well from top to bottom. They included strategic elements from both the central and regional levels, including the Government Programme and Government Strategy Document, as well as regional programmes and implementation plans. Numerous working groups were established (at the ministerial and the permanent-secretary levels), as well as a co-ordination committee involving representatives from ministries, regional state administration and human-resource organisations. These elements all contributed to a well-structured and well-directed reform. However, challenges can arise from two areas. The first is consultation. Discussion is well developed "at the top", as illustrated by the various working groups, and is also evident at the regional level given the role of regional programmes and implementation plans in both the development of the Strategy Document and in the strategic performance target agreements. However, consultation appears lacking at the policy development stage, and the role and level of input that

Regional Councils and municipalities may have had in the design of ALKU is unclear. This leads to a risk of limited success due to inadequate stakeholder understanding and buy-in.

The lack of a clear way to assess the impact and future success of the reform presents a second significant challenge to ALKU. Should such an evaluation be based on efficiency, *i.e.,* savings from reduced administrative costs at the regional level? Or based on innovation in regional development and increased GDP? A combination of these? Without such parameters, understanding what the reform is to accomplish and when it has accomplished it remains a challenge.

Given the apparent direction of territorial development in Finland – particularly with respect to its regions, municipalities, and the growth of urban centres – a more integrated policy approach may be required: one where municipal and structural reforms are undertaken as a whole rather than as separate activities. This could help address regional ambitions and needs, allowing the state to achieve its objectives and the Regional Councils to address the needs of their constituents. At the same time, it could ensure that municipalities move to a new level of capacity necessary to meet their responsibilities in a dynamic and complex territorial and service delivery situation.

The implementation of the government's strategic agenda at the sub-national level requires a strong, coherent strategy where various programmes of change are inter-linked, and both the reform package and government expectations are clearly communicated to the public administration at the state and sub-national levels, and to the public. Individually, Finland's various sub-national reforms appear to fulfil their objectives. As a coherent package, however, they may not go far enough in reinforcing one another. The implementation of the government's agenda at the sub-national level requires clear communication of the rationale and outcomes to be achieved. It also requires support mechanisms to ensure that sub-national governments have the capacity to meet the government's expectations.

By developing discrete reform packages, Finland may miss an opportunity to maximise the potential benefits of its initiatives. Through the communication of its own strategic objectives, and by controlling the budget, the central level can influence the development approaches of Finland's regions (Regional Councils). This is not unusual. A lack of coherence in the policies established at the central level which impact the sub-national level, particularly when policy priorities do not align at the different levels of government, is also not uncommon. However, this does lead to competing priorities, missed opportunities for synergies, less effective and efficient policy implementation, and the possibility of greater politicisation in policy options. Given that the Regional Councils are tasked with overseeing the creation and implementation of development programmes, but do not control the budgets supporting these initiatives, they can find themselves bound to the objectives of the central level rather than to those of the municipalities they represent.

The ALKU reform addressed this to a degree. By fostering broad negotiation among all parties, objectives and understandings can be more easily aligned, and everyone is certain that one regional interest does not "capture" excessive resources. It requires that the strategies and implementation plans proposed by the Regional Councils are adopted by the central level and the de-concentrated state bodies. However, it does not address financing. Budget issues remain in the hands of the central government, reducing the flexibility and responsiveness of the Regional Councils, and their ability to adapt to changing or unforeseen circumstances. Regional Councils, for their part, may need to increase their capacity in regional development and management.

A broad-based sub-national reform package could take various forms, but should be sensitive to the various representative regional administrative structures (responsive to local authorities) that appear to be developing in Finland. There are the remote areas that will, for all practical purposes, remain remote. This does not, however, mean they must remain fiscally insolvent. For these regions, reforms akin to those in Kainuu may be most appropriate, as they address efficiency and effectiveness at both the regional and municipal levels in one package (see Chapter 6). For regions such as central Finland, with more dynamic and wealthier urban centres surrounded by active rural regions, regional development that supports the ambitions of thriving cities such as Jyväskylä and its neighbours – which are already looking ahead at a second and third level of municipal amalgamation – may be more appropriate. Finally, in the case of the predominantly urban region, such as Uusimaa, a greater metropolitan area appears to be developing *de facto* through partnerships and co-operation. Here, mergers are either unnecessary or unlikely, and thus the support of a metropolitan authority may be optimal. Acceptance and promotion of such administrative structures tailored to place-specific contexts could provide the flexibility, adaptability and responsiveness that the central government is seeking with respect to multi-level governance, and facilitate a steering role.

It could also help overcome a second area of incoherence that arises when general regional development strategies are designed and implemented in different places or at different levels of government. At the central level in Finland, for example, there was both the ALKU reform and the Coco Programme (see Box 5.5), as well as sector-specific programmes and policies of individual line ministries. The regional development programmes of the individual Regional Councils should also be considered. When these

Box 5.5. **The Regional Cohesion and Competitiveness Programme**

Finland's Regional Cohesion and Competitiveness Programme (Coco) is a three-year development programme, launched on 1 January 2010, which falls under the auspices of the Ministry of Employment and Economy (MEE). It is a network policy model designed to enhance regional competitiveness, while balancing regional development by supporting the interaction and linkages of key regional development actors.

The Coco Programme is designed to build on regions' competitive advantages and strengths to enhance regional attractiveness to businesses and new residents. It aims to improve the operating methods of regional development, consolidate inter-regional co-operation, and promote knowledge and information sharing at multiple levels of government.

The programme centres on a series of thematic national networks – innovation environments, well-being, creative sectors and culture – identified in collaboration with participating municipalities. The MEE is also both operationally and financially supporting pilot networks, which include internationalisation (with a focus on Russia); tourism; and co-operation in land use, housing and traffic.

There are approximately 52 Coco regions – each an operative strategic entity wherein municipalities have contributed to the identification and the definition of the network themes, and can choose to participate in the programme.

The programme budget is approximately EUR 23 million, 50% of which comes from the MEE and 50% from co-funding by participating municipalities.

Source: Ministry of Employment and the Economy, Finland.

various programmes are created separately, there is a risk of confusion, overlap and a loss of synergies. While these programmes may include consideration of other initiatives, they do not appear to be developed in pursuit of an overall Finnish regional development strategy. This ultimately could create even greater fragmentation and a lack of efficiency, which could be avoided with more *ex ante* co-ordination.

Finally, Finland's active approach to reform via experimentation is exemplary and can help answer many questions regarding how to make structural change operational. However, without evaluation mechanisms it is difficult to measure overall success and applicability (see the section on evaluation and adjustment in Chapter 4).

While overall collective commitment at the sub-national level can be difficult to achieve, it does exist in Finland. However, the key to achieving sustainable commitment appears to be changing the nature of the relationship between the state and sub-national level. The Regional Cohesion and Competitiveness Programme (Coco) provides a good example of how the national and sub-national levels can forge such a new relationship. The programme fosters co-operation among municipalities in 52 defined Coco regions and among Finland's existing 19 regions. Coco is a good example of a programme designed to utilise, and to promote, information sharing. Coco focuses on bottom-up participation and idea sharing. The State actively consults with municipalities to collect ideas from the local level, and collates them in line with the Coco agenda. In this way, Coco provides a successful model for collective buy-in at the sub-national level.

The Regional Competitiveness and Cohesion (Coco) Programme

Possibly as a means to rationalise existing central programmes, at least under the Ministry of Employment and Economy (MEE), Finland is experimenting with place-based regional development strategies that more closely follow a new regional policy paradigm. The Regional Development and Cohesion (Coco) Programme (see Box 5.5) is an illustrative example.

The traditional approach to regional development policy emphasised reducing regional disparities and supporting lagging regions via income transfers and subsidies, regional investment aid, and infrastructure support. Despite longer-term government efforts, however, regional disparities did not significantly decrease with this type of top-down, subsidy-based approach.[7] This led to the creation of a new regional development paradigm emphasising sustainable economic growth through regional competitiveness, founded on place-based endowments. It aims to foster a broade scope of activities, which includes supporting business environments via innovation, infrastructure, and labour market supply programmes. In addition, rather than focusing strictly on lagging regions, the strategy addresses the growth potential for all regions.

The Coco programme aims to boost the competitiveness of all regions while balancing regional development via networks of key stakeholders. It promotes regional cohesion and competitiveness by building on existing regional endowments, targeting development efforts to maxise their efficiency, and establishing networks with other regions for greater leaning and innovation – as well as promoting co-operation as a means to boost competitiveness. The programme also helps strengthen horizontal ties among ministries, and vertical co-operation between municipalities and regions, as well as between regions and the central administration.

Coco's design was demand-driven. The place-based endowments and opportunities for development were identified based on local input as to what would be competitive and add

value in the region. The Regional Council's focus on business development through innovation clusters, for example, can be complemented by the Coco regions' focus on building national networks around specific themes. Coco is a good example of a programme designed by minimising information asymmetry (*i.e.,* closing the information gap). It takes a co-ordinated and multi-dimensional approach involving various line ministries. This can serve to close possible policy gaps between the central and the local levels, while building vertical and horizontal co-ordination. Coco also builds in performance indicators, and its success elements are linked to capacity building through assessment. The concern is that with 52 regions, Coco will create even more functional bureaucracies.

The new regional development paradigm, as applied in the Finnish context through Coco, puts a new spin on multi-level governance. It highlights the Finnish capacity for vertical, horizontal and networked co-ordination among government actors. Significantly, while it builds the importance of regions and the sub-national level, it does not diminish the role of the central government. Rather, the role is refined, moving from designing and delivering regional development policy to co-ordinating and partnering in regional development policy. In this new model, while the central level remains a significant source of funding, it is increasingly focused on establishing the framework and/or guidelines for policy design and implementation, and for overseeing co-ordination mechanisms. Thus, co-ordination at the ministerial and sub-national levels is essential. It will also lead to an increase in the number and variety of stakeholders, further boosting the need for co-ordination capacity, clear lines of responsibility, and accountability.[8]

Aligning incentives through performance management

Collective commitment is reinforced when organisational and individual incentives are aligned with overall government objectives. This can be achieved through the use of strategic planning frameworks at the whole-of-government level and within individual public sector organisations to ensure that the government's agenda is clearly translated into a work programme with measureable outcomes for each ministry and agency. This also provides individuals with a better understanding of their roles and contributions, which is of particular importance in the context of structural change or other major reforms.

In the public sector, the operationalisation of strategic planning involves individual ministries/agencies using the government's agenda to identify and clarify ministry/agency objectives and outcomes, and then developing action plans for their implementation, or operationalisation. It is a disciplined effort to produce fundamental decisions and actions that shape and guide the purpose of a public sector organisation's actions: what it does, and why it does it.

Performance management is a key element of strategic planning, but it cannot stand alone. When linked with strategic, workforce, and budget planning, however, it supports the effective implementation of the government's agenda by aligning incentives with the strategic vision, providing a tool for the prioritisation of activities, and communicating a common vision and goals to help steer staff actions and performance. In addition, the process of developing performance indicators, while often frustrating, also provides a transparent forum for the discussion and interpretation of an organisation's values and objectives, permitting managers and staff alike to fine-tune expectations.

Performance management frameworks are used to clarify organisational goals for staff, linking their roles to institutional objectives and helping to foster change. Collective

commitment can be strengthened by tying individual performance objectives to shared whole-of-government outcomes, starting with ministers and cascading down throughout the public administration. Strategic insight is critical to setting the vision, and performance management frameworks (if correctly tuned) can be used to provide incentives for individuals to work collaboratively to achieve that strategic vision.

In addition to fostering collective commitment, effective performance management systems also help to improve public sector performance and to increase community trust in government through the delivery of efficient and effective services. Current demographic, financial and environmental challenges have created an urgent need to re-think the role of government and the capacities it needs to govern. Governments around the world must respond to a citizenry demanding high-quality public services to meet their changing circumstances and needs. In Finland, the tightening of the fiscal environment due to the global economic and financial crisis and an ageing population, and the need to sustain the delivery of universal services under the Nordic model, have increased the need for an effective performance management system that is integrated into strategic planning frameworks.

A performance management system (Box 5.6) does not, in itself, improve performance of the public administration. Its success depends on three components: *a)* the linkage of the overall performance management system to strategic planning and budget allocation at the whole-of-government and organisational levels; *b)* goals and strategies that are clearly defined and communicated to employees; and *c)* managers who can objectively assess and measure performance, and use this information appropriately. As such, to be effective, performance management systems should link the management of people to institutional goals and strategies. Their success will depend on these goals and strategies being clearly defined and communicated to key stakeholders and to employees.

Box 5.6. **What is performance management?**

Performance management addresses efficiency and effectiveness of operations, but also accountability of actions. Performance management is made up of four levels:

- At the *highest* level, performance management is rooted in the organisation's long-term vision and business strategy and focused on impact, resource utilisation and public service improvement.
- At the *strategic* level, performance management is focused on outcomes, such as volume and value of service take-up, upward trends for inclusion, and staff and user satisfaction.
- At the *programme* level, performance management is focused on the desired output of programmes, and on what has been accomplished.
- At the *operational service* level, performance management is concerned with process quality, service delivery and outputs, but also with the individuals or teams of individuals who are expected to deliver these results.

Source: OECD (2008) *The State of the Public Service*, OECD, Paris.

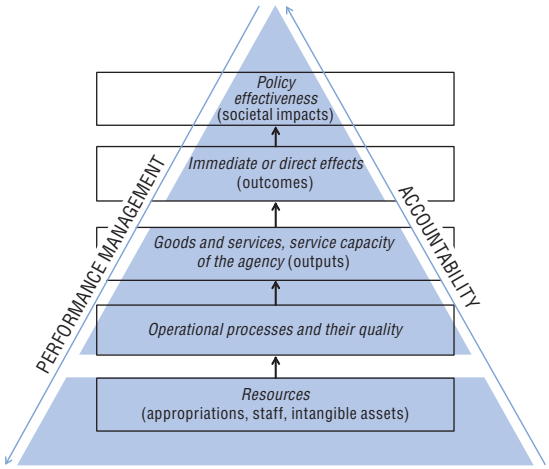
Performance management in state government

Performance management was introduced in the Finnish state public administration over several years during the early 1990s in response to the Nordic economic crisis. The core goal of the reform was to combine the numerous agency-specific expenditure

appropriations into one single lump sum for each agency, and to give agencies much greater latitude in how to spend that appropriation. In return, agencies were required to commit to agreed performance targets. These reforms represented a shift in the financial steering roles of all political actors and hierarchy levels of the state administration. The performance management reform was later extended to the relationship between the central and sub-national governments with the delegation of authority previously held by the central government to the autonomous municipalities.[9]

Performance management was introduced to make the delivery of public services and the operation of government agencies more efficient. The implementation of budget legislation reform in 2004 significantly enhanced the performance management and accountability system in the Finnish public administration. The performance management system is focused on achieving the appropriate balance between available resources and desired results – the central focus of performance management in operations is to balance resources and targets on the one hand, with efficiency and quality on the other, to ensure that desired effects are achieved cost-efficiently. The Finnish system is based on four performance criteria which are used to evaluate and report on public sector operations: policy effectiveness; operational efficiency; outputs and quality management; and management of human resources (see Figure 5.8).[10]

Figure 5.8. **Finnish performance management model of the effect chain of the operations of government agencies**

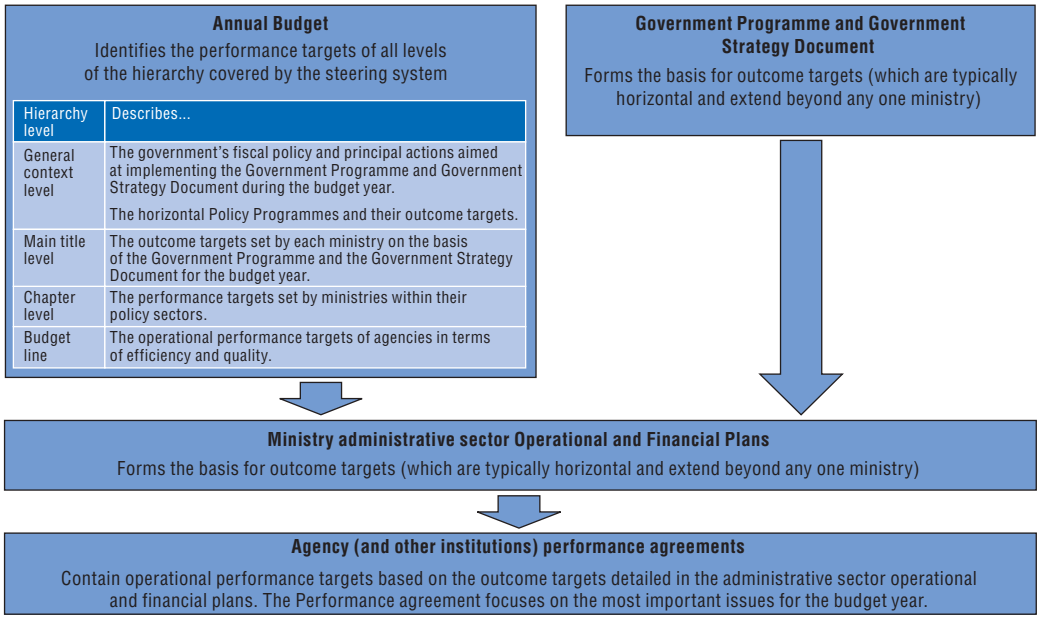


Source: Ministry of Finance (2006), *Handbook on Performance Management*, Ministry of Finance, Public Management Department 2/2006, Helsinki, pp. 34.

The annual budget is the key steering document for the performance management system. It identifies performance targets (outputs) for all levels of the hierarchy covered by the steering system. Significantly, however, results information and targets are only loosely tied to financial information and allocation. In principle, the Government Programme (and Government Strategy Document) forms the basis on which ministries draft their outcome targets. Each ministry independently drafts outcome targets for its administrative sector (*i.e.*, its agency and sector portfolio), but where outcome targets extend beyond any one ministry, ministries are supposed to co-operate. Ministry performance targets focus on identifying desired social impacts and outcome targets for the administrative sector. Operational performance targets for agencies and other institutions under ministry

responsibility are to be connected to ministry operations and resources as closely as possible. Performance targets for agencies do not need to cover the entire range of operations, but instead can focus on the budget year's most important points and results (see Figure 5.9).

Figure 5.9. **Breakdown of the Finnish performance management system**



Source: Based on information provided by the Ministry of Finance (2006), *Handbook on Performance Management*, Ministry of Finance, Public Management Department 2/2006, Helsinki.

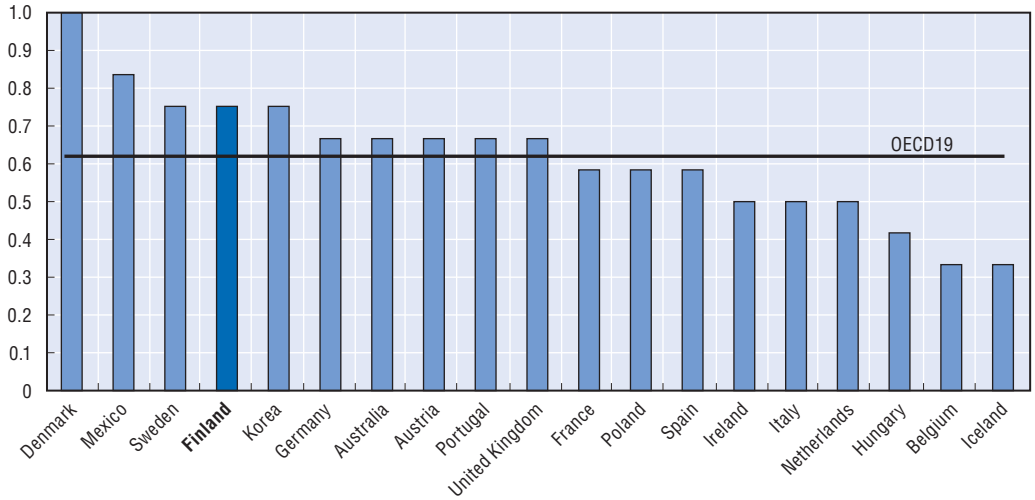
There are various performance management models in use within the Finnish public administration, depending on the administrative sector and its practices, their control impact, and how advanced they are. In some administrative sectors, performance management is used as an advanced control tool, while in others, commitment to performance management is low and development work is only just beginning. Performance-related practices and management practices also vary greatly from one agency to another.[11]

Ministries guide their subordinate agencies and institutions by setting targets and monitoring their attainment, and allocating resources to attain them. Typically, as part of the performance management procedure, a management agreement is prepared as a contract between the senior management of a ministry and its subordinate agencies and institutions. This agreement is an important instrument in performance evaluation. It strengthens performance management by specifying personal performance targets for senior managers, as well as criteria for evaluating their performance.

A holistic framework, the existing performance management system provides a solid foundation for the management of the public administration. In general, ministries and agencies have a clear performance dialogue relationship in place, and agencies appear to be actioning their organisational performance agreements by filtering down performance objectives within their organisations from senior management through to junior staff. Finland, like almost all OECD countries, has formalised performance assessments for most core government employees. Of the 26 OECD countries for which there is comparable data

available, Finland ranks third in the performance assessment index (along with Sweden and Korea) in terms of the extent to which performance assessments are used by central government in human resources decision making in central government, behind Denmark and Mexico (see Figure 5.10).

Figure 5.10. **Extent of the use of performance assessments in HR decisions in central government**



Source: OECD (2009), *Government at a Glance.*

Only a couple of decades ago, nearly all central government employees in OECD countries were given pay increases based on length of service, on the assumption that increased experience would lead to better performance regardless of individual efforts. In recent years, OECD countries have taken up performance assessments with the goal of increasing the motivation and accountability of civil servants. Strategic planning is most effective when it is linked to human resource management (HRM) planning across the public administration and within each public sector organisation (ministry/department/agency). The lack of integration between HRM and strategic business planning processes is increasingly acknowledged as a major source of implementation failures.[12]

The integration of HRM planning into strategic planning allows organisations to build strategic capacity through calculated HRM planning – to ensure that the organisation has the necessary skilled, motivated and committed employees in place to achieve the organisation's goals. The integration of strategic HRM activities with organisational strategic planning is critical to performance; this is even more critical when HRM activities are devolved to line managers, as is the case in public administrations in many OECD countries.

While the Finnish public administration is using performance management as a managerial tool, it does not seem to be used as a strategic tool. Performance management has a very visible, but strangely disconnected, role in strategic planning. Government documents re-affirm performance management as an integral part of securing the sustainability of public finances, maintaining national competitiveness, and securing the quality and availability of public services.[13] And performance objectives and indicators are present at each stage of planning: in the Government Programme and Strategy Document, the government budget, and ministry operational and financial plans. For the most part,

objectives and indicators are inter-linked and cascade down from overall objectives in a logical fashion. And yet, overall, performance against stated objectives does not seem to be an important factor in resource allocation and work prioritisation for administrative sectors, and there seems to be little quality control of performance objectives and information.

At the organisational level, there seem to be few, if any, consequences for failure to meet strategic objectives. The Finnish National Audit Office's (NAO) inspection reports[14] have repeatedly noted performance management shortcomings in areas such as performance information for government agencies and information on the effectiveness of grants and other government transfers. Furthermore, the Parliamentary Audit Committee has widely reported (in 2008) on the inadequate functionality of governing by information in social and healthcare services. Another Parliamentary working group found that the existing performance management system required a higher degree of tangibility and discipline, noting issues with the quality and relevance of some ministries' performance reports. The Ministry of Finance recently commenced a major review of the performance management system at the state level.

These deficiencies in the performance management system stem from the fact that performance management is used as a critical tool for management and accountability between ministries and agencies, but not between the Centre and ministries. As a result, despite the strong focus on performance management in the Finnish public administration, the performance management system does not provide indicators and objectives of consistently high quality, does not link agency objectives back to whole-of-government objectives, and does not allow ministries to truly prioritise. It therefore is not being utilised to harness collective commitment to whole-of-society objectives.

Looking to the future, Finland shares a challenge with other OECD countries: how to use its performance management system to support accountability for cross-cutting priorities rather than allow it to reinforce bureaucratic silos. The Finnish government needs better horizontal and vertical co-operation in planning and implementing joint objectives and indicators for agencies reporting to multiple ministries. The real benefit of improved horizontal work across government is the opportunity to develop and achieve societal objectives and outcomes. However, this would require a change in the way the business of government has traditionally been managed in Finland.

Addressing these challenges to Finland's performance management system requires action at the central and ministerial levels for increased oversight and accountability, and greater implication of the public in the performance of the public administration. Only in this way can the performance management system truly be used strategically to advance Finland's horizontal government objectives.

Role of the Centre: oversight and accountability for results

Ministries and agencies report back to the Centre through annual reporting to the Prime Minister's Office and financial statements provided annually to the Ministry of Finance, the National Audit Office and the State Treasury (see Box 5.7). The three key parties of the Centre (the Prime Minister's Office; the Budget Department in the Ministry of Finance; and the "Governance Pillar" – the Departments of Public Management, Municipal Affairs and Personnel, also in the Ministry of Finance – see sub-section in this chapter on leadership within the Centre of Government), however, have very different, and unco-ordinated roles with regard to performance management.

Box 5.7. **Annual performance reporting in Finland**

Every year, each ministry and agency in the Finnish state government prepares final accounts which contain:

- an annual report detailing operational performance and development, and policy effectiveness;
- actual figures illustrating how well the budget has been implemented with the central government budget implementation statement;
- statement of revenue and expenditure illustrating revenue and costs;
- balance sheet showing the financial situation on the date of the final accounts; and
- additional information or financial statements.

Source: Ministry of Finance (2006), *Handbook on Performance Management*, Ministry of Finance, Public Management Department 2/2006, Helsinki.

On the one hand, the Prime Minister's Office sees performance management as an essential tool for the government's steering authority. The Policy Analysis Unit in the Prime Minister's Office is responsible for monitoring and assessing the implementation of the Government Programme. The Unit prepares the government's annual report, which includes information from ministries and agencies detailing their self assessments in meeting performance targets (agencies provide annual reports to their responsible ministries, which detail the attainment of their targets and strategies in their own annual reports to the Prime Minister's Office). The annual reports present operational performance and analyse the final accounts and performance. The annual report contains data essential for performance management, such as information on effectiveness, efficiency, outputs and quality management, and human resources. The Unit does not have any oversight authority, however, to guide ministries or to ask them to revise their submissions. A government statement in the latest mid-term report highlighted the need to re-examine the government steering system, including performance management. The Prime Minister's Office views performance management as part of the government steering system, supported by the Governance Pillar within the Ministry of Finance, which uses "soft" tools (*e.g.*, joint development projects, pilots, training, etc.) to improve public management, including performance management.

Although the Budget Department of the Ministry of Finance receives ministries' performance objective statements and reports on the previous year's performance, it seems to see its primary role as ensuring inclusion of performance management objectives and information in the budget, rather than providing oversight over the quality of this information and using it for budgetary decision making. While the Budget Department does provide some informal advice to line ministries, it has resisted taking a formal role in the quality control of performance submissions. This resistance in using annual performance reports as part of the frame documents for budget discussion is one reason that performance information is now increasingly used in the mid-term review process (managed by the Prime Minister's Office).

This conceptual and operational separation between the government's steering and budget roles is an impediment to implementation of the Government Programme, and to aligning incentives in general to improve the performance of the public administration. There is a fundamental lack of connection between the targets set by state ministries and

agencies' ability to negotiate resources allocated to achieve these targets or to reward or sanction ministries and agencies according to their performance. The Ministry of Finance's pre-occupation with fiscal objectives could perhaps be tempered by better incorporating the work of the Governance Pillar, increasing credibility with ministries and agencies and improving linkages between performance targets and budget allocations. Such an approach, however, underscores the importance of consultation with ministries and agencies as part of a performance dialogue, rather than simply as a top-down allocation exercise (see sub-section of this chapter on leadership).

Currently, performance information is used in the budget in a presentational manner. Although this is an important step for increasing accountability, the weak link between performance management and resource allocation is insufficient to align incentives, in particular for cross-cutting objectives. Although the Budget Department states that the performance information provided in the budget could be used by the Public Accounts Committee in developing positions on resource allocation, this does not obviate its role in more clearly using performance information for its own budget decision making. This will be the only way to encourage ministries to improve their own performance data and analysis. It can also lead to a self-reinforcing cycle in which improved performance information will be more useful for the Budget Department in its own decision making.

Using performance management to achieve collective commitment to shared whole-of-society objectives requires individual performance management plans to reference shared outcomes where relevant. This way of working starts with permanent state secretaries and filters down through the administration. This notion may run counter to the principle of individual ministerial responsibility, which is why Finland also should consider moving towards a model of shared collective responsibility by the Council of Ministers for collective outcomes in the Government Programme, as is the case in Sweden. In terms of more immediate ways to collectivise responsibility, however, re-focusing the budget structure to look at outcomes – for example, by organising the budget class structure around policy sectors rather than agency-specific structures – would give ministers and state secretaries more flexibility to manage to outcomes within their own administrative sectors (see Chapter 6 on Resource Flexibility).

Evaluations of the performance management system in the early 2000s resulted in 2004 budget legislation reform to enhance performance management and accountability. New provisions of the *Central Government Final Accounts Report* and the Government Financial Controller's function *vis-à-vis* performance management provide some potential tools to improve performance management. The Financial Controller, however, seems to lack the resources to thoroughly investigate the quality of ministries' performance reporting. The Finnish National Audit Office has also been a proponent of strengthening the performance management system. Its authority to inspect the performance of ministries against their stated objectives gives it a strong tool to push for the improvement of analysis. But it also has limited resources, and until performance information is better integrated into the budget process, the focus of performance measurement will remain subject to ministries' discretion, limiting the ability to achieve a full picture of their performance.

Role of the ministries: Establishing linkages to the overall government vision

As stated earlier, performance planning in Finland follows a rational structure in which state ministries and agencies prepare performance management agreements to achieve individual portfolio objectives. These agreements are based on ministerial Action

Plans, which stem from the Government Strategy Document, based on the Government Programme. It is arguable, therefore, that although the performance management system is in place, the link between agencies' everyday operations and the overall strategic objectives enumerated in the Government Programme, Government Strategy Document and government budget is still missing.

Mapping the work of ministries and agencies back to overall government priorities would help them to better orient their work in support of the Government Programme, and to signal areas for improvement. This also increases legitimacy of programmes/projects, and clearly identifies the strategic outcomes they support and the resources needed to achieve their work. Ministry and agency officials report, however, that performance measures tend to focus on detailed processes rather than strategic actions that support the Government Programme. Agency-level staff report that they would prefer that performance agreements were managed towards more strategic objectives, but that current guidance is too general to allow them to establish links between their work and overall objectives. They have suggested that they would like greater clarity regarding the government's priorities and the expectations of their line ministries to clearly feed this guidance into their own internal management processes. Ministries respond that prioritisation is quite difficult, given the ever-increasing number of mandates in successive Strategy Documents. They need to be allowed to prioritise by both identifying key areas for work and also lower-priority areas that can be dropped in the context of fixed resources (see Chapter 6).

In every country, the development of performance indicators is a core challenge that takes time. Performance management was slow to take off in Finland in the aftermath of the 1990s recession and the period of transition when Finland joined the EU. Measuring ministries' performance has also been difficult. Interviews with ministry staff suggest that they find it challenging to identify appropriate indicators at the organisational level because policy work is difficult to measure and because they have trouble linking their own concrete objectives to more abstract government priorities. As such, ministries struggle to develop indicators to achieve unclear outcomes, and performance discussions with agencies seem to focus on process indicators rather than contributions to overall objectives. This indicates greater comfort with those indicators that are more easily measurable.

Both central government and parliamentary working groups that have examined the Finnish performance management system have found that ministries are not fulfilling their role as performance-steering bodies. This difficulty lies, in part, with a lack of resources at the ministerial level. As in any agency-based system, most of the analytical capacity and skills is in the agencies. The bottom-up approach to developing objectives (*i.e.,* mapping to a stated societal impact), rather than taking a top-down approach (*i.e.,* starting with a whole-of-society outcome and working down to determine what actions and outputs are needed to achieve it) is another constraint. This latter approach requires ministries to act as stewards of sector outcomes, and will oblige them to build capacity in performance management.

Role of society: Accountability for resources utilised and results achieved

Achieving collective commitment is not only a matter of improving the use of performance information in management; it also requires shifting incentives at all levels by communicating results to increase the government's transparency and social accountability. The Policy Analysis Unit in the Prime Minister's Office, which is responsible for monitoring and assessing the implementation of the Government Programme, reports

on the overall performance of the state sector in an attempt to create linkages to the Government Programme. It has attempted to communicate performance issues in a number of ways, including elaborating a "traffic-light" reporting system.

The Findicator initiative (*www.findikator.fi/index_en*) is a new government performance initiative which takes a proactive look at setting indicators for desired societal outcomes and communicating them to both the public administration and the broader society. It aims to take the discussion on government performance from the halls of bureaucracy to the citizens in ways that they can understand, thereby creating external pressure for performance improvement, innovation and greater horizontality. It also creates additional pressure for the development of both societal targets and indicators, as well as a vehicle by which to communicate results.

Performance management for collective commitment at the sub-national level

In widening the scope of performance management, the government and the Ministry of Finance have had great difficulties in measuring municipal productivity and efficiency. State officials have also suggested that the quality of performance information received from municipalities could be improved. While this is a general challenge, the diffuse governance system of public service production has made data collection on performance historically late, inaccurate, unreliable and incomplete. As public service production is managed at both at the state and local levels, responsibility for data quality is dispersed. Periodic studies provide municipal performance rankings for primary and high-school education and health services; however, there is a need for more regular performance data to be published and communicated to the central government, as well as to other municipalities and citizens, as a means to promote "bench learning" and the sharing of good practices and yardstick competition.

The main impact of performance indicators is their ability to reinforce linkages among policy stakeholders at different levels of government, and their contribution to learning and capacity building. As a basis for dialogue, discussion and learning, they help communities of actors identify common reference points. Stakeholders can use indicator systems to gain information and results, focusing attention and efforts on critical areas.[15] While this is weak at the sub-national level, the Association of Finnish Local and Regional Authorities is working on a project to develop municipal performance indicators.

While municipalities have been reluctant to be compared with each other *vis-à-vis* their performance, improving performance measurement has many potential benefits for the sub-national level. Performance information facilitates the dissemination of information across levels of government, helping actors identify objectives and improving strategic effectiveness.[16] This could be particularly critical for Finland's municipalities when mergers or co-operative partnerships are being negotiated. If two or more municipalities are negotiating an arrangement to share tasks associated with the delivery of a specific service, performance measurement information can help each party understand its neighbours' capacity levels and develop an arrangement where co-ordination is optimised based on resource and skill capacity.

Norway's KOSTRA programme, for example, has brought various benefits to the central and sub-central levels of government (see Box 5.8). At the central level, the system has rationalised data collection and processing, and contributed to uniform standards that enhance the comparability of municipalities and service sectors. It has also helped the central

Box 5.8. **KOSTRA – Data reporting and information system in Norway**

KOSTRA is an information system for conveying data: from Norwegian municipalities to the central government, between municipalities, and to the public. The introduction of KOSTRA in 2001 brought significant changes to the collection, processing, and dissemination of statistical information by local governments.

Previous to the development of KOSTRA, Norway's information-gathering system was organised by themes which reflected the responsibilities of the various ministries in the central government. This approach to collecting data was not very efficient. Moreover, the data were time consuming to process and report, difficult to use at the local level, and placed a heavy administrative burden on municipalities.

Today the central government combines financial data, data on services, and socio-demographic and demographic data into key indicators for use at the central and sub-central levels. Whereas the lag between collection and reporting was approximately one year under the previous system, today data are collected electronically and reported within one month. While collection previously placed a high administrative burden on local authorities, the more efficient use of data, combined with effective electronic reporting, has contributed to more efficient data collection.

The development of KOSTRA has been, and remains, a collaborative process. An important motivation for the changes was to make the production of information more effective for both central and local governments. As such, representatives from both levels played active roles in developing the new system. Today, KOSTRA is overseen by a government-appointed commission, along with 16 task forces that focus on the different areas of data collection which make up the overall system.

Various types of data are collected and reported via KOSTRA. Most are objective data from the sub-national level. Combining these data provides key indicators on financial figures, productivity, coverage rates, and priorities. These key indicators are aggregated at three levels. At the municipal level there are approximately 40 key indicators and an additional 1 000 indicators covering 16 service areas. The primary data from which the aggregates were developed are also available for interested parties to construct additional indicators of their choosing.

While KOSTRA has brought benefits to both the central government and sub-national authorities, there are limitations to the current system. First, the large amount of data collected makes ensuring quality challenging. Second, there is a tendency for the central government to request more and more data, causing both the administrative burden and the costs of data collection to rise in municipalities. Municipalities also receive much more data than in the past.

Overall, KOSTRA has been perceived as a very successful information system with potential for further refinement. Looking forward, its focus will be collecting data regarding quality of public services and developing indicators of quality. "Soft data" collected outside of KOSTRA (*e.g.*, test scores, reading proficiency and user satisfaction for various services, etc.) are gradually being used in combination with data from the KOSTRA system. This will permit policy makers and citizens to assess outcomes as well as outputs. Norway is also working on developing a similar system for state service providers. KOSTRA may thus benefit from improvements in methodologies and reporting that will be built into the new system.

Source: OECD (2006), *Workshop Proceedings: The Efficiency of Sub-Central Spending*; OECD Fiscal Network Workshop on Performance Indicators and Local Government Collaboration; OECD Network on Fiscal Relations across Levels of Government. Paris, May 2006; Internal OECD document.

government to determine if municipalities are complying with national standards and regulations, and facilitated a common assessment of the local economic situation, which served as the basis of a Parliamentary discussion on the transfer of resources to municipalities. For the municipalities, KOSTRA lessened the administrative burden of reporting. It also provided a tool for internal planning, budgeting, and communication at the local level. In addition, it facilitated the sharing of knowledge among municipalities, which use its indicators for the purpose of benchmarking performance. The system, which publishes results electronically, can provide data within a month of receipt from the municipalities.[17]

Although they bring significant benefits, indicator systems also create some drawbacks. Indicator systems are costly, both directly *(e.g.,* the cost of development and implementation) and indirectly *(e.g.,* opportunity costs and a possible inadvertent generation of unintended consequences). They can also increase administrative burden for the reporting organisation and its staff. It is difficult to capture complexity with data and indicators, which can lead to developing too many indicators rather than concentrating on a core group.[18]

While there is no optimal design for indicator-based performance measurement systems, their development should be a collaborative effort between the national and sub-national levels, and the information they yield ought to cover inputs, processes and outputs that are relevant for ongoing activities.[19] For such information to be utilised in an optimal fashion, clear objectives for the data need to be established and proper indicators selected. It is necessary to create: systems that can generate, validate and distribute data; capacity to use the information in a suitable and timely fashion; incentive mechanisms to encourage actors to follow a particular course of action; and appropriate planning for how the performance information will be used. Performance measurement systems that are well-designed, developed with stakeholder consultation, and transparent in themselves permit all levels of government to monitor and evaluate performance and identify and reward good practices. They could be useful for promoting bottom-up, innovative solutions to public policy challenges.

The Finnish government faces a large information gap (*i.e.,* information asymmetry) with respect to municipal service delivery levels and capacity. As in many countries, Finnish municipalities may be reluctant to provide performance information and be benchmarked for a variety of reasons. These can include a perception that such information presents a "control" mechanism; that it can lead to a reduction in resources from the central level; that it can negatively affect their ability to provide tailored services to citizens, thereby reducing municipal effectiveness; and that it can increase the number of standards municipalities must meet and which they consider unrealistic or not financially feasible. The evaluation unit of the Advisory Committee on Local Government Finances and Administration has responsibility for improving the performance indicators used to measure productivity, effectiveness and quality in local government services.

Performance measurement systems can create a chain-like dynamic that leads both sub-national and national governments to look at the efficiency and effectiveness of public service policy. Traditionally, the central level has used earmarked grants to maintain a degree of oversight with respect to how local authorities use transferred funds. With the Basic Services Programme, Finland is moving from earmarked grants to block grants, intending to provide municipalities with greater flexibility in the use of funds. Without a performance measurement system, however, it is very difficult to establish accountability structures for the proper use of the grants. This is somewhat mitigated if the flexibility is linked to measureable

output or outcome expectations, and to accountability for the achievement of results. This framework uses indicators to tie greater flexibility (an incentive) to accountability. To take this one step further, as municipalities almost always face resource problems (particularly financial), the development and implementation of such measurement systems can support their requests to the central level for increased funding by providing a baseline that indicates the cost of services. Without this, it would be difficult for lower levels of government to make a case for more funding and for the central government to consider such appeals. In such a scenario, however, both the national and sub-national levels are equal partners in the accountability structure – the central level is accountable to the sub-national in meeting agreements made to help mitigate service delivery constraints.

The design and implementation of performance measurement systems can meet resistance from local authorities for many reasons. However, if such systems are developed in consultation with municipalities, and are also associated with a benefit or incentive, compliance with data provision may be greater.

Enabling change through effective leadership

A complex policy environment requires a public administration that has the capability to react and anticipate, rather than simply implementing programmes and carrying out directions. In order to foster change, civil servants need to be guided by clear outcome expectations and incentives as described, but they also need strong public values and a common sense of purpose to achieve collective commitment. This does not necessarily mean consensus, as the public service will often be called to push beyond its comfort zone to work in new ways to achieve more difficult objectives. It will also be asked to constantly do more for less, which makes it all the more important to clearly articulate why agencies are being asked to work a certain way and the consequences if they are unable to do so.

While institutions evolve and adapt over time, when the external environment changes more quickly, more reflection is required to determine appropriate governance arrangements, how to achieve them, and their possible consequences. Collective commitment is particularly necessary to help guide co-ordination and collaboration across government silos, as joined-up ways of working are too complex to be guided by incentives alone. This involves developing more customer- and citizen-centric expectations and methods. Embedding these changes, and instilling and reinforcing public service values, will require strong leadership from within the government and the public administration to create and manage inter-dependencies across the public sector to achieve shared outcomes.

To achieve change in the culture of the Finnish public sector, leadership at all levels will be called upon to integrate strategic and innovative thinking and horizontality into everyday work. Guidance to instil values and to communicate strategic vision will need to come from three levels: across the whole-of-the public administration through the Centre of Government; at the political/administrative interface; and at the individual level within ministries and agencies.

Leadership within the Centre of Government

Within the public administration, the Centre of Government (CoG) is the central leadership hub for facilitating co-ordination, collaboration and co-operation across the public administration to ensure the effective operationalisation of the government's strategic agenda. Across OECD countries, the Centre of Government is generally

understood to be the areas of the public administration that provide direct support to the head of government (the Prime Minister, President, or Chancellor) and the Council of Ministers (or Cabinet), as well as those institutions that provide advice and support for central decision making and play a role in ensuring strategic oversight and co-ordination of policies. These can include the Prime Minister's Office, the Chancellery or Secretary General of government, the Ministry of Finance and the Ministry of the Treasury, and/or the Ministry of Justice. In the Finnish public administration, the Prime Minister's Office and the Ministry of Finance make up the central agencies – or Centre – of the public administration and share roles depending on the context area.

There are two perspectives on the role of the Centre.[20] In *top-down* systems, government decides what is of critical importance to its governance task and must be managed coherently across the whole public sector. In this case, the Centre must pull together and integrate central government policy. In *bottom-up* models, agencies of government work with the Centre to undertake those tasks best undertaken across the whole sector for reasons of risk pooling or economies of scale. Here the Centre acts as final arbiter of executive conflicts between different elements of the government machinery. In reality, top-down and bottom-up roles co-exist, and are shared with other organisations in the public sector.

In Finland, the leadership role of the Centre seems to have evolved in the opposite direction of the model described above: the Centre has remained weak in terms of policy co-ordination, despite a concern for achieving a more horizontal focus, as demonstrated in the horizontal Policy Programmes of the Government Programme (see section of this chapter on structural reforms). A focus on improving efficiency and effectiveness, however, has led to a much stronger central role in the co-ordination of technical and operational issues (*e.g.,* e-government standards, shared services, Productivity Programme, the transfer of municipal management responsibilities from the Ministry of Interior to the Ministry of Finance). Institutionally, this approach has resulted in a Prime Minister's Office that remains relatively weak, while the Ministry of Finance has progressively become stronger, primarily on the basis of its technical management and budgetary control responsibilities. From a traditional analysis of the role of the Centre, as described above, this evolution has meant a *decrease* in the strategic role of the Centre: the top-down functions of agenda setting and policy co-ordination remain weak in practice, while the Centre has become preoccupied with the bottom-up function of technical efficiency, divesting responsibility from line ministries and agencies.

As discussed in Chapter 4, the Centre has played an important role in developing strategic insight through consultation and communication efforts and by laying out horizontal priorities for the government. In order to achieve collective commitment to the strategic vision, however, it needs to strengthen its leadership role and to require greater accountability from the rest of government. It already has many of the necessary tools to do this at its disposal, but it needs to work in a more integrated way in order to lead by example.

The Prime Minister's Office has a key role to play in leading the operationalisation of the government's strategic vision. As the embodiment of the Centre of Government, it needs to play a greater role in steering and co-ordination of the public administration. As discussed earlier in this chapter, the Policy Analysis Unit in the Prime Minister's Office is responsible for monitoring implementation of the Government Programme. However, the Unit is primarily dependent on self-reporting by ministries and agencies. The Prime Minister's Office could become more proactive by demanding more accountability for the

achievement of the horizontal Policy Programme objectives. Currently, the responsibility for each Policy Programme lies with the lead ministries, but there are no real consequences if they fail to achieve the horizontal outcomes envisaged in the Government Programme.

The relatively weak role of the Prime Minister's Office is by design. In a coalition government like Finland's, the role of the Prime Minister is not as strong as in single-party governments, such as the United Kingdom or Australia, but is rather of *primus inter pares* (first among equals). This differing power dynamic is mirrored in the public administration's strong ministerial stovepipes. Regardless of the system or time, however, the Centre's fundamental purpose and function is to co-ordinate policy responses, and to ensure that they are implemented in a collaborative and coherent fashion. This does not mean that it should take over control of the development and implementation of policy responses by micro-managing, but that it has a key role in the strategic oversight of the whole-of-the-public-administration, and thus is well-positioned to bring the right actors and leaders together to co-ordinate their collaboration on the implementation of the government's strategic agenda.

Despite the propensity for structural mergers in Finland, organising common interests and mutual dependencies among ministries will be a challenge in solving silo ways of working. This requires strong *collective* leadership and steering by permanent state secretaries. While the permanent state secretaries currently meet regularly to collectively consider issues, it appears that this mechanism has been ineffective in achieving collaboration and co-ordination across the public administration (as permanent state secretaries still report back to their ministers, who are from different political parties). A way to enhance the effectiveness of this group would be to support their work with a virtual secretariat, like Denmark uses to support decision making on EU economic affairs (see Box 5.9). Such a secretariat could prepare political decisions, enforce collaboration among permanent state secretaries and provide advice to government, and also enhance co-operation within the Ministry of Finance on issues other than the budget.

Box 5.9. **Government co-ordination in Denmark**

The Danish Ministry of Finance plays a key role in co-ordinating activities related to the government's Cabinet Committee of Economic Affairs, which deals with the Danish government's economic policy. Ministers meet on a weekly basis to assess proposals and initiatives with significant consequences for the economy and budget, as well as other major political programmes. The Committee is led by the Minister of Finance, and the Ministry of Finance serves as its secretariat – thus, all proposals and initiatives presented to the Committee of Economic Affairs are previously reviewed by the Ministry of Finance.

The Ministry of Finance also hosts preparatory meetings ahead of the weekly Cabinet Committee of Economic Affairs, whose membership includes all permanent state secretaries to the ministers participating in the Cabinet Committee. All proposals and initiatives, as well as proposed policy responses, are evaluated in this group before they are put forward to the Committee of Economic Affairs. This preparatory meeting enables permanent state secretaries proposing policy solutions or a new initiatives to gain an overall perspective on the impact of their proposals on government as a whole.

Source: Ministry of Finance, Denmark.

As noted earlier, when ministries have an interest in co-operation, they appear to work well together, but formal co-operation arrangements tend to follow a relatively intensive process that, by definition, can only be used for the highest-priority issues. The management of EU affairs, for example, demonstrates that the Finns can work together at the whole-of-government level, but also highlights the fact that the complexities of the coalition government and a traditional mindset prevent formal co-ordination and collaboration from occurring naturally. It generally arises only through the implementation of formalised structures and frameworks.

Rather than establishing rigid structures to enforce horizontality, the Centre should strengthen its leadership role to increase oversight and accountability of existing processes. This will facilitate collective commitment to working horizontally across the Finnish public administration to achieve the government's agenda. The most useful role of the Centre of Government requires a mixture of formal and cultural influences, sticks and carrots, internal discipline and adaptive decision making. It reinforces understanding of the dangers of excessive formalisation of both planning and control. Prime Minister's departments and their equivalents struggle to balance the management of today's crises with the need for a steady strategic framework; increasingly, the budget has become the key "operating system" of government, giving Finance Ministries a stronger central policy role. This is evident in the Finnish public administration. The Budget Framework is a key strategic steering tool within the public administration, which has enhanced the role and power of the Budget Department of the Ministry of Finance. Budget authority itself has played a critical role in enforcing budget discipline, but, as discussed in the previous section, it also needs to be used to support the Centre's steering function.

The role of the Centre of Government is to balance responsibilities and power among the ministries it comprises – in Finland, the Ministry of Finance and the Prime Minister's Office. The Ministry of Finance's Public Management Department collaborates well with the Prime Minister's Office, as well as with the Personnel and Municipal Departments, which are also in the Ministry of Finance. The Budget Department of the Ministry of Finance, however, tends to conduct its business in a much more stand-alone fashion. In this respect, a strong budget culture in the public administration lacks strategic steering from the Prime Minister's Office, and workforce and management considerations from the Public Management, Personnel and Municipal Departments (the "Governance Pillar"). This dynamic is reinforced by the fact that the Budget Department is under a separate ministerial portfolio from the other departments (representing separate parties of the coalition government) within the Ministry of Finance. While the consolidation of all public management issues into the Ministry of Finance (by moving the Municipal Department and the unit responsible for state regional and local administration from the Ministry of Interior into the Ministry of Finance) has been a positive step, there still appears to be two separate organisation cultures operating within the Ministry of Finance, where the Budget Department operates in isolation from other key stakeholders. This fragmentation of the role of the Centre impacts collaboration and coherence in the Finnish public administration.

The "first among equals" concept should not prevent central ministries within the public administration from displaying leadership and facilitating collective commitment to the achievement of a shared vision. However, this makes it more important that the objectives, tools and messages of the Centre are aligned to encourage whole-of-government co-operation and collaboration. Through the disciplined use of its Government Programme, the Finnish government has shown that it recognises the

importance of taking a coherent policy position in the context of a coalition government, but, as argued in Chapter 3 of this report, strategic agility also requires coherent leadership at all levels to guide decision making in a changing policy environment.

Political/administrative interface

Public sector leadership starts at the political level. The government is responsible for setting a clear strategic vision for the public administration. If ministers are not collaborating and co-operating, it will also be difficult for the public administration to work together. Similarly, if the model of government does not include natural leadership positions, this is also likely to be reflected within the public administration.

The political/administrative interface is the point through which the government's key messages are communicated to the senior levels of the public administration. It can also be the point where tensions can occur. This is because democratic regimes find themselves balancing value sets that can be in opposition – fair and non-politically partisan public service delivery and, subject to the law, the responsiveness of public servants to the policies of the current executive. Managing the political/administrative interface is a key aspect of the trade-offs that must be made.

Ministers are ultimately responsible for the actions and achievements (or failures) of their ministries/departments. However, in Finland, political state secretaries have been introduced as an interface between ministers and the public administration, changing the leadership dynamic. The appointment of political state secretaries has been a long-running topic of debate among Finnish politicians. In 2005, the role of political state secretaries was introduced by the then-Socialist-centre government to assist ministers in policy development and strategy issues and to assume some of the extra work created by European affairs. Some would argue that the decision was also motivated by the desire to increase the political responsiveness of the public administration. Some officials interviewed by the OECD posited that the role of political state secretary is more or less similar to a deputy minister role: the political state secretary acts on the minister's behalf, and the incumbent changes with a new minister. An important distinction, however, is that political state secretaries, consistent with their analogues in the Swedish system, have no line management responsibility *vis-à-vis* the public service.

While the introduction of the political state secretary has increased the visibility of the political interface, it has also increased tension in the relationship between the government and the public administration – some believe it has increased the politicisation of the public service as a whole. This is not unique to Finland, as the expectations, accountability and responsibilities of both political officials and the public administration are being tested in new ways across OECD countries.

In the Finnish public administration, permanent state secretaries are quite powerful due to the longevity of their service in individual state ministries. While they are politically appointed, until recently, the position was not time limited (recent changes mean that new appointments will be initially time limited dependent on performance). This leadership longevity has led to claims that permanent state secretaries and their ministries are set in their ways and do not have the flexibility to change to serve the priorities of new government agendas. As a result, some ministers have increased both their work with the newly created political state secretaries and the number of political staffers. However, the reliance on political state secretaries is believed to have created distance between

ministers and the bureaucracy – and has led to a so-called "separation of powers" in the policy development process and a lack of connectedness between the government and the public service. This distance can also impact citizen participation and the use of evidence-based policy making to feed government decisions, as evidenced in the development of the Government Programme.

The blurring of political involvement in the public administration is reinforced by ministerial responsibility. In coalition governments, ministers represent different political parties. This can feed the politicisation of the public administration, and fortify stovepipes when the public administration is unable (even if it were willing) to act as a collective whole because each separate ministry is an independent organisation loyal to a minister rather than a piece of the team working for the government.

It should be noted that, as a relatively new position, the role of the political state secretary is still unclear; confusion remains over the role and its relationship with the public administration. The political state secretaries in general should not be involved in the general management of the ministry; however, there is little public information available on this new position, particularly in relation to its tasks, responsibilities and accountabilities. Clarifying the roles and responsibilities of the political state secretaries is necessary to stabilise the position within the function of the public administration so it can become a tool for achieving collective commitment.

Leadership at the individual level

Effective leadership is critical to a country, government and public administration's ability to adapt to changing circumstances. It is also a fundamental element of finding strategic solutions to complex inter-sectoral policy challenges. Leadership plays an important role in achieving collective commitment by inspiring change. Because organisational change is really about changing people's behaviour, leadership is critical in helping to diffuse and maintain necessary new values.[21] Public sector leaders must be able to persuade and motivate people, and to focus their efforts on a common cause – to achieve collective commitment.

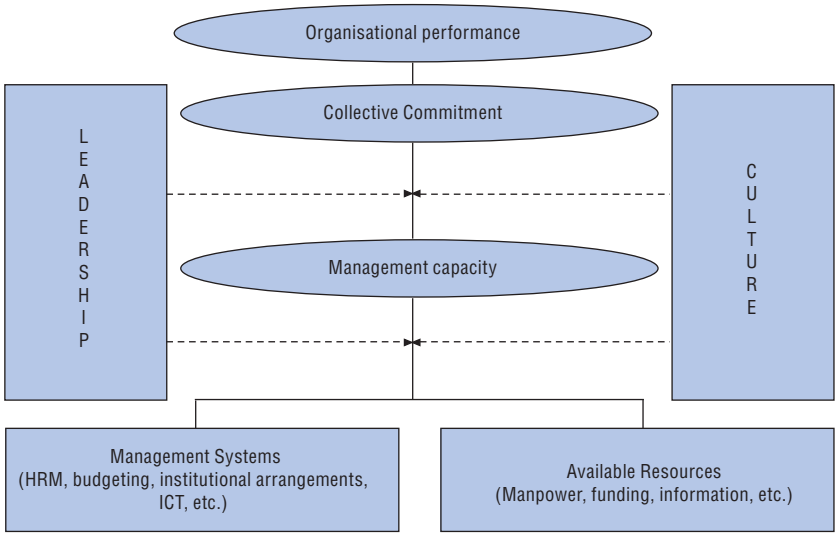
Leadership plays a significant role in influencing and creating collective commitment within a public administration. Without strong leaders working collaboratively towards a common goal, behaviour naturally reinforces structural stovepipes; this has been evidenced in Finland. Leadership involves all levels of the public administration – there is a need for strategic leadership at senior levels, team leadership at middle levels, and technical leadership among lower-level employees.

When discussing individual leadership, it is critical to understand the difference between leadership and management, and how leadership can be used to harness the achievement of collective commitment. The core of leadership is how individuals influence others, particularly in respect to accessing their inner motivation. Leaders possess a core set of qualities. One definition of leadership[22] is increased attention to the development of attributes that focus on integrity, vision, the ability to inspire others, awareness of self, courage to innovate, and judgement – it is more about informal influence, mobilising people through values and visions.[23] Management, on the other hand, puts more emphasis on complying with formal systems, processes and incentives.

Leadership is a crucial variable that leads to enhanced management capacity, as well as improved organisational performance. Within an organisational culture, how leadership

is exercised has a significant impact on management capacity, by mobilising resources such as manpower, funding and information – and by affecting management systems such as HRM, budgeting systems, institutional arrangements, and ICT, etc. Organisational culture, which is directly affected by leadership styles, affects organisational performance. Thus, effective leadership not only directly influences the capacity for collective commitment to a common vision, but also to organisational performance (see Figure 5.11).

Figure 5.11. **Role of leadership in the achievement of collective commitment and organisational performance**



Source: Adapted from Figure 1 in OECD (2001), *Public Sector Leadership for the 21st Century*, OECD, Paris.

As performance and efficiency have become more urgent issues in public governance and management, more attention has been paid to the role, tasks and capabilities of senior management. The senior public management is the interface between the political government and the political cabinets, on one hand, and the public administration on the other. They are responsible for proper and appropriate implementation of both legal instruments and political strategies and measures. They are also responsible for the coherence, efficiency and appropriateness of government activities.

In the Finnish public administration, there is a reluctant leader's culture linked to the concept of the "tallest poppy syndrome". In many cultures it is not proper to stand out in a crowd, *i.e.,* to be the tallest poppy. This is consistent with the egalitarian culture of Nordic countries. This results in a general move to at least try to appear equal in stature. In Finnish culture, no one person should visibly have more or be more than anyone else. This can impact on people's capacity to be overt leaders or to take a leadership role because by definition a leader is "taller" or stands out – this is more noticeable in the Finnish public administration, in contrast to the private sector, such as in the case of Nokia. The public sector culture of expertise also means that leaders should not be seen as higher than the experts they are leading (which is also exacerbated by remuneration structures). This might explain certain leadership issues in the Finnish administration, such as a reluctance to move into positions of authority as well as preventing the assumption of leadership in programmes and horizontal policy execution.

Such attitudes may also account for resistance to adopting institutional leadership models in which certain public offices take responsibility for whole-of-government priorities and therefore provide leadership for the rest of the public administration in their domain. This is the case, for example, in the area of e-government which has been advanced through persuasion and providing resources and technical assistance, rather than forcefully developing and articulating a programme for the public administration to follow (e-government in Finland is discussed in more detail in the case study in Chapter 8). Such a model may not be particularly Finnish, but failure to provide stronger leadership in this area has resulted in the current lacklustre e-government outcomes.

Finland is aware of the importance of leadership to the success of the public administration. However, a challenge for Finland is that its ageing public sector workforce means that 90% of senior leaders will retire by 2020 (the ageing public sector workforce is discussed in detail in the following chapter on Resource Flexibility). Thus, a principal concern is transitioning from the existing leadership to a new leadership cohort while providing continuity to the public administration and serving the government of the day. Since 2008, the government has undertaken a number of activities to support the development of a highly effective leadership group in the Finish public administration.

In April 2008, the government handed down a Decision-in-Principle which lists development goals and actions to ensure the conditions for leadership action in the state administration. A Leadership Forum was launched in September 2008 to create possibilities for networking and co-operation among senior leaders in the Finnish state administration. It included a Leadership Survey to determine the main leadership challenges facing the state administration. Those challenges, ranked in order of perceived importance by respondents, were:[24]

- personnel renewal and recruiting;
- productivity development;
- creativity and innovation;
- service quality and customer-orientation;
- ensuring capacities;
- external and internal communication;
- balance between politics and administration;
- regional administration and re-localisation;
- strategic leadership and foresight; and
- salaries and conditions for work.

In April 2008, the government established guidelines on management in the public administration that are applicable to all civil servants. The guidelines are necessary, as public managers are expected to oversee an increasing number of contradicting challenges. Some believe that they will solve the problems created by the political state secretary role (see Box 5.10).

In order to promote horizontal professionalism among senior executives, the government in 2008 launched a common leadership development programme for all new and potential public managers (the "Future Leaders Programme"). Through this programme, ministries are invited to adopt methods to assess their staff members'

Box 5.10. **Finnish government guidelines on leadership in the public administration**

- Be neutral while simultaneously managing action on politically sensitive issues.
- Be responsible for the mission of your organisation and simultaneously be committed to the general objectives of the public administration.
- Implement decisions taken by the level above you, and simultaneously be customer oriented.
- Deliver as a line manager within the bureaucratic structures and simultaneously be active in networking.
- Safeguard the continuity of action and simultaneously act as a change manager.
- Take full responsibility for your organisation and simultaneously accept the limited freedom of action.
- Be a manager and simultaneously an expert.

Source: Ministry of Finance, Finland.

potential to become senior executives. Women are also encouraged to apply for senior executive posts.

By taking a long-term view of an organisation's HR needs, succession planning focuses on preparing high-potential employees to fill management positions. Succession planning helps organisations to manage their internal labour supply over a longer-term horizon. The process identifies upcoming talent within the organisation that can be developed to fill future leadership vacancies, as well as key positions that are critical to the organisation's business. The ability of a department/agency's staff to successfully meet its organisational objectives now and into the future is a critical aspect of strategic HRM. In Finland, there is no formal succession planning. This is especially critical given the ageing of the public sector workforce.

Strategic insight and collective commitment require that organisations have the right people, with the right skills, in place. Any barriers to change must be removed, and old-style professional boundaries broken down. A transition strategy for leadership renewal ahead of massive planned retirements is necessary. The public service is aware of the problem and has been trying to put measures in place to mitigate the impact (such as extending the retirement age, and implementing leadership training for those under age 45), but the administration has not had much traction in focusing the attention of the political level on this issue.

In addition to investing in professional development, the government wants to set unified criteria for assessing the performance of senior executives. All ministries will adopt individual management plans for senior executives. The remuneration of senior executives is being modified to better match that of senior executives in private enterprises. Another part of these guidelines will be time-limited appointments of five to seven years for senior executive appointments, at least for their first senior post. Finally, senior executives will be required to have diverse expertise and experience in different sectors of the public administration.

Mindful of the increasingly complex policy challenges that will be faced by Finnish public sector leaders in the future, the Finnish Innovation Fund (SITRA) has launched the

Public Leadership and Management Programme, which will extend over four years beginning in 2010. The purpose of the programme is to help the public sector meet leadership and management challenges by creating and piloting new, appropriate management and operating models.[25] This programme is one example of efforts to develop new leadership practices to help improve the job satisfaction, efficiency and learning of Finnish public sector leaders, and to ensure that the Finnish public sector remains an attractive and competitive employer of choice into the future.

Finland needs a senior public management that is able to pursue performance-oriented governance and management, to ensure sufficient cohesion across the inevitable silos of ministerial sectors and public organisations, and to preserve and protect the ideals of a politically neutral and professionally competent public administration. This requires appropriately designed arrangements to develop senior staff members' managerial competencies.

Another approach to leadership development is to focus on the values, professionalism, and leadership ability of the incoming cohort of senior leaders, for example, deputy directors general or assistant state secretaries. This group represents "high achievers" within the public service, and can be an important link between operational knowledge within the administration and the higher-level perspective of the most senior echelon of government. Their status just below the top leaders may actually make them more open to innovative practices and more likely to support co-ordination and co-operation as a way to demonstrate their leadership capability. Values and behaviour are reinforced by frequent networking and training opportunities from a whole-of-government perspective. Examples of this type of leadership development include the Deputy Secretaries General network in Ireland and the Senior Executive Service training pool in the United States.

Experiences and reform efforts in OECD countries show that the senior management plays a central role in fostering higher-performing and efficient public administrations and driving improvements in the public services. There is, however, a broad spectrum of arrangements and no obvious consensus on what would constitute the "best practice". One reason for this is that the arrangements interact with the constitutional system and political and social culture of the country.

The main competences of the senior management in OECD countries have traditionally been in generalist institutional knowledge and specialist knowledge in a particular field. However, recent managerial reforms have instead emphasised delivery, or process-related, skills. This "managerialisation of skills" has, however, been accompanied by concerns about either losing specialised knowledge among senior management or not being able to find senior policy advisors. Increasingly, recruitment profiles include not only management experience but also a proven record of leadership skills, defined as managers' capacity to lead their organisations to achieve better results and implement reforms.

The appropriate leadership culture will be imperative to encouraging and harnessing the innovation needed to keep Finland's public administration competitive. Leadership is also a key enabler for innovation, and unique leadership capabilities are the hallmark of organisations that are able to successfully manage different innovative activities.

Organisational cultural, formal and informal processes, systems and policy/services (*i.e.*, type of work) can also affect the link between leadership and innovation. Innovative activity is either exploratory (*i.e.*, creating something completely new or radical in nature) or exploitative (*i.e.*, refining and improving existing programmes and services, resulting in

an incremental outcome)[26] (see Chapter 6). Leadership unquestionably plays a vital role in fostering innovation processes and activities in organisations. Although some innovations may be a bottom-up activity, arising from the members of an organisation who are not necessarily leaders or in top management, innovations generally tend to be the result of a strategic response or initiatives. Leaders not only serve as behavioural role models for innovative ideas, they can also foster innovative behaviours and support attitudes that are beneficial to innovative activities.

Effective leadership will be essential to achieving change in the culture of the Finnish public sector to integrate strategic and innovative thinking and horizontality into everyday work – this is essential for achieving strategic insight and collective commitment in the public administration. However, despite the efforts Finland has undertaken, the looming loss of the public sector's leadership group to retirement over the coming 10 years requires a concerted leadership transition strategy for a new breed of leaders within the public administration.

Leadership at the sub-national level

With respect to Finland's sub-national reforms, there appears to be a commitment and leadership issue, at least in part due to a coalition- and consensus-driven political system, and a current government that has divergent visions concerning the future role of regions and urban municipalities in the national administrative landscape. In order to achieve political consensus to pass the PARAS and ALKU reforms, these initiatives cater to all interests. Because some of those interests may be in opposition (greater power for regions and Regional Councils *versus* larger and stronger municipalities, for example) the result is reform that risks being neutral in its effect.

The PARAS reform was designed by the central government in consultation with the Finnish Association of Local and Regional Authorities, representing the Finnish municipalities. However, true ownership of the programme is rather nebulous – this could be linked to weak leadership. The municipalities did not ask for central-level initiatives on how to more efficiently and effectively deliver on their competences, so the initiative cannot be considered "bottom-up" or led by municipalities. At the central level, there is agreement that a municipal-level restructuring is necessary to confront the challenges of the future. However, stakeholders disagree as to what this should look like beyond the fact that effectiveness must be maintained and efficiency boosted via larger catchment areas. Finally, citizens do not "own" the reform, as they were not consulted in its development process, and only some were consulted by municipalities at the implementation stage. Meanwhile, citizens should be the strongest owners and drivers/advocates of such a reform – their public services are at stake if municipalities cannot deliver on their responsibilities.

Since the implementation of recent sub-national reforms, in particular the PARAS reform, municipalities have shifted from wanting the government to remain hands-off to expressing a desire for some central-level guidelines that could help them meet the promises made to constituents within the reform projects (*e.g.*, consistent services and more efficient service levels).

The implementation of sub-national reforms has highlighted a knowledge capacity challenge facing Finland's municipalities, particularly in light of the growing complexity behind service provision and an increasing reliance on diverse co-ordination agreements. More refined management and leadership skills will be required. Differences in municipal

capacity to attract service providers and administrators could widen disparities among municipalities and further compound their ability to guarantee basic services equally across the country.

Dialogue and knowledge sharing can help rationalise co-ordination efforts, identify innovative practices, and provide deeper understanding into how challenges are overcome and results are achieved. Mechanisms to promote dialogue and knowledge sharing include co-ordinating bodies with representatives from the central and sub-national levels, formal and *ad hoc* meetings with diverse stakeholders (both government and non-government), and performance measurement. The latter should be built into sub-national (regional, municipal and service delivery) reform initiatives. This could help Finland's municipalities strengthen co-operation outside of the joint municipal bodies, and build greater capacity. In addition, it could provide opportunities for greater vertical co-ordination, and potentially help increase policy coherence between what is developed at the central level and what is required by the sub-national level.

A top-down reform led by the Ministry of Finance, ALKU faced fewer leadership and ownership challenges than PARAS. However, it too illustrates divergent philosophies at the political level with respect to regions, and their roles and powers. It could be argued that streamlining regional offices diminishes the government presence while strengthening the Regional Councils. However, the Regional Councils are kept in check via budget control, which fundamentally maintains the balance of power at *status quo*.

Regional Councils may also need greater capacity in order to play a more proactive role in the strategy and management of regional economic development along the lines of place-based competitiveness, in addition to promoting innovation clusters and administrating more traditional regional development programmes. The benefits could be exponential. For example, if Regional Councils focus on designing and implementing regional development strategies – including those founded on regional (and local) competitiveness – this could promote an enabling environment for business, which in turn can stimulate population growth in a territory, resulting in increased local (and regional) revenue. This, in turn, would positively impact municipal capacity to deliver services and to gain efficiency and effectiveness.

Finland is very active with respect to developing and implementing experimental programmes at the municipal and regional levels, thereby testing new practices for more efficient and effective service delivery. The Kainuu Experiment (see Box 6.9 in Chapter 6) demonstrates the need to build capacity at the sub-national level. Given the shift in service-provision responsibilities from municipalities to the Regional Council, the Council's greater role in regional development, and its unique budget management mandate, significant capacity building was required. The fact it is unfolding over a nine-year period provides time for learning, adjustment, and building trust among constituents – both municipalities who have relinquished execution of their responsibilities and citizens who are no longer receiving services from their trusted municipal administrations but rather from a larger, lesser-known body. Finally, there is overall agreement among those in Kainuu at both the Regional Council and municipal levels that after 2012 there is "no going back"; this demonstrates that any trends or possibility for reversal have been eliminated over time.

Experimentation can lead to new forms of co-operation among organised groups and formal institutions. This is a strength of the Coco Programme (see Box 5.5). It actively sought

the input of diverse stakeholders including line ministries, Regional Councils, and municipal authorities. The Coco agenda was drawn from priorities submitted by the local authorities. Regional Councils are also engaged, and the Coco regions themselves work together to prioritise development areas of focus. The stakeholder network is broad, actively involved in the design process; by necessity, it is also involved in the programme's implementation, as the activity happens at the municipal level, and the funding is directed by the Regional Councils. In building stakeholder networks, Coco focuses on strengthening co-operation vertically between municipalities and regions, and horizontally among regions.

It is apparent in the Finnish multi-level governance context that when there is a driver for reform or experimentation – either a ministry, as in the case of Coco, or an economic imperative, as in the case of Kainuu, which vested leadership in the Regional Council – the possibility of achieving change objectives is enhanced. Conversely when there is no driver or the driver is vaguely defined, realising goals is more difficult. This is illustrated by the PARAS reform; the central government lacks clarity in terms of the reform's parameters – quantifiable objectives, timing, guidelines and nature of the integration mechanism – and the municipalities have no direct incentive to undertake the reform on their own.

Conclusions

Collective commitment is an essential element to achieving strategic agility – it is the institutional and personal commitment and collaborative working to achieve the government's strategic objectives. In Finland, despite the use of informal networks and implementation of structural mechanisms to compel co-ordination and collaboration across siloed sector ministries and between levels of government, collective commitment to shared outcomes has been difficult to achieve. Adherence and commitment to a shared common government agenda in Finland is limited as a result of a tradition of siloed ministerial responsibility, disconnected performance incentives, and a shortage of collaborative and innovative leadership across the levels of the public administration. This has been most evident in the relative weakness of the horizontal Policy Programmes under the Government Programme, but is also evidenced in a more general lack of cross- government co-operation.

Shared commitment to implementing government priorities and agendas is best achieved by embedding a culture of collective commitment within the public administration. In Finland, public sector values for the public administration as a whole are not clearly stated, and so are unevenly embedded in the culture of public sector staff. This further limits the willingness of staff to work in a co-ordinated and collaborative fashion across administrative sectors. Not only is a strong statement of government-wide values needed, but it needs to underlie performance criteria for staff management and for aligning strategic and budgetary priorities. Finally, strong leadership at all levels of the public administration and at the political/administrative interface is critical to embedding a culture of collaboration and co-ordination and shared commitment to achieving outcomes. Finland faces an imminent loss of its senior leadership with the ageing public sector workforce. While this provides an opportunity for renewal, it will also require immediate management of the transition arrangements to prepare the feeder leadership cohort to not only take over but to be ready to motivate a collective commitment from within the public administration.

Key recommendations: Collective commitment

Align incentives to build collective commitment for horizontal ways of working

- Make an explicit statement of public sector values, and use it as a basis for decision making and issues framing; as a criteria for individual performance management, recruitment, training and development; and as ground rules for supporting dialogue at the political/administrative interface.
- Make the budget an integrated planning tool for resources and results for all levels of the public administration.
- Use long-term fiscal projections and legally binding medium-term expenditure frameworks to make sure that the relevant planning processes are undertaken and stay within a reliable and sustainable fiscal framework.
- Integrate the results of audit assessments and other evaluations into budget documents.

Strengthen public sector leadership capacity

- Make better use of the Permanent Secretaries Working Group for decision making and co-ordination.
- Develop next-generation leaders, *e.g.*, those just below the permanent secretary level, by increasing networking and development opportunities targeted to this group.
- Design a more explicit mobility policy, *e.g.*, mobility as a requirement for leadership development.
- Facilitate the development of networks that extend beyond the boundaries of the public service in order to consolidate values among actors in order to foster the sharing of values around common policy areas.

Better align leadership, governance structures and strategic objectives

- Strengthen central leadership and accountability for areas with clear whole-of-government objectives, *e.g.*, the horizontal Policy Programmes, SADe (see recommendations in the next set of bullet points on Improving delivery of objectives in the horizontal Policy Programmes).
- Provide an enabling environment – *e.g.*, communication of plans and objectives, technical implementation assistance – for reforms predicated on voluntary co-operation, *e.g.*, the PARAS municipal reform.
- Strengthen e-government leadership and co-ordination in appropriate areas (see Chapter 8):
  - Ensure strong, centralised leadership on setting standards and assuring inter-operability.
  - Create an enabling environment with technical and ICT assistance in order to improve implementation.
  - Strengthen central control, *e.g.*, the ability to shut down redundant services, where objectives require a single approach.
  - Improve governance of back office shared services, *e.g.*, maintain some competitive pressures, cost control measures, improve data on baseline costs.
  - Re-assess strategic objectives: should objectives be to improve international rankings or to create value?

Key recommendations: Collective commitment *(cont.)*

Improve delivery of objectives in the horizontal Policy Programmes by increasing both accountability and resources

- Over the long term, consider instating joint Cabinet responsibility for delivery of horizontal government objectives.
- Make programme directors of the horizontal Policy Programmes directly accountable to the Prime Minister's Office, which has oversight for the Government Programme. Consider creating a Cabinet implementation review to monitor progress of major priority areas.
- Make funds available for the achievement of specific objectives within the horizontal Policy Programmes, contingent on a clear accountability agreement for achieving agreed objectives. Give the horizontal Policy Programme directors the authority to allocate (and withhold) funds to participating ministries.

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Chapter 6

Resource Flexibility

Introduction

In the wake of the global economic and financial crisis, governments are now looking at how they can improve their capacity to anticipate and manage risks, and to react quickly to complex problems in changing environments. Traditionally, government fiscal and budget frameworks and human resource practices have been rigid as a means of ensuring accountability of spending. However, in an increasingly complex policy environment governments need the capacity for resource flexibility – or the ability to flexibly re-allocate resources to changing priorities when and as needed.

In crisis and dynamic environments, governments face an imperative to act. They not only need to scan ahead to anticipate future policy challenges, but also require the ability to re-prioritise government policies and programmes, and to re-allocate both financial and human resources accordingly. In this respect, resource flexibility involves identifying and promoting innovative ways to maximise the use of resources, and to increase efficiencies and productivity to take the strain off the budget and deliver more effective public policies and services. It also relies on flexible budgetary and employment frameworks that enable the re-deployment of resources after they have been committed and the movement of staff to areas of strategic priority as needed.

Resource flexibility involves the ability to make the most of existing resources: at the programme or project level, through process re-engineering and innovative service delivery; at the organisational level, through internal transfer and carryover authority; and at the whole-of-government level – both within state government and across levels of government – through shared services, re-allocation authority, and the ability to effectively pool resources to meet cross-government objectives. It requires the ability to move or re-allocate resources to: better support existing priorities (*e.g.,* under the Government Programme); to reallocate them to address new priorities in crisis situations (with appropriate accountability and controls); and to set priorities in order to guide allocation. From a human resource perspective, resource flexibility requires preparing for large-scale demographic changes at all levels of government in order to ensure that the resulting smaller public service has the capacity and capability to work smarter, and that a culture is created to overcome informal barriers to mobility within the public service. This chapter looks at three key areas for ensuring resource flexibility:

- ensuring the good stewardship of financial resources;
- increasing the effectiveness of service delivery through the efficient use of sub-national resources; and
- building workforce capacity and capability to prepare for the future.

Ensuring the good stewardship of financial resources

The budget is governments' most fundamental and important document. It is the key economic document, which allocates a significant share of a nation's gross domestic

product – over half in some OECD member countries. It is the key programme policy document, where governments establish their policy priorities in concrete terms in the budget through the allocation of funding. It is the key management document in that the basic operational aspects of government ministries and agencies are established in the context of the budget. Furthermore, the budget provides the basic architecture for overall decision making and accountability in government. This architectural design has a significant impact on overall government performance.[1]

Strategically agile public administration requires a capacity for resource flexibility; in the financial context, this involves the ability to re-deploy budget resources quickly towards strategic priorities as they change. This requires the ability to prioritise resources and re-allocate as needed, and the capacity to harvest efficiencies for re-deployment. Resource flexibility is at the heart of budgeting systems (Chapter 5 describes some of the consequences for strategic agility when control of budgetary resources is insufficiently aligned with other strategic steering mechanisms). The three basic objectives of a budgeting system are:[2]

- to instil and maintain aggregate fiscal discipline, *i.e.,* to ensure the government does not, overall, spend more than is necessary to achieve its collective objectives;
- to promote efficiency in the use of budgetary resources to deliver programmes and services, *i.e.,* to encourage operational efficiency; and
- to allocate (and re-allocate) resources in accordance with changing government priorities, *i.e.,* to spend on what is deemed politically most important – allocative efficiency.

The worldwide recession has hit Finland harder than most other OECD countries. While Finland was insulated from the direct effects of the recent global economic and financial crisis due to its prudently managed financial sector, the worldwide recession and collapse in trade hit the country harder than most other OECD countries. Real GDP fell by over 9% from its peak in mid-2008 to the second quarter of 2009, led by declining export volumes, which fell by close to one-third. While GDP has now stopped falling, there is only scant evidence of a robust turn-around. A mild economic recovery is projected over the next two years on the back of low interest rates, some pickup in exports and the ongoing fiscal stimulus (see Chapter 2).[3]

In addition to the current economic position, globalisation is putting a strain on the sustainability of the Nordic social welfare mode. These factors – combined with an ageing population and workforce, and the resulting increase in future demand on public services, and a shrinking tax base – place pressure on the government's ability to raise revenue and, in turn, on its spending ability. The strengths of the Nordic model to date have been risk sharing and a safety net to help workers and their families cope with risks and change.[4] One element that will be critical to the government's ability to sustain the Nordic model in the long term will be its ability to prioritise spending and re-allocate resources flexibly. Within the public administration, this will require the ability to innovate and to increase the efficiency and productivity of public sector resources and the effectiveness of their use.

Thus, financial flexibility in the Finnish public sector context involves: *a)* increasing productivity and harvesting efficiency gains; *b)* the ability to prioritise resources and re-allocate resources as needed; and *c)* increasing the effectiveness of service delivery to citizens.

The Productivity Programme

As the world economy begins to recover from the global economic and financial crisis, political and financial leaders have begun to emphasise the importance of fiscal

consolidation in promoting sustainable growth. The cost of delivering public administration is an easy target for harvesting savings to reduce government spending. Increased spending and reduced revenues are putting pressure on budgets already strained by demographic change and current obligations. Public sector efficiency measures can provide the opportunity for a renewed focus on increasing public sector productivity and value for money, and can thus help with internal re-allocations from lower to higher priorities.[5]

In Finland, the Productivity Programme, which has been in operation since 2004, is being used to increase the efficiency and productivity of the Finnish central administration (see Box 6.1). Managed by the Budget Department in the Ministry of Finance, its objective is

Box 6.1. **The Productivity Programme and the Decision on Central Government Spending Limits**

Both the Productivity Programme and the Decision on Central Government Spending Limits emphasise the importance of strategic planning and human resources development and management to increase productivity and efficiency in a sustainable way.

The Central Government Productivity Programme, 2005-15

The Ministry of Finance is currently responsible for leading the Central Government Productivity Programme, 2005-15. Each administrative domain of the central government, and individual government agency and institution, is responsible for carrying out the Ministry's policies. The main objectives are:

- increasing the productivity and efficiency of the central government and services through structural and functional reforms;
- systematic use of productivity advantages;
- encouraging an increase in productivity, economic efficiency and structural and functional reforms through the finance and guidance systems, and the government subsidy system;
- using IT and data communications to increase productivity;
- introducing adequate reforms to increase labour-force competitiveness and know-how; and
- making available adequate research and development work about public sector productivity.

Public services should be produced as productively, economically and effectively as possible using available personnel. The focus is on leadership and management, operational processes, utilising IT and, first and foremost, on developing the know-how, motivation and professional well-being at work of the staff.

Decision on Central Government Spending Limits in 2007-11: Productivity actions decided by the government

The government has implemented action packages to improve the productivity of government, addressing service structure reform, improving structures and operating methods in central government operations, and improving the use of IT.

With increased productivity, the number of personnel can be adjusted in a controlled manner. The aim is to reduce the number of central government personnel by a total of 9 645 person-work years by 2011, *i.e.*, 7.9% of the total central government person-work years. The reduction in the number of personnel covers only one-third of the estimated natural attrition. In its second phase the programme will aim to reduce the number of central-government officials by an additional 4 884 person-work years between 2011 and 2015.

Box 6.1. **The Productivity Programme and the Decision on Central Government Spending Limits** *(cont.)*

All targets and measures are based on productivity programmes drawn up by the ministries in the administrative branch in 2004 and 2005, followed by further joint preparations by the ministries and the Ministry of Finance. This programme does not include local governments and their productivity measures.

Source: Ministry of Finance, Finland.

to maintain pressure to achieve and harvest public sector efficiencies through government administrative structures, exploiting ICT more effectively and enhancing processes in central government, with a view to permanently reducing government staff numbers and improving labour competitiveness, curbing expenditure growth and increasing the potential to re-allocate resources.

While the aim of the Productivity Programme is to increase efficiency and productivity in the Finnish public administration, it is often perceived by government personnel as exclusively focusing on reducing the number of staff rather than creating the conditions for increased innovation and efficiency. This is, in part, because reducing staff numbers is a major government priority, including a target of reducing the public administration by 9 645 person-years by 2011, and an additional 4 884 person-years by 2015. Working towards this target, the Ministry of Finance estimates that by the end of 2008, a reduction of 3 700 person-years was achieved. The required cuts for 2009 equal 1 940 person-years (including universities), which the Ministry of Finance advises will have been achieved through natural attrition, as over 5 500 public servants are expected to retire or transfer every year (see Figure 6.1).[6] Through the Productivity Programme, the central government was able to re-allocate EUR 250 million in administrative branches in 2008, and officials estimate that EUR 360 million was re-allocated in 2009.

Figure 6.1. **Central government human resources attrition projections and Productivity Programme HR reductions, as at January 2009**

Source: Ministry of Finance, Finland (2009), *Budget Review January 2009*, Ministry of Finance, Helsinki, p. 27.

The Ministry of Finance has supported various productivity projects since 2005 through special centralised funding for promoting productivity in the state administration, *e.g.*, to support productivity projects within the administrative branches. An annual unallocated appropriation of EUR 80 million has been reserved from 2012 forward for the development of information systems and other productivity-promotion needs.

More could be done, however, to link these resources to an analysis of bodies' needs and shared experiences about how to unleash organisational productivity. While ministries and agencies depend on public management reforms such as ICT and process re-engineering to achieve expected savings under the Productivity Programme, the Productivity Programme itself is not explicitly linked to any of these other reform areas, which mainly fall under the responsibility of the Ministry of Finance's Department of Public Administration. There is no assurance that bodies that are unable or unwilling to improve efficiency will not see their cuts simply result in reductions in service, strategic planning and/or staff morale.

Many people interviewed by the OECD commented that staff cuts have actually limited organisational capacity to allow staff to work on developing innovative ways to increase productivity. A review of Australia's efficiency programme confirms this view. It found that small agencies did not have the same capacity as larger ones to absorb cuts imposed by the efficiency programme and to improve processes. The perception in some quarters that the Productivity Programme is only focused on cutting staff numbers can also create a barrier to the introduction of new ideas by ministries.

Ultimately, in the absence of innovative practices to support increased productivity, the large loss of staff due to the Productivity Programme's HR reductions and retirements will have the effect of forcing remaining staff to do the same amount of work with fewer resources. Without accompanying innovation programmes, it will likely result in a flow-on impact for the future workforce through increased work intensification rather than working smarter.

In order to actively promote innovation and productivity, the Programme could better link staff reductions with efforts to examine the capacity needs associated with work intensification, for example through analyses of work capacity and reviews to identify possibilities for business process re-engineering, administrative simplification, and value for money. This would also help to identify innovative practices that could be generalised and reinforce the capacity of the Productivity Programme to help re-direct resources to priority areas. The key to success is cross-sectoral execution facilitated by the Ministry of Finance and the Productivity Programme.

The Finnish government needs to create an environment that makes room for the achievement of efficiency and productivity through public services innovations. Innovation will be one of the keys to accelerating recovery from the global economic and financial crisis and putting countries back on the path to sustainable, and smart, growth. Today's exceptional economic stimulus measures represent a unique opportunity for public policy to foster innovation. In the past, Finland was a world innovation leader. While this title has many new contenders, in the public administration context, Finland's ability to draw on its past and to harness innovation will prove to be the key to increasing and sustaining productivity and efficiency in the public sector over the longer-term.

Since the launch of the Productivity Programme, efforts have been underway to connect it, and the monitoring of productivity projects, more closely with the budget

Box 6.2. **What is innovation in the public sector?**

Innovation is defined as the introduction of a new or significantly improved product (good or service), process, or method. Innovation entails investment aimed at producing new knowledge and using it in various applications. It results from the interaction of a range of complementary assets which include research and development (R&D), but also software, human capital, design, marketing and new organisational structures – many of which are essential for reaping productivity gains and efficiencies from new technologies.*

While some innovation principles from the business sector can be applied to the public sector, its specificities must be acknowledged, for example its obligation to balance multiple public objectives. Knowledge management practices – such as measuring and monitoring activities and outcomes of public services, feedback and assessment mechanisms for decision makers, and the development of an evidence-base – are key to innovation in the public sector. Government also needs to empower public agencies to make effective use of innovative tools and practices. Investing in new approaches and new technologies can help solve problems and improve how services are designed and delivered by increasing responsiveness, saving time and money, and improving transparency.

The OECD Innovation Strategy: Draft Policy Principle #2 – Public Sector

Policy principle #2 of the OECD Innovation Strategy is: to foster innovation in the public sector at all levels of government to enhance the delivery of public services; improve efficiency, coverage and equity; and reduce costs. To do this, governments need to:

- ***Develop coherent innovation frameworks for the public sector***

Governments need to articulate systemic innovation strategies for their main public services, such as education or health, which go beyond the funding of small pilot or experimental programmes. Communities of practice and other networks (like those in the health sector in the past decades) should be encouraged. Management practices in the public sector should be conducive to and give incentives for innovation, especially in HRM.

- ***Design data systems for innovation***

Data systems that link outcomes to resources and use of these resources can support innovation in the public sector and inform policy making. Measuring innovation in the public sector can help inform policy making and contribute to a more innovative culture.

- ***Embrace e-government***

A one-stop shop for government information and services, and an initial focus on areas where there is a strong need for and value in improved government services, can help make the transition to a more user-focused government.

- ***Engage in high-quality public-private partnerships***

Public-private partnerships based on established good practices – such as affordability, value for money, risk sharing, competition and transparency – can help strengthen public sector innovation. They also require sufficient capacity within the public sector to create, manage and evaluate public-private partnerships.

- ***Turn public information into a resource for innovation***

Openness of public information should be the default rule, as a way to eliminate exclusive arrangements and allow innovative commercial and non-commercial re-use. Unnecessary restrictions on the ways in which information can be accessed, used, re-used, combined or shared should be removed.

* OECD (2009), *2009 Interim Report on the OECD Innovation Strategy: An Agenda for Policy Action on Innovation*, SG/INNOV(2009)2/REV1, 5 June 2009.

Source: OECD (2009), *The OECD Innovation Strategy: Draft Policy Principles*, SG/INNOV (2009)4, 20 September 2009.

preparation and spending decisions. Efficiency programmes are only effective in the long term if they are directly linked to the use of ICT investments, process re-engineering, and market-type mechanisms; and if they allow harvested gains to be re-allocated through the budget process.

Achieving productivity improvements also requires taking a whole-of-government view of government activities. As public sector bodies reach the limit of the efficiencies that they can achieve within their own organisational boundaries, a cross-government approach can help to create further efficiencies for the government as a whole – for example, through Shared Service Centres.[7] Given the whole-of-public administration scope of the Productivity Programme – including regional administration – it is well placed to play a role in helping to identify such cross-cutting opportunities.

The development and broad use of Shared Service Centres is perhaps the area where the Ministry of Finance has most made use of the Productivity Programme to focus efforts to increase productivity. Results achieved include the transfer of administrative and human resources management tasks to service centres, implementation and introduction of a joint administrative and human-resources management information system configuration for government agencies, centralised procurement activities, and the Government IT Service Centre. Finland has already been pursuing a programme to integrate back-office systems for state administration through Shared Service Centres and has centralised procurement activities (see Box 6.3). The centralisation of state ministry and agency procurement activities continues to increase, producing approximately EUR 170 million in savings per year.

The Shared Service Centre has the potential to succeed in Finland, with the expectation that state ministries and agencies will use one Shared Service Centre for all HR and financial services by early 2010. However, shared services do not guarantee greater efficiency in and of

Box 6.3. **Centralised Procurement in the Finnish State Administration**

Hansel is Finland's public sector procurement agency. Procurement in Finland is centralised at the state administration level and run through framework agreements. Tender advertisements and framework agreements are managed centrally for use by all state ministries (acting as a panel of providers). Centralised procurement has been cost effective. Individual ministries and agencies no longer need to recruit procurement specialists. A study reported that the centralised state-level procurement was saving the government at least EUR 100 million per year (and possibly up to EUR 200 million per year). Savings stem from to cheaper prices through centralised procurement and also streamlined processes. Hansel's business has increased so much that it has been able to decrease the commission charged to suppliers (which is given to the Ministry of Finance) by 1%. All Hansel contracts are now part of an automated procurement system that allows agencies to order directly through the IT system (there is a complete list of products available).

The change to centralised procurement started slowly and was made mandatory when Parliament introduced legislation giving the Ministry of Finance control of general/common services/products. These must be procured using Hansel agreements.

Source: Ministry of Finance, Finland.

themselves (see Chapter 8 on e-Government Case Study). These efforts have been implemented under the umbrella of the Productivity Programme, which could be useful for ensuring that actual benefits are realised. There is also room to further consolidate Shared Service Centre arrangements, designating each of the six regional locations as centres of excellence for specific tasks. For example, ministry and agency administrative and human-resources management tasks were centralised in 2010 when four service centres were merged. This action created efficiency savings of some 400 person-years, and plans for further development of Shared Service Centres are underway.

The Productivity Programme has forced many ministries to look at their operations and come up with efficiency proposals; it appears to have led to innovation in some areas – particularly with the police in the Ministry of Interior and the research institutes associated with the Ministry of Agriculture and Forestry. Following initial reductions of "low-hanging fruit", however, the Productivity Programme will be more pressed to look explicitly at *how*, and not just *where*, efficiencies can be achieved – including lending assistance to smaller bodies and identifying cross-cutting efficiencies, including through the use of shared services. In the absence of efforts to support public sector innovation and delivery of services linked to the Productivity Programme, gaining substantial efficiencies from sources other than staff cuts will be difficult – thus limiting opportunities to increase efficiency and effectiveness.

Resource prioritisation and re-allocation

Even with a sound budget formulation process, economic assumptions can change, input prices can fluctuate and evolving political priorities can call for the re-allocation of budgeted resources. The effects of the global economic and financial crisis and the increasing complexity of policy challenges have required governments to re-examine budgets and re-prioritise spending. For example, many countries have recently adjusted spending mid-way through the budget year to address unforeseen circumstances related to the global economic and financial crisis.[8]

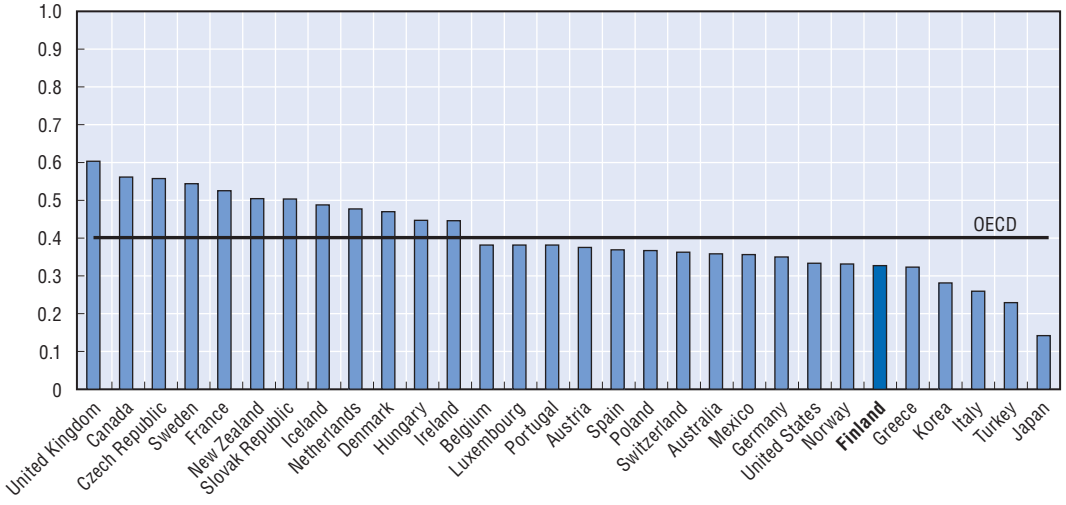
A result of strategic insight is enhanced awareness of the changing policy environment, which provides governments with more information on which to base decision making about the use of public resources. Increasingly complex policy environments often require governments to act quickly to implement policies and programmes to counteract domestic and global challenges. This requires the ability to move resources as priorities change. In tight fiscal frameworks, this can be harder than it sounds. It is one thing to be able to re-deploy resources, but it is another to have the mechanisms in place to support the re-prioritisation of the government's agenda. Strict fiscal and budget frameworks refined by governments over the last 20 years have made it difficult to alter budgets mid-way through the budget cycle based on changing needs.

The resilience of the Finnish budgeting system during the fiscal crisis of the 1990s demonstrated that the system was successful in instilling and maintaining aggregate fiscal discipline – *e.g.,* by managing competing, often excessive, claims on limited public resources for macro-economic stability – without incurring large, unsustainable fiscal deficits. However, this came at the expense of budget flexibility; the reaction to the 1990s crisis has created rigidities in the Finnish fiscal and budget frameworks. The outcome of the recent global economic and financial crisis shows that governments need the flexibility to act quickly. In order to address changing and unforeseen circumstances, the executive, ministries and agencies may need to adapt spending during the implementation of the state budget.

Finland operates with a frame system of budgeting. Aggregate spending limits are established for each spending ministry as a whole, and the ministries have autonomy in allocating this aggregate among their various programmes and agencies. This budgetary framework (the so-called "spending limits") does not encourage re-prioritisation of resources. While Budget officials claim that moving funding among main titles is both possible and desirable within spending limits set by central government, in practice, there has been very limited re-allocation of expenditures, either between or within administrative branches, during both Vanhanen governments. Some minor re-allocations have been made within the administrative branches, but this must occur as part of the budget process (*e.g.,* in connection with a supplementary budget). Additionally, instead of "real" re-allocations, some agencies have proposed applying so-called automatic savings (which arise from changes to factors that determine the scale of the appropriations) to discretionary increases in other areas.

A key measure of budget flexibility – executive budget flexibility – is the ministries' ability to allocate funds across and within programmes as they see fit. Lump-sum appropriations are an important feature of executive budget flexibility. Figure 6.2 shows executive budget flexibility in OECD countries; of the 30 countries, Finland is ranked 25th, and out of the five OECD Nordic countries, Finland ranks last. This suggests that Finland has a low capacity for ministerial budget flexibility – or the ability for individual ministries to re-allocate funds. Countries with higher levels of executive budget flexibility include the United Kingdom and Canada; and, of the Nordic countries, Sweden has high executive budget flexibility, ranking fourth highest in the OECD.

Figure 6.2. **Executive budget flexibility**



Source: OECD (2009), *Government at a Glance.*

Among OECD member countries, there is large range in the levels and types of flexibility granted to the executive to use budgeted funds for different purposes. For example, the majority of countries allow line ministries and/or agencies to carry over unspent appropriations for operating expenditures or investments from one fiscal year to another. Finland permits some transferrable appropriations for two or three years. In addition, the spending-limit rules do allow re-budgeting of appropriations, or changes to

timing of expenditures for projects. Interviews with agency staff, however, suggest that it is difficult in practice. As a general rule, agencies in Finland receive one appropriation for all their operating (running) costs. This reform was introduced between 1992 and 1995. The heads of each agency are then able to choose the most appropriate mix of inputs in order to fulfil the missions of their agencies. While this should provide agencies with the flexibility to re-allocate finances within their organisations as deemed appropriate by the agency head, it has been advised that this is an extremely difficult process.

In addition, some countries allow the executive to borrow against future appropriations or use savings from efficiency gains for other purposes. This additional flexibility is often granted based on the notion that it can facilitate the optimal use of public resources and provide incentives to improve the efficiency of public expenditure. The 2002 OECD Budget Review of Finland noted that the only way to achieve re-allocation among ministries is during the negotiations of the Coalition Agreement (Government Programme) – before ministers know which ministries they will each be responsible for and thus start defending their sector territories.[9] Although the Finnish government's prevailing decision-making culture does not facilitate re-allocation of resources, some re-allocations were made during the 2010 budget process. The report also recommended that Finland would need a sophisticated medium-term expenditure framework in order to achieve greater re-allocation authority among ministries. This was lacking at the time, and does not seem to have changed since 2002.

The 2002 OECD Budget Review further recommended that there has been a need to create room for more flexible re-allocation measures in the budget process. An enhanced role for the Government Programme would be a pre-requisite for fostering re-allocation among ministries, for example through the use of the mid-term review as a mechanism for re-prioritisation and re-allocation within the period of the government mandate, when needed. Currently, this review is used primarily to assess progress on the Government Programme, rather than as an opportunity to re-assess priorities and to update the Programme in light of recent events. Finally, the government may wish to explore the possibility of increasing re-allocation authority by lowering spending levels under the Budget Framework to create a reserve for reallocation.

The global economic crisis has shown that at times of great need, Finland has been able to achieve necessary budget flexibility. The 2010 budget includes an active re-allocation of about EUR 230 million to economic stimulus activities. The Spending Limits Decision for 2011-14 also re-allocates some EUR 50 million. This shows that the spending-limit procedure itself does not prevent re-priorisation, but rather the prevailing decision-making culture within the multi-party government, and the ministries' efforts to hold on to their appropriation reserves, are the problems. These issue should be addressed in the future, especially as there will be less room to manoeuvre central government finances.

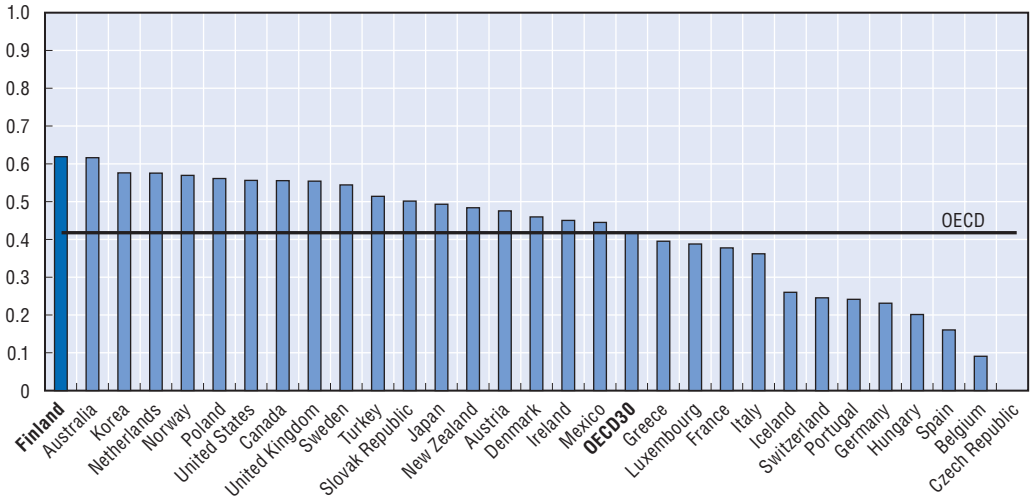
Capacity to re-prioritise

While executive budget flexibility addresses the government's procedural needs to re-allocate budget resources, it does not measure its impact on the provision of government goods and services, the internal management capacity to recognise when re-allocations are necessary, or the soundness of decision-making processes that result in budget re-allocations. Flexibility in the budget is useless unless the government has the capacity to re-prioritise spending.

The Government Programme, managed by the Prime Minister's Office, and the spending-limits framework, managed by the Ministry of Finance, are considered the two key strategic planning tools in the Finnish public administration. While the Government Programme (and Strategy Document) focuses on whole-of-government priorities, the spending-limits framework allocates funds at the ministry level. Although the two processes have been aligned in timing under the Programme Management reforms, resources and desired horizontal outcomes are linked only to a certain extent. This presents a gap in setting strategic policy agendas and the means for steering implementation. While performance information presented in the budget does link back to goals laid out in the Government Programme, this information has little direct bearing on the financial allocation decisions that drive incentives and resources for implementation.

Finland scores well in the use of performance budgeting. It ranked highest among OECD member countries for the degree to which performance budgeting systems have been put in place (see Figure 6.3). This indicator measures the scope and completeness of systems in place, and the conceptual linkages from high-level strategy documents down to performance systems. Countries that receive a high score on the index have created a comprehensive, government-wide framework for developing performance budget information (both evaluations and performance measures), integrating performance information into budget and accountability processes, and monitoring and reporting on results. It is not, however, an indicator of whether or not this information is used in decision making or whether it is aligned with budget allocation.

Figure 6.3. **Use of a performance budgeting system at the central level of government (2007)**



Source: OECD (2009), *Government at a Glance.*

The approaches to developing and using performance information in the budget process vary across OECD member countries. For example, in most countries that use performance information in budgeting, there is a loose or indirect link between performance information and funding. These countries use performance measures and evaluations along with information on fiscal policy and policy priorities to inform, but not to determine, budget allocations. The OECD's 2002 Budget Review of Finland noted that,

while information is presented in the same documents, no attempt is made to actually link appropriations and targets.[10] Finland thus has a presentational budget, which seeks to build accountability by sharing information with the Parliament, the National Audit Office, political officials and within the public administration – but that does not use it to ensure its own accountability.

In addition, results information and financial accounts are not integrated (although, again, both types of information are presented in the same documents). This is surprising, as Finland operates a full accrual accounting system, which often is thought of as a means to better align expenditure with results. Interviews as part of the 2002 Budget Review indicated that performance information was not used actively when determining the level and distribution of appropriations, suggesting that more integration was necessary. This situation continues today. Interviews with state officials indicate that there is actually no formal review of government spending to determine if it is efficient and effective, and if it continues to be needed/required. The Budget Department primarily sees its role as monitoring the process itself, rather than the content of performance targets and results provided by ministries. Some officials have reported that as successive governments come to power, new expectations/programmes are layered on top of previous commitments, with no review of existing policies/programmes. As a result, some ministries and agencies are finding it increasingly difficult to manage their budget allocations to deliver on ever-increasing expectations.

The challenge of prioritisation is aggravated by a lack of clarity on the cost of priorities in the Government Programme. The measures defined in the Strategy Document are, in theory, implemented under the overall Budget Frame and the government budget. There is no process by which government priorities are "scored" in terms of their expected costs in order to ensure that the ambitions of the government are in line with its means. In addition, the Parliament does not operate within a fiscal framework. There is no vote on the total amount of spending nor requirements to offset new spending; Parliamentarians therefore have no formal constraints on amending the budget and adding new spending. Much of the parliamentary involvement in the budget process seems limited to ensuring that local projects are funded rather than examining large spending decisions.[11] That said, budgeting information is submitted to Parliament as a government report, and Parliament's Finance Committee approves a statement on the submitted report. During recent parliamentary sessions, the Parliament has committed to the spending limits in its own budget discussions and has kept within the constraints set by the spending limits in its supplementary appropriations.

The disconnect between the preparation of the Government Programme and budget impacts the public administration's ability to focus resources on the government's priorities. The Budget allocates funding at the portfolio level rather than the programme and project level. Therefore, it is up to each ministry to interpret how to use its budget allocation to best realise the priorities laid out in the Government Programme. When the Government Programme is prepared at the start of a new government term, however, there is no formal stocktaking of existing projects and programmes and whether they should continue to be funded. In this sense, the new Government Programme is layered on top of former priorities. This makes it difficult for the public administration to know where to focus, and for ministries to stretch resources across commitments. It also creates a budget environment where the government is not forced to prioritise its objectives, creating a political accountability vacuum.

Many OECD countries use sunset clauses, time limits, and statutory monitoring requirements as part of the authorisation for new expenditure areas in order to ensure that government priorities can be continuously updated. The lack of real accountability for performance information has meant that the information produced in the budget is of varying quality and cannot, for the moment, be used for prioritisation. Tying incentives to improve the overall quality of performance management and information to the budget process would create more reliable information. There is more immediate scope, however, for the greater use of value-for-money and programme reviews to assess the continued usefulness and relevance of programmes and of government spending (see Box 6.4).

Box 6.4. **Budget reviews in Australia**

Australia ranked second among OECD countries (almost equal with Finland) on the use of performance information in the budget process. Expenditure and programme reviews are a central feature of the Australian budget process, and the area where performance information is used to inform budget decision making. The Department of Finance and Deregulation is responsible for procedures for identifying and managing reviews, in co-operation with other departments. Decisions on which major areas of public expenditure should be reviewed in any given year are made by senior ministers in the budget process. The results of the reviews are considered at the beginning of the following year's budget process by the senior ministers setting budget priorities. A small number of strategic reviews of major programmes and cross-agency themes, including tax expenditures and taking account of inter-generational considerations, are undertaken each year. This process supplements agency performance measurement and evaluation activities. Wider independent review and evaluation activity relating to government policies and programmes also occurs, for example through parliamentary inquiries, independent commissions, eminent persons and non-government organisations. In Australia, major and whole-of-government initiatives may require cross-portfolio agreement on evaluation and review of strategies; this may include the departments and agencies involved in implementing the polices as well as the Ministry of Finance and/or the Department of the Prime Minister and Cabinet.

Source: OECD (2007), *Performance Budgeting in OECD Countries*, OECD, Paris.

Current budgetary arrangements also serve as a disincentive to horizontal collaboration in the development and implementation of government policies (see Chapter 5). The disconnect between the Policy Programmes and the budget process gives rise to a number of issues relating to the achievement of horizontal outcomes. Firstly, distancing the Policy Programmes from the budget process sends a strong message on priorities. A minister who is responsible for a Policy Programme is not automatically afforded the staff and means to meet his/her responsibility and cannot require other participating ministries to share resources. Lead ministries only have "the power to beg". This provides a disincentive to both horizontal co-operation and to achieving horizontal outcomes. Execution depends on the co-operation of associated ministries to provide resources from their budgets, but individual ministries place their own sector priorities – for which they are more clearly accountable – over vague horizontal obligations. The lack of resources to fund horizontal programmes is therefore not surprising. Lead ministries may, in turn, be tempted to implement their horizontal programmes alone, thereby losing

out on the coherence and innovation benefits of horizontal co-operation. These dynamics can be evidenced in the implementation of the information society Policy Programme, which did not achieve all of its stated objectives. Finally, the Budget Framework does not permit the transfer of budget allocations from one ministry to another. This creates an issue in terms of both agility and of incentives. While there is a political incentive to develop the Policy Programmes as a means to create stability across government parties, there is little administrative incentive to implement the programmes in a horizontal fashion, or at all.

Finland's difficulty is that the Government Programme, developed by coalition parties before the start of a new term of government, is formulated outside of the formal governance structure of the budget process. The OECD has previously noted the challenges this can create for good governance in Finland, and in the past recommended that the Ministry of Finance have a more formal and transparent role in advising the political parties on budgetary matters when the Government Programme (Coalition Agreements) is being negotiated[12] (see sub-section on horizontal collective commitment within state government in Chapter 5).

Increasing the effectiveness of service delivery through the efficient use of sub-national resources

In general, governments rely on sub-national levels to deliver a variety of basic public services. The result is a relationship of mutual dependence among central governments and sub-national authorities where the state is the guarantor of services and the sub-national level is the provider.[13] Internationally, the financial and economic climate is having a negative impact not only at the central level, but also at the sub-national level. In Finland, local authorities are responsible for providing essential public services – also known as basic services – with close to 40% of total government expenditures at the sub-national level.[14] With the changing economic and demographic environment, the Finnish government has become aware of the growing need to align and integrate systems and services in order to harvest efficiencies and increase the sustainability of government programmes. At the sub-national level, however, resource flexibility is less of an issue of moving resources to changing priorities, as one of realising efficiency gains and finding innovative ways to direct funding for the efficient, effective and equitable delivery of public services.

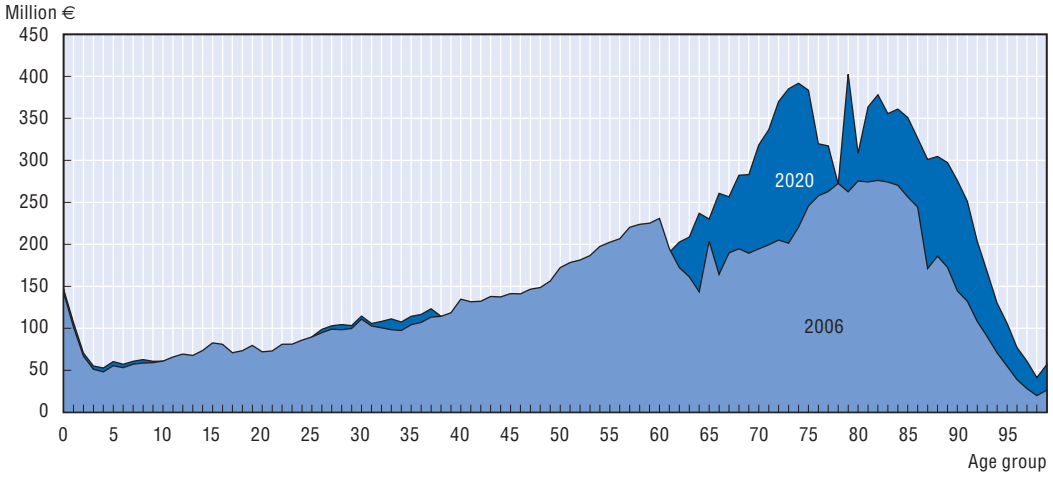
Today, socio-economic forces are challenging the capacity of Finland's central and sub-national governments to deliver quality public services effectively and efficiently. This is due in large part to demographic factors (ageing and migration) outside of government control, and is compounded by the unforeseen economic challenges of the economic crisis, some of which – like unemployment – risk being medium- to long-term concerns. These issues must be addressed, taking into consideration the degree of mutual dependence between the central and sub-national levels, including the fiscal dimension. To this effect, Finland has embarked on a recent set of reforms at the regional and municipal levels in a strategic and difficult move to manage the future by addressing tomorrow's problems today.

As discussed in Chapter 2, there are two societal issues at the root of the problem. First is territorial migration, where municipalities in the northern and eastern regions are losing population as younger people move to urban centres, and the aged who remain are requiring more specialised services. The second is an ageing population, which puts a strain on service delivery; since the migrating population tends to be youth or younger generations, the human capital pool available to provide services in these regions is

shrinking. Together, these two phenomena result in a double problem, since: *a)* there will be fewer public sector workers to deliver services; and *b)* as municipal workers retire, they will be demanding the services they once provided, thereby adding to already-increasing demand. The result is territorial disequilibrium in population and in the service mix required, and inequalities in territorial economies and resources.

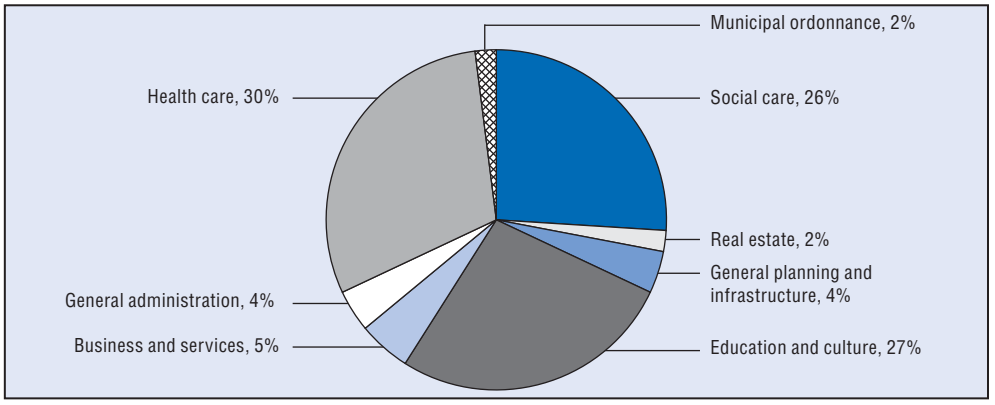
Foreseen cost increases for certain services, such as healthcare and elderly care (as shown in Figure 6.4), can be anticipated and planned for. However, without administrative and fiscal sub-national adjustments it is, and will continue to be, increasingly difficult for Finland to maintain its capacity to deliver high-quality public services in an equitable fashion (in terms of access and accessibility) without incurring significantly higher costs (see Figure 6.5). Thus, the government faces a critical need to ensure effectiveness while improving efficiency. In addition, it is essential to consider unexpected costs.

Figure 6.4. **Total expenses of healthcare and elderly care (divided into age groups in 2002 and 2020)**



Source: THL/Chess/Hujanen 2010.

Figure 6.5. **Public sector distribution by activity in Finnish municipalities, 2005**



Source: Ministry of Finance, Finland.

The economic crisis has put a strain on both the central and sub-national levels: there is greater demand for some social services due to the consequences of unemployment, which were not foreseen, but which will have a significant impact on central and sub-national budgets. This impact will hit the central level first, as unemployment benefits are often paid by the central government for a given period of time. However, often when eligibility for national-level unemployment benefits runs out, the support function for the unemployed reverts to the sub-national level, resulting a delayed reaction time to feel the full effect of the fiscal impact. One could argue that Finland's strong equalisation policy and the government's fiscal stimulus package will limit the crisis' fiscal impact on municipal capacity to deliver services. However, the problem comes with the funds to maintain this equalisation capacity – especially if the number of areas experiencing a drop in revenue increases and local authorities need more equalisation funds, or if those authorities which did not need them in the past suddenly find that they do. Another risk is increasing territorial heterogeneity as unemployment levels jump, causing a drop in local revenues, potentially leading to even more migration or "earlier than expected migration" in the short- and medium-term.

In looking at recent history in Finland, municipal capacity to maintain efficiency gains has been low. In the 1990s, municipalities ran out of funds and investment levels were at zero. The municipalities addressed this issue by reducing the workforce to better balance their economies. Because local governments generally ran a surplus, they were able to reduce their expenditures quickly. However, this reduction was not accompanied by structural changes in service production. As such, after the recession when Parliament ran a campaign to re-invest funding back into the municipalities, the money was used for postponed investments and for re-staffing. Once staffing levels were back in place, there was a distinct productivity drop. In other words, the forced efficiencies were not maintained when the crisis passed. In the context of the current crisis, this may be happening again; municipalities might be reducing expenditures, not through structural means, but through emergency measures such as reducing staff, giving holidays and temporarily closing schools.

Horizontal co-operation can help overcome fiscal challenges by building scale, and strong horizontal co-operation at the local level is considered advantageous in multi-level governance. Key benefits include the building of scale for greater efficiency, potentially higher effectiveness in service delivery, a greater possibility for diversification of services through pooling resources, and an ongoing capacity to remain sensitive to the local needs and preferences of a municipality's residents.[15] Overall, such co-operation provides municipal authorities with flexibility regarding appropriate territorial scale for service provision. However, accountability concerns can arise.

A municipality directly delivering a service is clearly accountable for that service. However, if it is delivering the service in partnership with another municipality, the accountability is less evident. Accountability may also be a matter of perspective: for the central government, accountability rests with municipalities as they are funded to meet these responsibilities; for municipalities, accountability can rest with them or with their partners; and for citizens who are consumers of public services, accountability is with "government" in general – be it local or central. In Finland, the central government seems to "push down" service delivery to the local level, and then evoke municipal autonomy to minimise its involvement and distance itself in the accountability chain.

Pursuing innovative approaches, including experimentation, for the production and delivery of public services can help address questions of effectiveness and efficiency from an operational standpoint. Finland's government has identified the need to improve efficiency in service delivery, but also recognises that it must ensure that citizen needs are met in a satisfactory fashion. There are a variety of options to accomplish this, including reducing costs, increasing revenues and promoting innovation. Finland is moving down two cost reduction paths, pursuing *economies of scale* by emphasising catchment areas for more efficient service provision, and following *economies of scope* where efficiencies are gained by using the same inputs for a diversity of outputs.

Creating economies of scale: The PARAS municipal reform

In mid-2008, Finland began practical implementation of a five-year municipal administrative reform (see Box 6.5 for information on the PARAS reform). This initiative focuses on increasing local government capacity to provide constitutionally mandated public services in a manner consistent with a need for increased efficiency, while maintaining effectiveness and equity standards. Within the reform, these objectives are divided into four categories: strengthening municipal services and structures; improving

Box 6.5. **The PARAS municipal reform**

The PARAS reform – embodied in the Act on Restructuring Local Government and Services – gives Finland's municipalities the option to either voluntarily merge or to establish partnership areas in order to reach a minimum 20 000 inhabitant base for the provision of social services such as primary healthcare and closely linked services (the ability to provide vocational education training would require an area with 50 000 inhabitants).

There is a stepped, declining and temporary incentive structure built into the PARAS model, whereby fiscal incentives are higher the earlier the decision to merge is taken and the higher the population figures of a municipality post-merger. For example, in 2008-09 if the total number of municipalities reduced by a merger is three, creating a single municipality of over 20 000 inhabitants, and if the combined population of the two smaller municipalities deciding to merge is over 10 000, then the municipal merger grant will be EUR 9.72 million. However, if these same three municipalities chose to merge in 2012-13, then the grant falls to EUR 5.4 million. There are no explicit merger targets set in the PARAS reform – *i.e.,* no target of inhabitants for a new municipality; no target number of municipalities – and no explicit time by which mergers have to be completed, but the incentive programme runs only from 2008-13. While the mergers are voluntary, in the case of municipalities facing with severe economic difficulties a clause in the Act permits the government to propose a merger without consent to Parliament. There are a few municipalities in this situation, in Lapland for example, though the government has not used this option to date.

Because mergers are voluntary but catchment areas for service provision are not, the other option available to municipalities is the establishment of partnership areas. These constitute a functional entity rather than an administrative one (as in the case of merged municipalities). Municipalities are free to select with which neighbours they wish to establish such partnership areas, and can enter into as many agreements as they wish. Therefore, a partnership area may be organised among three municipalities for the provision of elderly care. It is conceivable, however, that these same three municipalities do not co-operate for primary healthcare. They may co-operate with other neighbours for providing this service.

Box 6.5. **The PARAS municipal reform** *(cont.)*

By late 2009, the number of municipalities was reduced by 67, bringing the total number from 415 to 348. In 2010, four more mergers are expected, involving 10 municipalities; in 2011 three mergers involving nine municipalities; and in 2013 at least one merger is expected involving two municipalities. Less than halfway through its implementation phase, it is too early to measure the results associated with this reform.

how services are organised and produced; overhauling local government financing and central government transfers via the Basic Services Programme; and reviewing the division of responsibilities between the central and local governments.

PARAS balances a need for greater efficiency and effectiveness with respect for municipal autonomy. It does not force mergers nor mandate targets, but allows municipalities to decide: whether to enter merger agreements or to establish additional joint municipal partnerships and, if so, with whom. The reform also provides the framework for building economies of scale in a way that is appropriate for Finland's spatial structure, as joint municipal partnerships may be more appropriate than mergers in remote areas where the distances between neighbouring municipalities are large.

However, PARAS also faces several challenges in meeting its efficiency and effectiveness objectives. First, it must be recognised that there is no "optimal" size – neither in terms of population nor of land – that allows municipalities to increase efficiencies. This challenges the notion that a catchment area of a specific size will automatically result in reduced service delivery costs. Larger catchment areas may improve the quality of public services – addressing the effectiveness objective – but with respect to efficiency, results can often depend on the sector. Finland seems to address this by establishing different sized catchment areas depending on the service to be provided (*i.e.*, 20 000 inhabitants for a hospital and 50 000 for a vocational training facility). However, this can lead to a further proliferation of joint partnership areas, which risks increasing administrative inefficiency – particularly in multi-purpose service organisations where joint authorities manage a variety of tasks and activities – and compounding the accountability gap.

Some officials told the OECD that the PARAS reforms will not strongly increase efficiencies for a number of reasons: rules of engagement for co-operation among municipalities are too loose and local governments are able to organise their co-operation differently; following the mergers of local governments, staffing levels may remain the same for up to five years, minimising any immediate efficiency gains; there are no set fiscal and/or efficiency goals for the reforms; and there is a risk that changes might decrease productivity and raise costs. It has also been suggested that the municipal reforms are too focused on achieving actual mergers rather than taking action to strengthen structural and financial frameworks. Many municipalities seem to be struggling to cope with the administrative changes required as a result of the mergers and admit that the ability to achieve innovation in service delivery (which should lead to efficiencies) will be some years off. Municipalities also fear that the level of service delivery may even decline as a result of mergers because the necessary administrative adaptations could take up to five years. In fact, some municipalities actually suggested that "phase one" of the merger is to implement administrative changes, and "phase two" will be to examine and implement innovations in service delivery practices.

Most critical for Finland's objectives is the fact that the greatest efficiencies garnered from mergers often come from a reduction of administrative staff. Given that the merger agreements require employment for up to five years of all municipal staff, including administration, the "ability to free up resources quickly" is being lost. For example, in a merger of three municipalities, there would be three municipal councils to reconcile, and three mayors – two of whom would need to be placed in "appropriate" positions, etc. The area where the greatest efficiencies could most rapidly occur is therefore restricted. This impacts municipalities' ability to meet efficiency objectives, and can also impact agility, as the municipal administration may be larger than necessary. There is also a citizen dimension. After electing to merge, some municipalities are finding it difficult to meet their promises to citizens in terms of maintaining or improving service levels while keeping costs reasonable. If funds that could be used to maintain services are being diverted to maintain administration, this could decrease the community's comfort with merging and trust in the municipal authorities.

"Why merge?" remains a question for many municipalities. Those that are small or facing financial difficulties will have a reason to do so. Those that are searching for more territory into which to grow could also have a reason. But those that have the capacity to meet their service delivery obligations independently, via joint municipal agreements, or through sectoral subsidies, have little reason to merge with neighbours. Because catchment areas are not necessarily required, because there is no time constraint in terms of making a decision, and because of established joint agreements that already facilitate service provision, unless mergers are financially viable, they may not be an appealing or politically wise option for Municipal Council members. In addition, given the equalisation structure, if the vocational school of a small municipality receives funds enabling it to provide the same level of educational quality as the vocational school located in a neighbouring, larger municipality, there is no incentive for the municipalities to merge – nor to even co-operate in providing vocational education. A comparative table of merger experience among OECD countries (see Table 6.1) shows a variety of methods and

Table 6.1. **Typology of national merger policies**

Merger policy	Optimal size	
	None	Target size
Voluntary (disentives)	Austria France	
Volontary (no policy)	Australia Norway (current) Spain Switzerland United Kingdom United States	 Turkey
Voluntary (incentives)	Finland Japan (Heisei)	 Japan (Showa)
Almost mandatory		Denmark[1]

1. Denmark has been placed in this category with respect to the *obligation to merge*. While mergers were based on voluntary decisions by municipal councils, they occurred under threat of parliamentary intervention. However, local authorities decided with whom to merge.

Source: OECD (2006), *Workshop Proceedings: The efficiency of sub-central spending*; OECD Fiscal Network Workshop on Performance Indicators and Local Government Collaboration; OECD Network on Fiscal Relations across Levels of Government, Paris; May 2006 Internal OECD Document.

experiences, ranging from strictly voluntary mergers with no incentive structure, to almost mandatory mergers (in Denmark).

As previously noted, there is a stepped, declining and temporary incentive structure built into the PARAS model. However, there are no established parameters for mergers or for the joint partnership areas. The lack of parameters or yardsticks makes it even more difficult to measure the results or effectiveness of the reform. This can be contrasted with Denmark's reform process to ensure quality service provision by municipalities (see Box 6.6), which inspired the PARAS reform. The Danish central government's municipal reform very clearly established a timeframe for mergers, as well as targets.

The Finnish approach, while appropriate in certain respects for its spatial and political context, may miss achieving its objectives in the short- and medium-term. It could still meet its objectives in the long term, but given Finland's tendency to reform, the danger is that the reform itself will be reformed in an effort to bring about faster change. This can be a further disincentive preventing municipalities from undertaking structural change.

By permitting each local authority to create economies as appropriate to their local context – be it to merge or to expand its joint partnership areas – PARAS helps municipalities avoid unpopular mergers and still meet catchment area requirements. However, this comes at the price of greater administrative inefficiency. The structure of PARAS, while potentially providing significant consensus, may be insufficiently powerful to induce the level of change required for the future.

Box 6.6. **Example of merger policy in practice – Denmark**

On 1 January 2007, after a four-year reform process, the number of Danish municipalities was reduced from 270 to 98, with an average size of 56 000 inhabitants. After a series of public hearings and discussions in the second half of 2004, all Danish municipalities were asked to select the neighbouring municipalities with which they wanted to merge. The threshold size for the new municipalities was set at 20 000 inhabitants. The deadline for selecting partner municipalities was 1 January 2005. Thirty-two municipalities (located largely around Copenhagen) remain the same as in the past because their total inhabitants exceeded 20 000 and so they were not obliged to merge. Between mid-2004 and the end of the year, municipalities negotiated with potential partner municipalities and citizens were given the opportunity to articulate their preferences through a series of local referenda. Municipal amalgamations were voluntary in the sense that the municipalities were able to choose their partners. The central government had the possibility to intervene in cases where voluntary agreements could not be reached. Ultimately, however, the central government intervened in only two cases. The primary goal of the merger process was to improve the quality of municipal services by transferring new responsibilities from the country level to municipalities and by increasing their size to ensure that they could assume these new responsibilities, which include environmental control, adult education and specialised social services. Municipalities will also transfer responsibilities for assessing and administering taxes to the national level. Efficiency concerns also counted among the reasons that municipalities were merged. It was assumed, for example, that the new municipalities would benefit from economies of scale. However, this consideration was generally secondary to the larger concern regarding the quality of service provision.

Source: OECD (2009), *Investing for Growth: Building innovative regions,* Background Report prepared for Meeting of the Territorial Development Policy Committee (TDPC) at Ministerial Level, 31 March 2009, OECD, Paris.

Box 6.7. **Reasons to merge among Finnish municipalities – The case of Jyväskylä**

On 1 January 2009, through the PARAS reform structure, the City of Jyväskylä, the municipality of Korpilahti, and the Rural Municipality of Jyväskylä merged into one city – Jyväskylä. The merger was initially negotiated between the two former authorities with the third joining at a later stage. After the merger Jyväskylä became Finland's seventh largest city with over 130 000 inhabitants.

Driving the merger decision were a combination of discrete and shared reasons, which can be distilled down to resources and capacity. The City of Jyväskylä was growing and saw the opportunities that this could bring, but found that accommodating the territorial and demographic pressures associated with growth would require more land and a larger population base. Many of the public services it provided, particularly in the areas of culture and sports, were also being used by residents of other municipalities. On its side, Korpilahti was facing severe financial strain and the EUR 6.48 million in merger-grant funds from the central government were critical for infrastructure improvements (*e.g.,* water and waste management, and harbour renovation), land planning and education.

For all three municipalities the ability to deliver public services more effectively and efficiently was also a driving reason. For example, in many cases the ventilation systems in school buildings were in disrepair, causing health problems for students and teachers. Given the limited fiscal capacity of each individual municipality to address the problem individually, the Councils felt that merging would result in an appropriate scale and mass necessary to fund new buildings, refurbish those which could be restored, and address other large infrastructure needs such as improving water treatment.

While the PARAS reform facilitated the establishment of Joint Municipal bodies to provide services, these three local authorities found the option too complicated. Together they decided that that merging was not only easier but more forward looking as it could result in a stronger municipality which in turn would create a more attractive environment for businesses, something that is more difficult for smaller municipalities to achieve on their own.

Source: Ministry of Finance; Interviews with representatives of the City Council of the City of Jyväskylä, 2009.

Creating economies of scope: Basic Services Programme

Economies of scope, where a variety of outputs are achieved with the same input, can also improve efficiency. Finland's Basic Services Programme is designed to increase municipal authority and disbursement capacity with respect to government grants. It eliminates earmarked grants in favour of a block grant system through which municipalities can determine how to best use the funds to achieve their service delivery goals. The idea is that this mechanism will increase flexibility in fund disbursement by removing spending requirements targeting specific sectors. Therefore, a municipality that needs to spend more on child care than on housing for the elderly, for example, will be free to do so. The economy of scope aspect comes with the fact that one sum of money can be used for multiple activities, as opposed to earmarked grants where the funds must go to a pre-determined expense (see Basic Services Programme case study in Chapter 7).

While the financial situation at the sub-national level is a critical issue, so too is its capacity to absorb reform and develop innovative responses to harvest efficiencies and increase productivity. In this respect, the capacity and capability of sub-national administrations is an important aspect of achieving strategic agility for the nation as a whole through increased resource flexibility. Innovation is needed at the local level because this is

where services are delivered and where staff are located. Nearly 430 000 staff are employed by local and joint authorities, which constitutes one-fifth of Finland's entire workforce; this is compared to 124 000 staff at the various levels of state government. A stewardship relationship between central and sub-national government and key stakeholders such as the Association of Finnish Local and Regional Authorities, is therefore needed. It should be based on developing commonly agreed expectations for service delivery and quality, as well as the resources required to meet these aims, in both financial and capacity terms.

While the Basic Services Programme sets the fiscal and regulatory framework for the delivery of basic services, it has not sufficiently addressed performance expectations nor what is needed to stimulate local innovation for improved service delivery. The sharing of good and innovative practices, the development of common standards and service delivery platforms, the introduction of business case and analytical tools to choose the right reforms, and regular consultation at all stages of policy development are all necessary elements to make this new relationship a reality.

Experimentation for greater innovation in service delivery

Finland is a good example of a country that is not afraid to experiment in public policy programming. Experimentation helps policy makers overcome resistance to proposed reforms, particularly if they are supported by specific contracts, are for specified periods of time, can be evaluated via performance mechanisms, and provide co-funding possibilities. Experimentation in policy design and implementation often occurs at a specific territorial level (*e.g.,* local, regional, etc.) with an eye to future application in equivalent areas. In this way, a proposed policy may be implemented with minimal barriers and a higher possibility of identifying lessons that can be shared and good practices that can be adapted elsewhere.[16]

However, experiments are just that and at some point decisions have to be made regarding implementation and extension. With respect to implementation, the questions include: Should a programme be continued as it is? Should it be modified or extended? And, if so, to where and to what degree? Is the experiment appropriate for every region, or every municipality, or only for certain ones with specific characteristics? Moving from experimentation to implementation requires information sharing and knowledge building, as well as relevant evaluations that can be used in decision making and path correction (*i.e.,* reform adjustment).

Performance measurement systems can address these needs. They help assess performance, particularly by monitoring and evaluating public service provision. Meanwhile, indicator systems can promote learning and orient stakeholders towards results, addressing information asymmetries that can arise between national and sub-national levels and are sometimes due to "know-how" discrepancies among actors. When carefully coupled with specific incentive mechanisms and realistic targets, indicators can stimulate and focus actors' efforts in critical areas. Thus, they help promote capacity development and good management practices. In addition, they are effective tools for reinforcing stakeholder accountability at all levels of government by improving transparency. Ultimately, performance measurement facilitates evidence-based policy making by providing "[…] information which can be used to enhance the effectiveness of decisions regarding policy priorities, strategies and resource allocation"[17] (see sub-section on evidence-based policy making in Chapter 4).

Finland is very active with respect to developing and implementing experimental programmes at both the municipal and regional levels. This is how new practices for

greater service delivery efficiency and efficacy are tested. While an argument could be made for moving to market provision of public services in some cases – in particular for those areas in the most difficult financial situation – there is also a need to test public sector solutions, as private investors are not likely to find a profitable market in remote and largely rural areas of Finland. From a public sector perspective, private provision may result in a risk of developing regional monopolies, as market share may not be sufficient to support more than one private enterprise.

Finland's experimentation with innovative public service delivery can be illustrated at the municipal level by Kuopio's re-structuring of service delivery frameworks according to life phases (see Box 6.8) and by Kainuu's regional governance experiment.

Box 6.8. **Kuopio life-phases service delivery framework**

In 2005, Kuopio municipality began to explore alternatives to meeting the pressures familiar to other Finnish municipalities: a wide range of service competences to fulfill; an ageing population with an accompanying increased demand for targeted social services; financial and human resource constraints; and the need to meet central level objectives for productivity and administrative structure. It began to re-think service classification, which resulted in an innovative approach in service structure renewal.

With a goal of providing better-quality services from the citizen perspective in more efficient manner, in 2007 the Kuopio City Council adopted a life-phases framework for local service delivery (see table below). In 2009 the timetable for the rollout was incorporated into the city budget. By organising services along life phases the spotlight shifts from government and what it provides to citizens for their consumption to citizens and how their service-oriented needs can be met by government.

Life-phase	Targeted citizen-user group
Supporting growth and learning	Children, youth (including guardians and students)
Supporting daily life	Those who need support in their daily life (*e.g.*, families, those needing financial support)
Strengthening business life and attraction	Business owners and organisation leaders, current or future residents of Kuopio, travellers
Supporting welfare	People looking for recreation, people with hobbies, etc.
Maintaining health	People falling into a risk group, with symptoms of illness, or who have fallen ill
Developing and up-keeping the living and operational environment	Those needing a place of residence, permit application, users of the urban environment

It is too early to measure the impact of this initiative. However, the Kuopio life-phases service delivery framework is supported by factors critical to success, including political will on the part of the City Council and a structured allocation of resources through the city budget. It provides a strong local-level example of:

- Clear citizen orientation and the role of service provision in societal outcomes.
- Clear and straightforward steering of functions.
- Leadership and a focus on addressing the issues at hand.
- Organisational agility.

In addition, it is reported to have enhanced the capacity for change; created more efficient task entities; and promoted a more independent and responsible working culture.

Source: Ministry of Finance and City of Kuopio, Finland.

The Kainuu regional experiment

The Kainuu Regional Experiment (see Box 6.9) provides a strong example of central, regional and local commitment to a regional-level experimentation. It also illustrates how experiments can lead to new status quo, making it difficult and potentially undesirable to return to the former state.

Box 6.9. **The Kainuu regional experiment in self government**

In early 2003, the Finnish Parliament passed the Act on the Regional Self Government Experiment in Kainuu, a region in northeast Finland. Spanning 1 June 2003 to 31 December 2012, this Act is a time-limited, formal experiment on the effect of regional self government on regional development activity, basic service provision, citizen participation, and vertical co-ordination between the regional and state central government, as well as the municipal and state local government.

Kainuu is one of Finland's most challenged regions with respect to development, impacted particularly by high levels of migration, an ageing population, declining entrepreneurial activity, and an employment outlook that is one of the poorest in the country. This resulted in local government finances being among the weakest in Finland, and core public services were considered under threat.

The Act raises self-government potential by increasing the powers of the regional authorities, specifically the Regional Council, giving it responsibility for the allocation of central government resources to boost development measures and related activities. In addition, it put public service funding and provision in the hands of the Regional Council (rather than transferring funds from the central to the municipal level for service provision as in other regions) in order to more effectively develop services, increase efficiency, and protect service availability and quality. By increasing regional responsibility for development and increasing its decision making capacity, the Regional Council has assumed powers that traditionally are in the domain of the state administration; for example, it decides on the allocation of resources stemming from the national budget, including EU funding. Regional planning and development, and industrial policies, also fall under regional authority.

The Region's objectives with this experiment include: to ensure basic services, such as healthcare, social services, and education for all inhabitants; to increase productivity, efficiency and innovation in service delivery; to put the management of development funds under one organisation; and to improve the focus of regional development activities. Because the experiment is ongoing, a final evaluation is not yet possible. However, indications are that some elements are considered successful while others are perceived as failing. Among the early-identified successes are meeting targets related to the development of administrative structures, and structural change that is considered by most to be appropriate for the region. In addition, the experiment has created opportunities for innovation in service delivery, which are also considered successful. Finally, while the extremely demanding financial objectives have created an atmosphere of failure, the cost savings achieved to date are significant and unique in Finland. Most "failures" fall in the area of regional development, a resistance to change among regional staff (considered to reflect a change management failure), negative attitudes arising from a conflict between meeting financial objectives and service targets, and poor communication and information dissemination. Overall, however, it is generally felt that "there is no going back".

Source: Ministry of Finance; Kainuu Regional Council.

The Kainuu region has managed to create economies of scale and scope while also promoting new routes for service delivery. The Regional Council has: re-organised healthcare delivery, increasing the role of nurses and call centres over physicians for appropriate interventions; strengthened its education and vocational training system; and helped increase university enrolment rates among its youth. It is also working to build the capacity and competitiveness of the region's businesses, while promoting cluster development. Finally, it is conducting municipal-level experiments in eradicating unemployment. Sustainability is the primary challenge facing the region. Fiscally, Kainuu has improved significantly and is no longer the poorest performer among Finland's regions. However, funding comes, in part, from municipalities who are feeling fiscal strain themselves, and in part from EU funds, which will decrease over time. While marks are high for service delivery improvement, the Regional Council still faces some difficulty in maximising regional development opportunities. Given the budget management capacities of the Regional Council, the clear objectives for the programme, and stakeholder participation in the design and implementation of service delivery programmes, it also appears to be a working example of how a regional government embodied in a Regional Council can be responsive and agile. It may be particularly suited for regions of a specific type (*e.g.*, low density, rural, ageing populations). Whether or not Kainuu meets efficiency objectives is unclear, and while effectiveness in meeting some objectives, economic development for example, is uncertain, it may be effective in maintaining availability of quality services for citizens. However, without performance measurement by sector, it is difficult to shed light on these possibilities.

The demographic changes in Finland (*e.g.*, migration, ageing, etc.), combined with fiscal and other resource pressures, are creating a service delivery environment which puts at risk equity in services for citizens across territories. The constitutional autonomy of municipalities enables them to implement services based on their specific demographic needs. At the same time, the Constitution sets mandatory minimum service for municipalities. This helps ensure a degree of standardisation across municipalities. However, it also requires a prioritisation of funds and resource allocation, which may not necessarily represent municipalities' own perceptions of their particular needs. This can create a mismatch between the service priorities of the central level and those of individual sub-national authorities, creating multi-level tension in service delivery matters (examples include the delivery of joined-up health services).

Building workforce capacity and capability to prepare for the future

In addition to financial resources, resource flexibility in the pursuit of strategic agility also means ensuring that the public administration's key assets – its staff – have the necessary capacity and capability to anticipate and respond to whole-of-government challenges, and that they can be deployed within the public service to effectively meet these needs. The ability of governments to recruit, train, promote and dismiss employees is a key determinant of their capacity to obtain staff with the skills needed to provide public services that meet client needs, and to face current economic and governance challenges. This requires both the use of workforce planning and succession planning to determine capacity and capability, and a focus on workforce mobility measures.

As a result of the economic crisis, a number of governments are seeking to reduce spending by cutting the number of public sector staff and limiting recruitment and promotion opportunities. While this may create opportunities to lose unproductive staff,

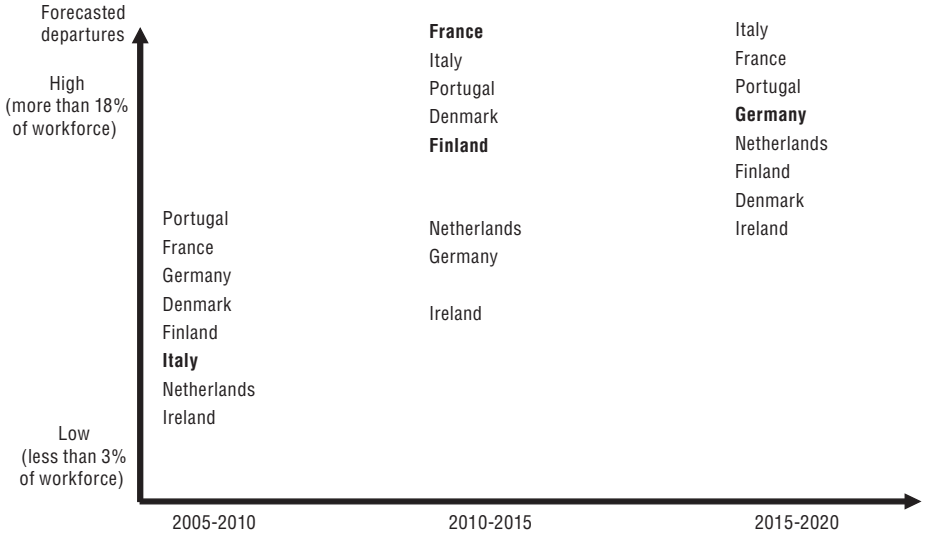
administrations need to ensure that they are not losing the best of their staff to the private sector, and that they are not creating "generational gaps" or future skills shortages that can affect their capacity to address long-term challenges. This is exactly the situation facing Finland. Its public administration is approaching a critical time, with the ageing of the public sector workforce and a large number of expected retirements over the next five years. While this situation has a high risk of paralysing the Finnish public administration if not addressed, it also provides the opportunity for renewal and an impetus for driving a change in organisational culture. The Finnish public sector seems to be approaching a challenging stage in which yet-to-be-completed structural changes and continued ambiguities in cross-government leadership could lead to an incapacity to adapt quickly to existing and future challenges. There are a number of challenges in the current systems which are major barriers to becoming more strategically agile.

Ageing public sector workforce

Finland is facing an escalating financial burden and critical workforce capacity issues as a result of an ageing population. An ageing population creates immediate pressures for changes in service delivery with implications for human resources management in government, including: *i)* the need to re-allocate human resources across sectors resulting from an increased demand for additional staff in the social sectors; *ii)* the need to re-think the division of labour between government and the private sector in terms of service delivery – especially in the social sectors – and its implications for the status of staff working in those sectors; and *iii)* pressures to reduce staff costs due to mounting fiscal burdens created by an ageing population.[18]

Finland, along with some other OECD countries (in particular Denmark, France, Germany and Portugal), faces immediate challenges with increased departures due to an ageing public sector workforce. However, the largest waves of retirement in these countries will start between 2009 and 2015 and will continue until 2020 (see Figure 6.6).

Figure 6.6. **Forecasted workforce retirements due to ageing at central government level**



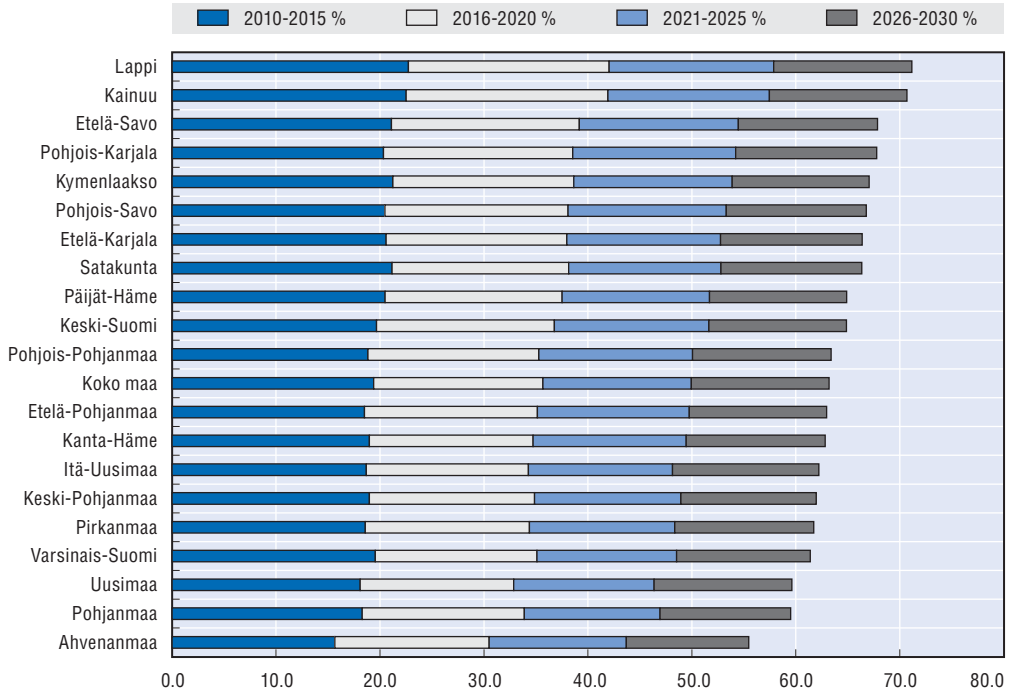
Notes: Percentages of current workforce cumulative over the entire five-year periods.
Countries are in bold when they start to face significant decreases in the population of economically active workers in the general labour force.

Source: OECD (2007), *Ageing and the Public Service: Human Resource Challenges*, OECD, Paris.

A significant number of staff in the senior leadership pool will retire in the next three to five years, including 80% of senior leaders. It is estimated that by the year 2020, 90% of current senior management in the central government will have left due to retirement or for employment in other sectors. The corresponding figure for middle management and senior officials is 69%.[19] The occupational group with the highest natural attrition rate in the Finnish state administration is senior management. The average of the central government's senior management is 12 years higher, and for middle management eight years higher, than that of central government personnel as a whole.[20]

Due to the demographic age imbalance in Finland, it is estimated that by 2020, half of the current personnel at the municipal administration level will retire. This will leave municipalities competing against one another for employees. The rise in public sector retirement levels (see Figure 6.7) will affect all municipalities, but the smaller and more remote ones will face greater difficulty with respect to shortages in teachers, healthcare and social workers, etc. The government estimates that staff numbers in municipal healthcare and social service provision will need to be increased by 4 000 annually to meet the growing service needs of the expanding elderly population.[21]

Figure 6.7. **Finnish municipal employee retirements, 2010-2030**



Source: Finnish Association of Regional and Local Authorities.

For several years, the Finnish government has been aware of the risks of an ageing population and ageing workforce, and proactive in implementing measures to mitigate this situation. In comparison to other OECD countries, Finland has been a frontrunner in linking wider public sector management reforms to the need to improve productivity due to an ageing population. The main objectives of Finland's ageing strategy has been to reduce public costs, ultimately through increases in public sector productivity. Towards this end, the main policy programme of the ageing strategy – the Productivity Programme for the Public Sector, 2005-15 – proposes a downsizing of the public sector workforce

through non-replacement of a significant number of current personnel, who are scheduled to retire in large numbers over the next five years (see sub-section in this chapter on the Productivity Programme).[22] As discussed earlier, the Ministry of Finance expects over 5 500 public servants to retire or transfer elsewhere every year during this period (see Figure 6.1, in the sub-section on the Productivity Programme).[23]

Finland, which is one of the OECD countries most heavily and earliest affected by an ageing public service, has delayed the mandatory retirement age for civil servants, decreased pension rates in the case of early retirement, and improved working conditions for older workers. However, these measures can at best delay the peak of massive departures by two to three years. Nevertheless, as Finland has a clear policy of downsizing at the central government level, this might provide room for hiring staff in the health sector – although how such a trade-off would work remains unclear. Finally, Finland places an emphasis on lifelong learning, improved training for managers, and labour-market-wide measures to improve the attractiveness and capacity of public sector employment.[24]

While the public sector must respond to the changing demands made by an ageing society, the exit of a large number of experienced civil servants through retirement over a relatively short time period must be managed. Significant staff departures are an opportunity to bring staff with new skills into government, decrease staff numbers and staff costs (as entry-level salaries are lower), and change the allocation of staff across sectors. However, they are also a challenge, with the loss of key capacity and the need to postpone the retirement of some key staff.

This staff turnover provides an opportunity for change and renewal. The ageing public sector workforce is a known event, which will provide a platform from which to re-invigorate the public administration and to stimulate new approaches to innovation and leadership; this is critically needed in the Finnish public sector workforce (see sub-section on leadership in Chapter 5). However, the significance of these retirements is not to be underestimated – a significant public-administration capacity issue will first need to be negotiated, at both the local and state levels of administration.

Unless productivity increases through the Productivity Programme are significant, the government will need to maintain capacity through the public administration by both hiring and re-allocating staff in large numbers. The government has already started moving state staff as part of its relocation programme, but this programme is targeted at stimulating economies in regional Finland *(e.g.,* by relocating state services from Helsinki and other urban areas to regional locations) rather than re-allocating staff to increase workforce productivity.

Increasing workforce flexibility through devolved recruitment practices

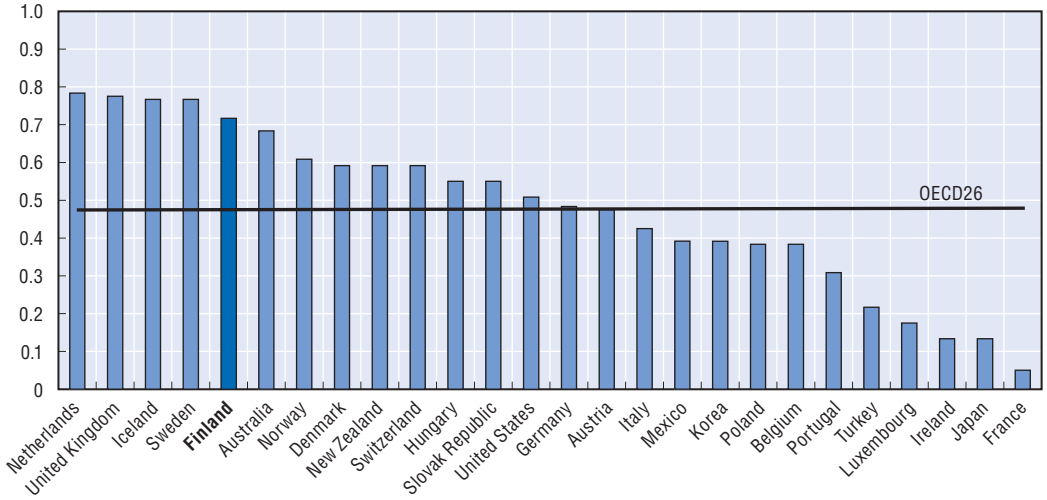
The objective of recruitment systems is to ensure that government organisations have the right number of people with the right skills and values at the right time. This is particularly critical for public administrations working to increase resource flexibility.

Countries' ability to increase their flexibility to deploy resources includes managers' ability to adjust their workforce quickly in response to a changed environment. Countries across the OECD run variations on career-based or position-based recruitment systems. A career-based system is characterised by competitive selection early in the public servants' career, with higher-level posts open to public servants only. Career-based systems tend to cultivate a dedicated, experienced group of civil servants. In contrast, in a

position-based system, candidates apply directly to a specific post, and most posts are open to both internal and external applicants. In general, recruitment systems that are open to external candidates at any point in their careers provide managers with the possibility to adjust their workforce more quickly in response to a changed environment. However, while these systems offer managers flexibility, they make it more difficult to maintain cross-government values. For example, central bodies must pay more attention to recruitment processes to guarantee merit-based selection at all position levels.

In Finland – as in Australia, the Netherlands, New Zealand, Switzerland, the United Kingdom and the United States – all or most levels of posts in the civil service are open to external recruitment, and applicants can apply through direct application for a specific post. In other countries with career-based systems – like in France, Ireland, and Japan – employees are recruited almost exclusively at lower levels and move up to higher positions throughout their time in the civil service (see Figure 6.8).

Figure 6.8. **Type of recruitment system used in central government (2005)**



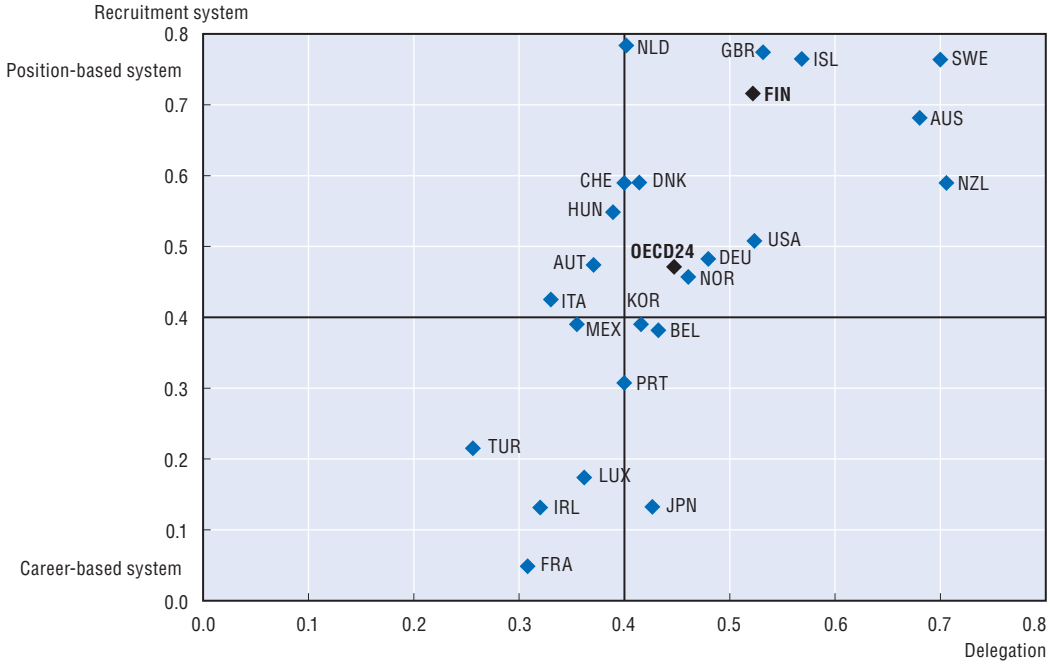
Index comprised between 0 (career-based system) and 1 (position-based system).

Note: This index describes a spectrum of recruitment systems in place in OECD member countries. It does not evaluate the performance of difference systems.

Source: OECD (2009), *Government at a Glance*.

Countries with more position-based recruitment systems also appear to grant line ministries more authority to make HRM decisions. In Australia, New Zealand and Sweden, line managers have significant flexibility in determining both who they hire and the conditions of employment. However, there are exceptions; while the Netherlands and Japan grant line ministries similar levels of authority to make HRM decisions, the Netherlands uses a position-based system whereas Japan uses a career-based system to recruit employees. Figure 6.9 shows Finland's position in relation to other OECD countries on the relationship between the type of recruitment system and delegation of HRM decisions in central government. Finland has a position-based system with moderate levels of HRM delegation to line ministries. It was not within the scope of this review to further address the level of HRM devolution in the Finnish public administration, but greater levels of HRM devolution to line managers in line ministries would provide greater flexibility in moving staff quickly in response to changed environments. Such a move,

Figure 6.9. **Relationship between type of recruitment system and delegation of HRM decisions in central government (2005)**



Source: OECD (2009), *Government at a Glance.*

however, does come with trade-offs in terms of the level of efficiency and effectiveness that can be achieved due to disparate HRM practices operating across the public service and within individual ministries/agencies.

While the Productivity Programme aims to passively downsize the public sector workforce, there is still a need to recruit new staff to replace the large number of retirees. Due to the ageing public sector workforce, maintaining public service levels in Finland is estimated to require recruiting 20% of the available workforce in the coming years. Finland has a recruitment plan to bring in 16 000 new employees during the period 2005-11, enabling it to maintain half its current workforce. Passive workforce downsizing will be balanced with targeted recruitments, to respond to increasing service demands. Competency needs have already been quantitatively assessed.[25] In addition, while not replacing all staff leaving for retirement, the government has adopted measures to keep some older staff at work, and has planned increased hiring in some sectors (though the OECD has not seen the detailed plans).[26]

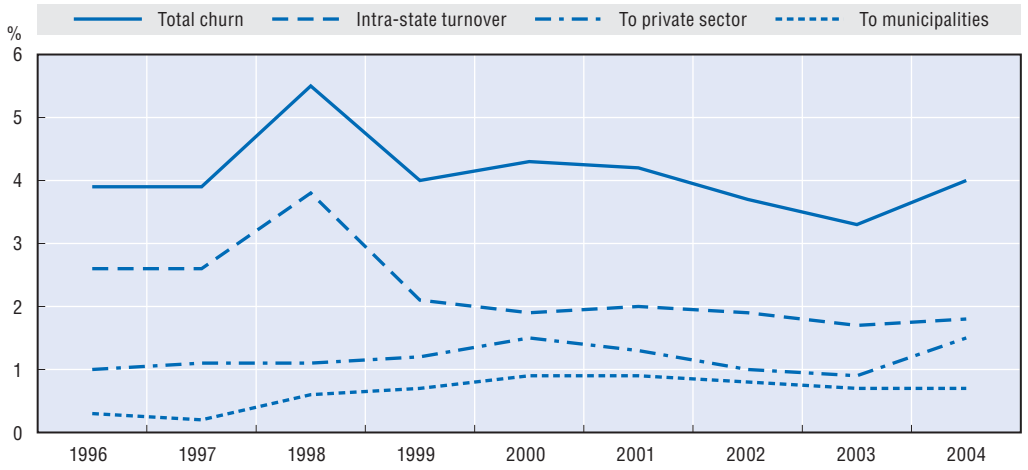
Another reported challenge that Finland faces is attracting young people into the public service workforce. Young people have different expectations in the workforce, are more demanding and idealistic, and do not have the same level of public service commitment as earlier cohorts. This creates a challenge for ministries' HRM teams. The Finnish public sector's ability to invent itself as an employer of choice for younger Finns will be critical for the renewal of the public service workforce. Placing the optimal balance of creative, young potential leaders within the public administration can help support a workforce transition strategy. However, Finland will need to be careful not to re-invent a similar future workforce capacity issue by over-relying on bulk recruitment of younger workers (*e.g.,* those under 30), ahead of the forthcoming retirements.

Increasing workforce flexibility through mobility

Another way to increase the flexibility of the public sector workforce is to encourage workforce mobility. Workforce mobility is defined as "the patterns of intra-and inter-organisational transitions over the course of a person's work life".[27] For the purposes of this review, workforce mobility includes internal movements between ministries/agencies at the state level (including lateral and downward movement, acting appointments and promotions); movements between the state administration and the sub-national levels; and movements to the private sector.

In the Finnish public administration, there is little mobility of staff across ministries at the state level (see Figure 6.10), between the state and municipal levels of administration, and between the public and private sectors. The levels are comparable in other OECD countries (based on limited available OECD data); mobility is an important issue for most public administrations. The lack of mobility encourages ministry silos at the state level, which create a barrier to horizontality and collaborative working. In addition, as many leaders are only experts in their field rather than generalist managers, they tend to have less diverse experience and lack horizontal and whole-of-government skills. The lack of mobility also increases distance between the state and the citizen by impeding cross-fertilisation with municipal staff. The lack of public-private mobility inhibits the adoption of private sector innovation.

Figure 6.10. **Staff mobility in the Finnish State Public Administration (1996-2004)**



Source: Ministry of Finance, Finland.

Ensuring depth of experience and exposure to public sector skills and methods is essential for developing cross-sectoral or cross-ministry/agency capacities. This is particularly important in leadership positions. Mobility between departments and between ministries remains low in many OECD countries: between 0.15% and 2.5% of staff per year for the countries which provided data. Few countries, however, seem to keep a record of mobility across ministries (see Table 6.2). The latest information for Finland shows intra-state staff mobility (movement of employees between ministries in the state administration) as 1.8% in 2004. Mobility of staff between state ministries has been declining over the time series, from 2.6% in 1996.

Table 6.2. **Proportion of employees who have moved between departments/ministries**

	%
Norway[1]	2.5
Portugal	2.2
Australia[2]	2.0
Netherlands	1-2.0
Finland[3]	1.8
Italy[4]	1.3
Sweden[5]	1.0
Korea[6]	0.2

1. Between 2004 and 2005.
2. Between 2004 and 2005.
3. 2004.
4. Estimate; from 1992 to 2002: 9 515 (13%).
5. Estimate; around 8-10% moved between departments/ministries between 1995 and 2003 (calculated on those who stayed in the sector) while the last two years show a somewhat lower mobility, 6.1%.
6. Estimate; from 2001 to 2005: 0.80%.

Source: OECD (2008), State of the Public Service, unpublished data; answers provided to the 2006 *OECD Strategic Human Resource Management Survey*.

At this stage, research has not identified an ideal or optimal rate of workforce mobility. This is because ideal mobility rates depend on the country and organisational context. For example, in general, by their very nature, central agencies tend to experience higher levels of mobility than line ministries and agencies. Thus, in looking at the mobility rates for employees between departments/ministries (for which the OECD has data), Finland's mobility rate within the state administration is above the average for the OECD countries, where data is available, though the declining trend should be investigated.

Interestingly, the available data shows the greatest mobility at different post levels across countries. While positions at higher levels or requiring specialised skills see the most movement in Australia, Finland, or Portugal, mobility between departments or agencies occurs more frequently with lower-level posts in the Netherlands, Spain, and Sweden (see Table 6.3).

Table 6.3. **Types of posts that are most affected by mobility between departments**

Australia	Higher levels.
Finland	Experts.
Ireland	All government departments are affected. It is likely that specialist offices (*e.g.*, the Attorney General's Office) experience less mobility than generalist Departments.
Netherlands	Lower academic scales.
Portugal	Higher-level career officer.
Spain	In general, posts with lower remunerations and those dedicated to informing citizens (open offices).
Sweden	For administrative analysts, there are many jobs to choose from in the central government sector. Therefore, it is also more common that changes occur within this area.
	It is quite common to change jobs between universities.
	It is also quite common to change departments within the national defence or within the police force.
United Kingdom	All departments and posts at all levels.

Source: OECD (2008), State of the Public Service, unpublished data; answers provided to the 2006 *OECD Strategic Human Resource Management Survey*.

Recent trends concerning mobility between departments have shown more increases in career-oriented systems (*e.g.,* Austria, Belgium, Hungary, Ireland, Korea, Luxembourg) than in position-based systems, but increases have also occurred in the United States. Similarly, countries that seem to put more focus on internal mobility (both between departments and within departments) are mainly career-based systems. Indeed, plans to increase mobility both between and within departments exist in Austria, Belgium, Germany, Hungary, Italy, Portugal and Spain.

Some countries with well-integrated HRM arrangements between the sub-national and the national/federal level report that sub-national government levels tend to have difficulty attracting high-quality applicants (*e.g.,* Hungary, Korea, Spain),[28] that staff do not have enough career and mobility opportunities among sub-national government organisations and between government levels (*e.g.,* Czech Republic, Korea, the Netherlands), or that, in practice, high accountability and ethical standards are not ensured in the management of staff at the sub-national level (*e.g.,* Hungary, Korea). As Figure 6.10 shows, mobility of staff between the state and sub-national levels of government in Finland is very low, at 0.7%. However, this rate has been steadily increasing, albeit slowly – up from 0.3% in 1996. Qualitative reports to the OECD confirmed that mobility between the state and sub-national levels of administration was generally low. It was posited that the reasons for this were more value-based and similar to low mobility between state ministries, where staff prefer to specialise in a particular area and live in a particular region. Interestingly, mobility between state and sub-national levels of government appeared to be higher for more senior and specialist positions.

The Finnish public administration system develops and values highly specialised expertise over generalist management skills; this reinforces a lack of workforce mobility. During interviews with the OECD, it was noted that there are no formal barriers to mobility in the Finnish public administration as such, but that a resistance to moving around is a characteristic of Nordic culture, where people like to stay close to home. Personal preferences were given as a reason for the low workforce mobility – with the barrier to mobility being a collective cultural mindset issue. In relation to state/municipal mobility, it was said that there is a strong passion for municipal work in Finland and thus staff prefer not to transfer to work in the state administration. However, a number of people in leadership positions in the state administration interviewed by the OECD do seem to have worked in municipal administration or the private sector. One hypothesis is that there tends to be more mobility at the higher levels of the public administration. This impacts low mobility in the middle to low levels of the public administration, which are the feeder groups to management positions. The ageing of the public administration leadership and impending retirements means there is a risk that very low mobility in feeder groups will intensify ministerial silos and have a negative impact on horizontal working relationships.

Higher levels of mobility help to develop networking, communication and collaboration skills – and to broaden skill sets essential for collaboration and co-operation and which are needed to embed horizontality in working methods. Finland must improve the mobility of civil servants between organisations as a potential mechanism to promote co-ordination. Not only would this permit civil servants to expand their sectoral knowledge-base and more readily identify synergies between sectors, but it would also strengthen networking among colleagues, facilitating collaboration.

Enhancing the mobility of civil servants throughout the public administration at all levels will not only promote an integrated public administration perspective for key staff,

but also help to improve coherence and co-ordination of policies and programmes, collectiveness, and leadership vision. Mobility can be increased through secondments or exchanges. However, it should be noted that just providing these opportunities is not sufficient; the diversity of experiences must also be valued and publicly recognised as an important input to the public administration. This means defining competencies and identifying hiring and promotion criteria that are not, in themselves, defined by traditional public service career paths.

Increasing workforce flexibility by building capability

The ageing of the public sector workforce in Finland means that the forthcoming retirements will bring not only gaps in workforce capacity, but also capability and/or knowledge gaps. Workforce capability refers to the public sector workforce's ability to understand or use the necessary skills and experience to effectively undertake the tasks devolved to it. A key component of achieving strategic agility is ensuring that the public sector workforce is staffed with appropriately skilled and experienced workers. This includes addressing current and future workforce capability gaps – ensuring that the public sector workforce includes staff with the appropriate skills and experience to tackle current and future policy challenges.

Skills capacity within the public administration is a key element to achieving change. Unless the public workforce acquires the skills for implementing the changes needed to become strategically agile, the public administration will struggle to achieve the momentum that can make the change stick. This report has highlighted key skills areas which will be critical to helping the public administration become more strategically agile and situate itself to meet the challenges of an increasingly complex policy environment:

- *Strategic thinking* – Building strategic insight in public administration requires the administration's staff to be strategic thinkers. As highlighted in Chapter 4, Finland's public administration has the capacity for strategic thinking, which can be evidenced by the development of the foresight report and through the various foresight bodies. However, strategic thinking is not systemic within the public administration at all levels. Interviews with staff demonstrated that they feel they do not have the time for strategic thinking, but rather only the time and resources to concentrate on the job of the day. Every public servant needs to set aside the time for scaled strategic thinking, and the percentage of time spent on strategic thinking activities increases relative to the position/level. Strategic thinking involves the ability to be future-minded and to be aware of organisational and whole-of-government objectives/agendas/visions. It includes being able to consider external forces and to consult with a wide variety of stakeholders, to absorb and analyse disparate ideas and information, and to anticipate and articulate plans of action.
- *Citizen engagement* – Chapter 4 also highlighted that in an increasingly complex policy environment, the relationship between citizens and governments has been expanding. The capacity of the public administration to actively work with citizens, business and civil society organisations as part of everyday policy and programme development and implementation processes is essential for achieving strategic insight and collective commitment to the government's agenda. Citizen engagement activities are not embedded in the culture of the Finnish public administration. While positive steps were taken to offer training on citizen participation as part of the Citizen Participation

Programme, Finland's public sector staff requires continued training to increase its ability and confidence to engage with citizens in a manner that is efficient and effective.

- *Leadership* – As discussed in Chapter 5, the capacity for active leadership will be key to achieving collective commitment in the public administration. Moving Finland's public administration to a new paradigm will require strong leadership to change the existing culture. In addition, the ageing public sector workforce will see 90% of the current senior management in the central government retire by 2020. This impending loss means that leadership training needs to be provided to those senior managers "in waiting", who will become Finland's future senior public administration leaders. Leadership training also needs to be provided to staff at the middle management level and to those managing teams. Managers have an important role to play in motivating staff, and providing a clear vision for the work programme and the commitment needed to work collectively.
- *Cross-sectoral and cross-government experience* – Formal collaboration across sectoral and siloed ministry boundaries is essential to achieving strategic insight and collective commitment, as discussed in Chapter 5. The ability for strategic insight relies on a public administration that can work outside the remit of any one sectoral area. This not only increases staff members' knowledge and experience but also opens their minds to new experiences and new ways of working. Increasing cross-sectoral experience can also help to increase workforce mobility and whole-of-government co-ordination and collaboration (both within the state administration and between the state and sub-national administrations). This can also be achieved through secondments and increased use of focus groups in the development of new policies.
- *Innovative thinking* – Workforce capacity provides a justification for e-government and the Productivity Programme reforms. Rather than replacing staff, the focus could be developing the capacities needed to allow the public service workforce to become more efficient, productive, and innovative in its working methods. As discussed, the public administration needs to make effective use of innovative tools and practices. Innovative thinking helps people become leaders, be creative and be competitive. Innovative thinking is very closely linked to strategic thinking and involves gathering information, the ability to harness that information and to think "outside the box", to solve problems and to take risks and communicate ideas. Innovative thinking should take both a bottom-up and a top-down approach, where all staff in the public administration look for ways to increase the productivity, efficiency and effectiveness of government operations within their own spheres of influence and at the whole-of-government level.

HAUS (the Finnish Institute of Public Management) is Finland's centralised public sector training provider. It is a full-service training institute providing open training programmes as well as tailor-made training. Its main focus is public administration and management training (see Box 6.10). HAUS offers leadership training to the public administration, and it is understood that HAUS and the Public Management Department in the Ministry of Finance already have a strong working relationship. Given the training needs of the public administration, perhaps HAUS could assist the Public Management Department in preparing a whole-of-government workforce and succession planning programme to refresh the skills of the state public administration. These skills should be based on the public sector values that will be of importance to achieving strategic agility – strategic thinking, citizen engagement, leadership, collaboration, and innovation.

Box 6.10. **HAUS: Training in public administration, management and leadership**

The Finnish Institute of Public management, HAUS, is a state-owned company providing training services to state and sub-national public sector organisations, and to private organisations and companies and international customers.

Training on public administration

- Human resource management.
- Budget and accounting.
- Public procurement.
- Organisation of public services.
- Law drafting and administrative law.
- European issues.
- Good governance and civil service ethics.
- Training of trainers.

Management training

- Executive programmes for senior management.
- Performance management programmes for middle management.
- Corporate governance.
- Strategic management and leadership.
- Change management.
- Team building.

Source: HAUS, Finland.

Workforce capacity and capability planning are critical to achieving sustained organisational performance and accountability through the development of a capable workforce. Workforce planning is a key component of strategic human resource management (HRM); in the knowledge economy, the collective set of knowledge, skills, abilities and competencies developed by an organisation's workforce is arguably the most important determinant of its ability to sustain long-term success. Workforce planning is a mechanism through which departments/agencies can ensure that they are staffed with people who have the appropriate skills, knowledge and abilities to undertake the work of the organisation now and into the future.

Finland has acknowledged the need for workforce planning. In 2006, the State Employer's Office highlighted that:

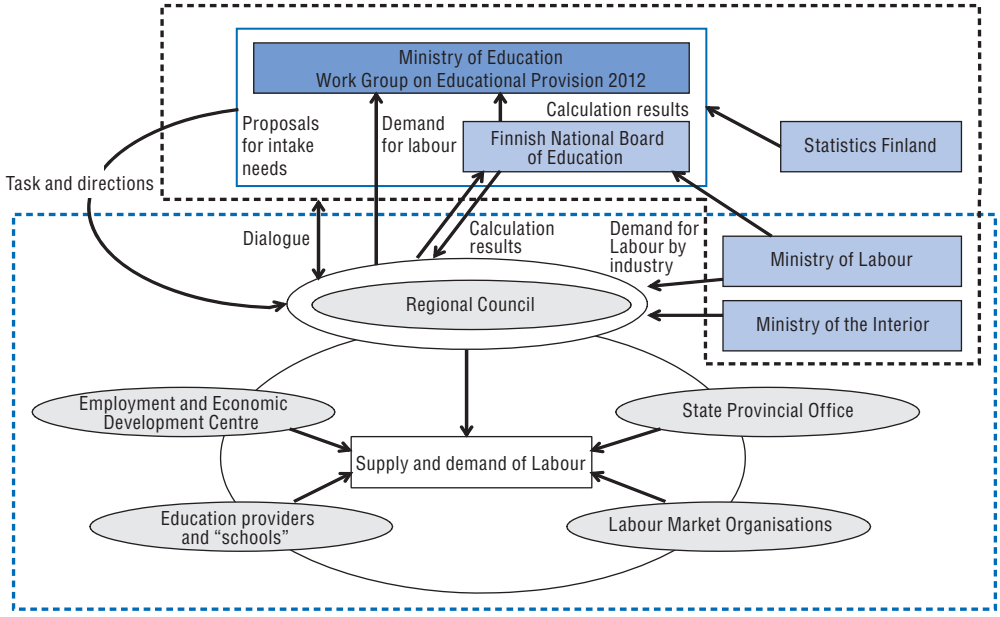
> "*for reasons of well-being at work and ageing of the workforce, attention has in recent years increasingly focused on the maintenance, development, transfer and acquisition of new knowledge. Competence calls for investments in human resources planning, which will become increasingly important, as retirement will create opportunities for improving operations. These opportunities will have to be exploited. Demands for the management of competence as part of management will gain increased importance.*"[29]

Unfortunately, the scope of this review does not allow for a detailed analysis of HRM practices, and thus workforce-planning-related issues have not been treated in-depth. However, given the ageing workforce and key importance of staff to strategic agility (both

capacity and capability), it is recommended that Finland pay special attention to mapping capacity, skills and training – now, and into the future – and that it put measures in place to increase the flexibility and mobility of the workforce. This will allow the government to ensure that staff have the skills and experience required, and also that they can be redeployed as circumstances require.

It would appear that ongoing sectoral workforce planning activities are examining capacity and capability. The Ministry of Social Affairs and Health has been undertaking workforce planning to ensure the sufficiency of the workforce in social and healthcare. Planning for a skilled nursing and social care workforce, Finland is using a cross-sectoral networking approach, co-ordinating intake needs in education and training with the demand of work life (see Figure 6.11). Given increasing shortages of personnel in municipal social and healthcare, (from an average of 2.7% in 2005 to 5.0% in 2008) the ageing of the population and public sector workforce will only place greater pressure on the public sector to deliver efficient, effective quality health and social services.

Figure 6.11. **Ministry of Social Affairs and Health – Actors and networking: Planning of workforce demand and education needs**



Source: Ministry of Social Affairs and Health, Finland.

While individual sectoral workforce planning exists, there is an absence of a whole-of-government workforce capacity and capability strategy or plan. The State Employer's Office has noted that skills mapping and anticipation of labour requirements will emerge as key challenges, particularly the reform of local-government service structures.[30] Capacity development appears at the individual level, rather than formally being mapped and projected at the whole-of-administration level, and then filtering down through ministries and agencies to individual staff and to the sub-national level. Public sector employers give strong support to the development of employees' skills and competence, and short- and long-term development needs are discussed in annual personal appraisal reviews with supervisors. But this information is not collected and utilised at the whole-of-administration level.

The integration of public management issues for both the state and municipal levels within the Ministry of Finance has helped to increase their profile; however, a stronger presence to co-ordinate capacity and capability issues across the public administration is required. Some OECD countries have a separate agency or ministry that has responsibility for the co-ordination or leadership of building capacity and capability in the public administration, and providing an overall vision for workforce capacity and capability planning. Whether or not decisions are taken to separate this function into a separate agency is a matter for individual countries. However it is structured, the lead function for co-ordination and/or leadership in public administration workforce issues must be strong. In particular, there is a need for co-ordinated and integrated whole-of-administration workforce planning. Producing a yearly report on issues in the public administration that includes capacity and capability reporting would help to raise awareness of the importance of the public sector workforce to efficiently and effectively achieving the government's agenda.

Linking HRM into an organisation's corporate planning is a key strategic function of HRM specialists. Strategic integration is generally defined as the level at which the development of the organisation's business strategy considers HRM issues and looks at the extent to which HRM is linked to corporate decision making. Successful strategic integration is extremely powerful in providing a consolidated outlook for the business of the department/agency and ties together the organisation's human capital and business goals. It would be in Finland's interest to link foresight and strategic planning practices with workforce planning to ensure that Finland has the right people with the right skills and experience available to serve the government of the day, today and into the future.

Conclusions

Strategic agility can only be achieved through the concurrent accomplishment of strategic insight, collective commitment and resource flexibility. The Finnish public administration has limited capacity, however, to flexibly adjust resource allocation (both human and financial) as needed. This seems to be the case at all levels:

At the service delivery level, the experiences of the Productivity and the Basic Services Programmes show that many parts of the public service – in particular, small bodies and municipalities – lack the capability to innovate in public service delivery, which is necessary for increasing the efficiency and effectiveness of public resources. In many cases, such innovation requires the ability to work across funding streams and programme boundaries in order to develop economies of scale and to tailor delivery to user needs. Incorporating existing work on public management at the state level and building up work on performance measures and exchange of good practice at the sub-national level would help to release the innovation needed to help sustain the Nordic model in Finland.

At a government-wide level, existing practice does not support the public administration's ability to re-prioritise policies and programmes during a term of government in order to respond to critical emergencies. Many of the barriers are not legal, but linked to the silo mentality and to internal controls. This is true both in the case of financial resources, where ministries do not seem to exercise their full re-allocation authority within their administrative sector, as well as well as personnel resources, where a focus on expertise limits public service mobility. Even upon the commencement of a new term of government, the lack of processes to update the operational programme of the public administration (*e.g.*, by eliminating out-of-date priority areas) reduces its ability to

be responsive to government and to achieve the government's stated programme/agenda within existing resources.

Improving the Finnish public administration's capacity for strategic agility will depend on the appropriate alignment of steering, performance management, and resource allocation functions, beginning in the Centre of Government. This will require a concerted effort by the leadership within the public administration to help foster a new attitude to manage financial and human resources in a less rigid and more flexible manner.

Key recommendations: Resource flexibility

Use the budget as a crucial tool to foster strategic agility

- Align the steering of resources and performances within the budget, including very focused information on the financial and performance assessment of the respective budget cluster.

Put mechanisms in place to prioritise high-level objectives

- Assure the "pricing"/cost estimate of the proposed Government Programme in order to ensure that it is consistent with available resources. This would also require the government to come up with "offsets" to pay for the cost of new priorities, by identifying areas that are lesser priorities.

Put mechanisms in place to re-assess needs

- Implement a systematic assessment and evaluation culture to foster priority setting and resource flexibility: introduce systematic *ex ante* financial and performance assessment of new legal regulations and programmes and evaluate the results after a certain period of time.
- Use the mid-term review as a means of reviewing the objectives of the Government Programme and not just to re-assess implementation.
- Consider using programme review to eliminate and/or reduce "programme spread" and to refocus the work of the public service on priority areas.
- Review internal red tape across government bodies in order to identify opportunities to further streamline operations and to increase efficiency.

Improve financial resource flexibility

- Increase flexibility of ministries and local authorities to use their existing authority to re-allocate funds within their administrative sector.

Combine restrictive expenditure ceilings with full end-of-year flexibility for line ministries and administration units

- Improve inter-ministerial transfer authority by better linking medium-term budget frameworks with the achievement of performance targets.

Improve resource flexibility of people: strengthen capability to realise the government vision

- Align incentives and capability to innovate by tying soft tools that enable innovation, *e.g.*, training and technical assistance, with hard tools that create pressure for innovation, *e.g.*, Productivity Programme.
- In view of the ageing workforce, conduct whole-of-government workforce planning to identify sector and cross-government hiring and development needs, starting with capability reviews.
- Build local capacity through comparison and benchmarking, sharing of good practice, networking, and mobility opportunities, *e.g.*, through secondments.

Notes

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17. *Ibid*.
18. OECD (2007), *Ageing and the Public Service: Human Resource Challenges*, OECD, Paris, p. 15.
19. *Ibid*., p. 25.
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22. OECD (2007), *Ageing and the Public Service: Human Resource Challenges,* OECD, Paris, p. 120.
23. *Ibid*., p. 34.
24. *Ibid*., p. 36
25. *Ibid*., p. 129.
26. OECD (2007), *Ageing and the Public Service: Human Resource Challenges,* OECD, Paris.
27. Ng, *et al.* (2007) "Determinants of Job Mobility: A Theoretical Integration and Extension", *Journal of Occupational and Organisational Psychology,* 80, pp. 363-386.
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Chapter 7

Basic Services Case Study

Objectives and characteristics of the Basic Services Programme

As discussed in Chapter 2, the elderly dependency rate in Finland is relatively high compared to other OECD countries, and it will become higher as the population ages. Between 40% and 50% of current municipal employees in Finland's regions are expected to retire by 2020, which might present particular problems for remote areas where both retirement rates and public employment shares are higher. In addition, the ageing population will create new needs for welfare services. Finally, there are internal migration trends towards urban centres in Finland; population growth is concentrated in urban regions in central and southwest Finland, and even within remote regions the population growth in cities is significant.

In light of these demographic trends – and the challenges connected to intense global economic competition – Finland has taken collective action to sustain its public services, with the involvement of both the state and sub-national governments. Key basic services – such as primary and vocational education, primary healthcare, and basic social services – are the focus. Basic services are a common responsibility in Finland: they are funded in part by state government, national-level legislation mandates a minimum standard service level for certain services, and municipalities are responsible for determining the best mix of services and mechanisms for delivery to the public. Effective management of basic services is important from a fiscal sustainability standpoint, but their importance goes much further. They are one of the most important, and personalised, interfaces between government and citizens, and their mode of delivery (*e.g.,* local schools and clinics) can have a significant impact on the life of local communities, particularly in rural and isolated areas.

Programme objectives: three characteristics of the Basic Services Programme

The Basic Services Programme was introduced to secure effective local public service delivery in the coming decades. It aims both to facilitate the management and financing of local government services, and to strengthen linkages across lines of service delivery to encourage innovation and build local capacity. As such, the Basic Services Programme is linked to a wider discussion on the sustainability of the Nordic welfare state: in all Nordic countries, rising costs of welfare services and increasing demands for these programmes present challenges to the public sector.[1]

The Basic Services Programme in Finland is at once: a government document, a governance procedure and a central government grant reform effort. These elements are highly inter-related. The Basic Services Programme document is produced using the Basic Services Programme process and relates to funding streams that will be consolidated into one central government grant for basic public services. Despite these connections, it is important to distinguish the three elements, which present different challenges and implementation issues.

Government document: The Basic Services Programme was introduced in 2003, and includes an annual budget review and service assessment. The central document provides

an overview of the state of basic local government services, evaluates changes in the demand for services, and analyses trends in local government revenue and the measures required to balance local government expenditures and revenues. Basic services are defined as the services that local governments provide and fund, based on special legislation. The programme emphasises statutory services funded through government transfers for social welfare, healthcare, education and culture. These services account for more than three-quarters of total local government expenditure. The basic public services budget, which provides an overview of local government finances including central government grants, is submitted in parallel with the national government's budget proposal.

Governance procedure: The Basic Service Programme forms part of a statutory consultation procedure between central and local government. The programme is prepared by a ministerial working group including the most relevant ministers (such as Finance, Public Administration and Local Government, Health and Social Welfare, and Education), as well as the President and Director General of the Association of Finnish Local and Regional Authorities. Through the Basic Services Programme, this ministerial group works to align policy across ministries responsible for designing and implementing delivery of key basic public services by local government. The Basic Services Programme also forms part of a negotiation procedure between central and local government to discuss legislation on local authorities, matters of municipal administration, and finances; this process is enshrined in the *Local Government Act*.

Central government grant reform efforts: The third element of the Basic Services Programme is a promised and ongoing reform of central government grants. In 2010, the government introduced an overhaul of central government transfers to local governments, replacing three large block grants with one general government grant for basic services, allocated by the Ministry of Finance. These three block grants cover: social services and healthcare, education (which covers pre-school, primary education and libraries), and the general (equalisation) grant. They were previously administered by the Ministry of Health and Social Services, Ministry of Education and Ministry of Finance, respectively. The basic services grant totalled EUR 7.8 billion in 2010 and represented about 80% of total government grants to sub-national governments. This grant covers 34% of total expenditures on basic services; the rest is covered by municipal revenue sources. The new grant will be allocated using the same criteria as the block grants, which guarantees that no municipality will lose grant revenues due to the reform.

The Basic Services Programme is related to a wider set of public administration reforms. It forms one part of the *Act on Restructuring Local Government and Services*, which also includes elements aimed at strengthening municipal and service structures through mergers and co-operation (PARAS), and transferring planning obligations in urban regions and other tasks (such as reporting on sexual abuse of children) from local to central government. Two other laws are directly relevant to the Basic Services Programme: the Act amending the *Act on Local Authority Boundaries*, and the Act amending the *Asset Transfer Tax Act*. The Basic Services Programme is ingrained in the strong tradition of multi-level government reforms in Finland.

Initiatives similar to Finland's Basic Services Programme can be found in other OECD countries. For example, annual documents summarising the state of local service provision and finance are relatively common in OECD countries, as are annual central-local budget negotiations (which occur in Denmark, the Netherlands, etc). Grant reform, in which specific

grants (also called earmarked grants) are consolidated into block grants, also takes place in other OECD countries. These reforms have resulted in declining shares of earmarked grants in local governments' revenue over the last decades. However, recently some OECD countries have started to re-orient their grants systems, for both welfare services and other services, towards more earmarked grants in order to compensate local authorities for the costs of complying with legislation creating new roles for local authorities.[2]

Challenges of the reform

The Basic Services Programme will be assessed based on its effectiveness in achieving the two key goals of efficiency and equity. For the purpose of this report, these two objectives will be considered in terms of: *efficiency* of public service provision, and *equity* between territories in the level of public services provided. These two goals intersect and could potentially present policy trade-offs. Efficient public service provision can contribute to regional development by strengthening underlying drivers of regional economic growth, such as human capacity, infrastructure and amenities, and enabling territories to become more competitive. At the same time, public service provision could be inefficient in some territories because limited population or remoteness do not allow for economies of scale; however, these services still need to be provided (regardless of cost) from a territorial equity perspective.

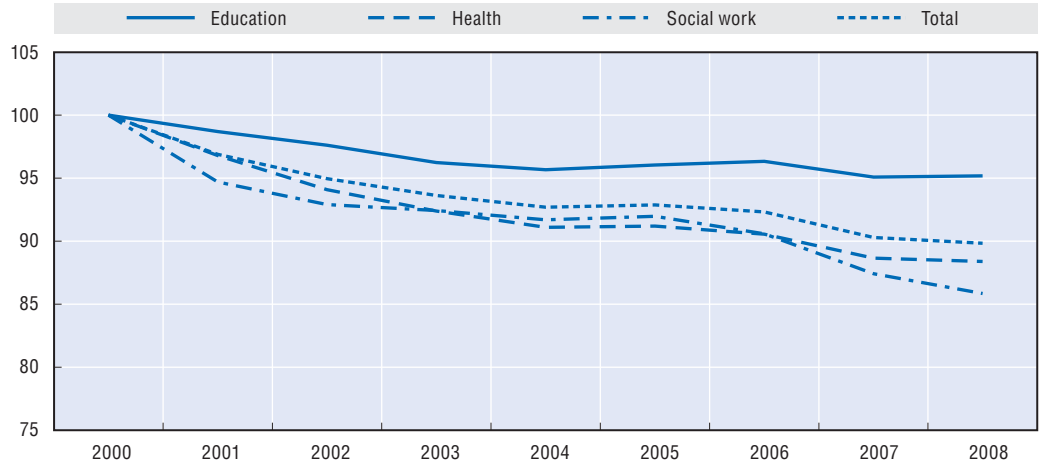
Achieving efficiency

Although the overall efficiency of Finnish local public services has not been assessed, studies indicate that some programmes might be very efficient.[3] Municipal health services, for example, appear successful: per-capita health expenditures in Finland have been lower than in other Nordic countries, which is attributable to relatively low wages for healthcare personnel and particularly effective cost management by municipalities.[4] In addition, Finland has long been one of the best-performing countries in the OECD/PISA study, which compares student performance in a variety of subjects (*e.g.*, language, mathematics, science) across countries, and which indicates a high quality of education provided by Finnish municipalities. However, studies by Statistics Finland indicate that overall productivity levels in local public services declined over the period 2000-08, especially in social work and health, and to a lesser degree in education (see Figure 7.1). Although the relationship between productivity and efficiency in public services is not straightforward, this might indicate that the efficiency of public services is an increasing concern. Studies on the outcomes of local public services in Finland do not exist.

There is no clear consensus on how much the efficiency of local public services varies among localities. Some studies indicate that there is considerable variation in cost efficiency of providing basic services including education, culture, social services and health services. Efficiency appears to be one factor that explains differences in municipal spending on these services, in addition to factors such as incomes, demographics and political variables.[5]

Comprehensive school education, for example, appears to be efficient across municipalities. Studies comparing education production and cost functions in Finnish municipalities during 1998-2004 show very small efficiency differences among municipalities.[6] Most differences were due to environmental variables and pupil characteristics, which cannot be directly influenced by schools or municipalities. Spatial and social segregation in Finland are limited, as illustrated by one of the lowest Gini

Figure 7.1. **Productivity growth in local public services, 2000-08 (index 100 in 2001)**



Source: Own calculations based on Statistics Finland (2009), Statistics on local government productivity, 2008.

co-efficients in OECD countries with regards to income inequality and inter-regional inequality.[7] However, these circumstances still impact local governments' ability to efficiently deliver educational services.

A variety of factors has been found to impact the efficiency of municipal service provision. Lower efficiency of municipal service provision is associated with peripheral location, high-income inhabitants (*i.e.,* high wages), large population, high unemployment, diverse service structure and a large share of services bought from other municipalities. Factors associated with higher efficiency include a high number of municipal workers aged 35-49 years, high population density and a high education level of inhabitants. The 10 municipalities identified as most efficient in local service provision were rather small and mostly located in southern Finland. Peripheral municipalities scored mostly below average, whereas the 10 biggest cities showed a varying performance, ranking between 65 and 317.[8]

No study has linked the Basic Services Programme (or its elements) to more efficient local service provision. The Basic Services Programme evaluation, which will be released in March 2010, is expected to provide some information on the impact of the Basic Services Programme on efficiency of local basic services. These indications will be on the macro-level, but the methodology provides a tool that could be applied to measure public service efficiency by individual municipalities. One committee of the ministerial working group on the Basic Services Programme, the Committee for the Municipal Economy, is currently building such a methodology using inputs from ministry representatives and researchers.

Evidence from reforms in other OECD countries suggests that programmes such as the Basic Services Programme can increase the efficiency of local public services when they go hand-in-hand with the following elements:

a) local autonomy and capacity, which clears local governments to actually use the freedom that comes with a general grant to make more efficient local allocation decisions;

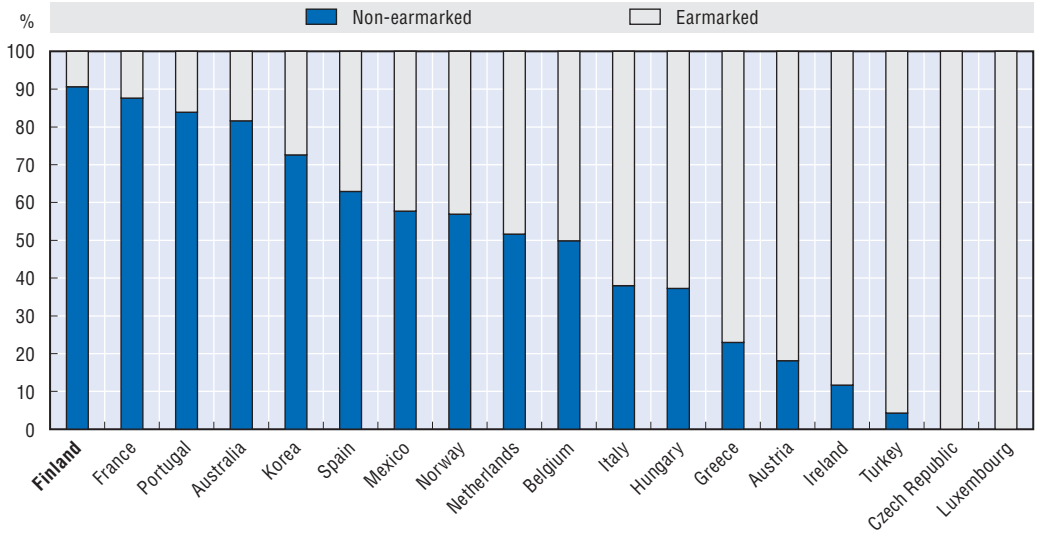
b) policy alignment and co-ordination among levels of government, which ensures that central government involvement (via sector requirements, for example) does not constrain the autonomy of local governments to build on relevant complementarities among policy fields to provide a specific local policy mix;

c) monitoring efficiency and yardstick competition (*i.e.*, competition among local governments using benchmarks that enable citizens to evaluate the performance of their municipality *vis-à-vis* other municipalities), which allows citizens to compare the performance of their local government against other municipalities and press their government representatives for more efficiency.

Local autonomy and capacity

Within the Basic Services Programme, the grant reform will have the largest consequences for local autonomy and capacity. Consolidating block grants into one general grant will give local authorities more possibilities to adapt funding to local preferences, taking into account local circumstances. Finland's 1993 grant reform paved the way for most of the current effort. Before 1993, over 90% of central government grants were specific matching grants. The 1993 reform reduced this number by consolidating specific grants into block grants. As a result, a very large share of government transfers to local governments was non-earmarked in 2006: 90% in Finland, compared to an OECD average of 48% (see Figure 7.2). The potential benefits of further reforms depend on the extent of local autonomy and capacity. If local authorities have only limited autonomy or capacity in terms of instruments, revenue sources or staff, they will not be able to reap benefits of the further consolidation of specific grants into a block grant.

Figure 7.2. **Earmarked and non-earmarked grants for local governments in OECD countries (2006)**



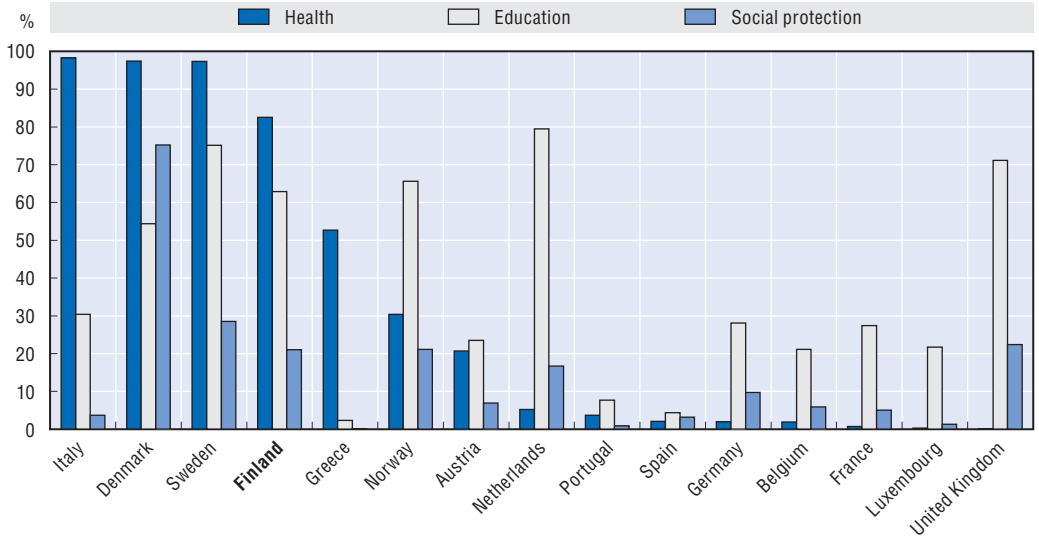
Source: OECD Network on Fiscal Relations Across Levels of Government Database.

The new municipal grants system implemented in 1993 reduced the sector-specific supervision of municipalities and gave them more independence in providing services. Studies have shown that specific cost-related grants were more expensive for municipalities than general grants. Additionally, grant lobbying was a common and widespread phenomenon under the old system. The new system has made it easier for the central government to co-ordinate macro-economic policy, and to cut grants. The reform significantly impacted the operations of joint authorities of municipalities whose finances depend more than ever on whether they can sell their services to member municipalities

and other buyers.[9] This incentive, combined with reduced grant lobbying, suggests that the grant reform has had a positive effect on the efficiency of local public service provision.

A variety of indicators show a high degree of autonomy among local governments in Finland. They have a broad range of responsibilities and policy instruments, as compared to counterparts in other OECD countries. Finland's local governments provide services that are not administered locally in most other OECD countries, or are to a lesser extent; local shares of government spending on public services such as health (83% in 2003), education (63%) and social protection (21%) are among the highest of OECD countries (see Figure 7.3). In addition, Finnish local governments have significant local fiscal autonomy including discretionary powers over several tax resources. Local tax revenues in Finland represented 20.7% of total tax revenues in 2005 (see Figure 7.4), and local governments have full discretion over tax rates for 90% of these revenues (compared with an unweighted OECD average of 73% in 2004). Local governments have more discretion over tax rates in only five OECD countries, and only Sweden's local governments generate more local tax revenues as share of GDP than Finland's.[10] Finland is one of the few OECD countries without numerical (quantified) constraints on local government borrowing or debt.[11]

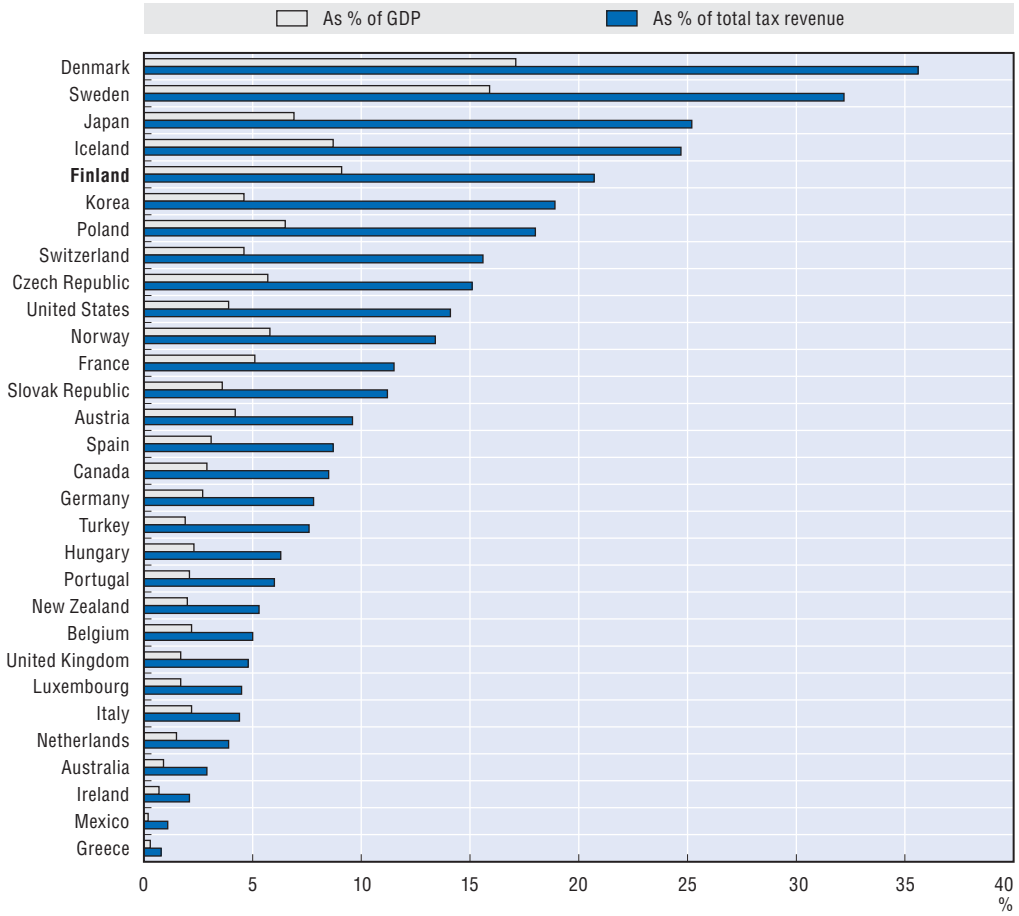
Figure 7.3. **Sub-national shares of public services expenditures in OECD countries (2003)**



Source: OECD Network on Fiscal Relations Across Levels of Government Database.

The grants reform in the Basic Services Programme will stimulate local autonomy to a certain extent. Sector ministries have considered their specific and block grants as a steering instrument, which will be reduced under the reform programme. For example, whereas the educational grant provided remote and rural areas with additional resources to fund (more) schools, the new basic services grant will provide the same resources based on location but without obligation to spend this money on schools. At the same time, sector ministries will continue to develop legislation and regulation for basic services. The Basic Services Programme has broadened the local tax base by transferring certain deductions from the local to the central level.

Figure 7.4. **Local tax revenues as share of total tax revenues**

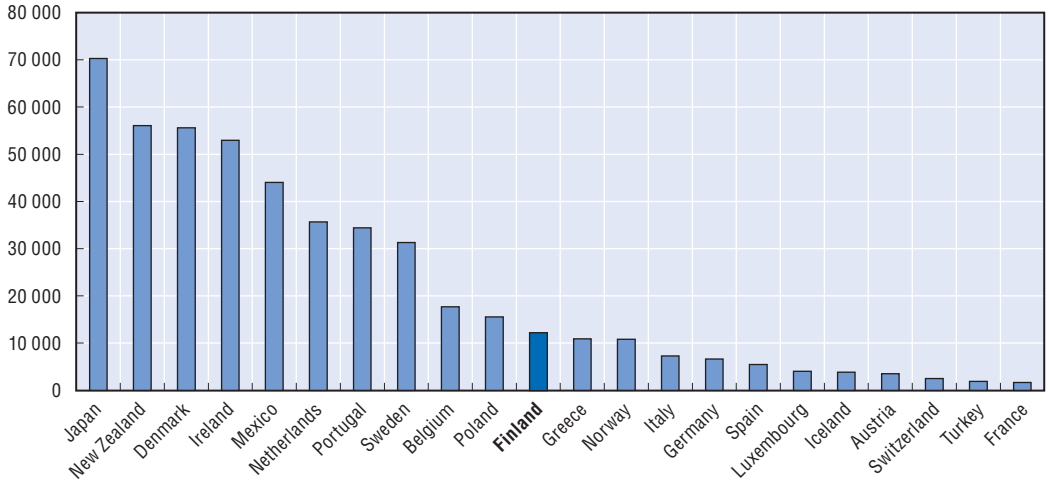


Source: OECD (2008), *Revenue Statistics 1965-2007*, 2008 Edition.

Local capacity, as measured by size of municipalities, is relatively limited in Finland. The average municipal size is around 11 600 inhabitants, which is small in comparison to other OECD countries (see Figure 7.5). The average number of sub-national staff, however, is higher than in other OECD countries. The public sector made up about 26% of total employment in Finland in 2007, and roughly four-fifths of public employees in Finland work at the local level (in local administrations and to deliver different local services); the remaining one-fifth work at the central level. Although federal states within the OECD tend to have similar or higher shares of sub-national public employment, the Finnish level of public employees working sub-nationally is relatively high for unitary OECD countries (see Figure 7.6).

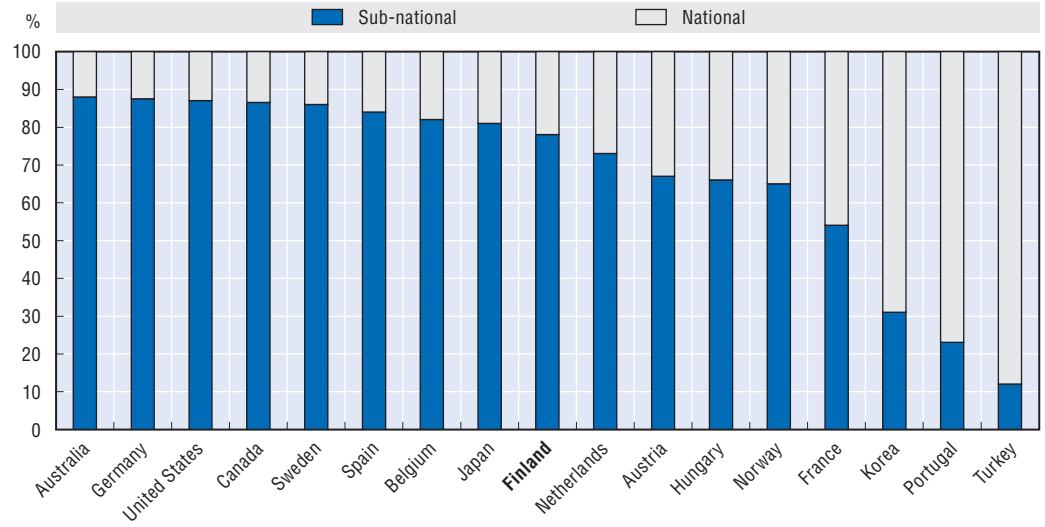
This limited municipal size might have consequences for the efficiency of local public services in Finland, although it has proven difficult to find an optimal size to maximise performance. While studies on the efficiency and productivity of Finnish comprehensive schooling found that both the size of the municipality and the average school size had a non-linear impact on costs, optimal municipal size was determined to be approximately 24 000-37 000 inhabitants and optimal school size was 690 students.[12] In the health sector, very small municipalities have experienced increasing difficulties in securing enough skilled healthcare professionals to provide services.[13] There are, however, many reasons to be cautious about these figures. Most studies find different optimal size for different public

Figure 7.5. **Average number of inhabitants per municipality in OECD countries (2005)**



Source: OECD Network on Fiscal Relations Across Levels of Government database.

Figure 7.6. **Share of sub-national employees in total public workforce (2006)**



Source: Based on OECD (2008), *Challenges of Human Resources Management for Multi-level Government.*

services (*e.g.*, education, health, social services). It is therefore unlikely to determine one optimal size for a local government that can most efficiently provide services across all the sectors for which it is responsible.

In order to increase efficiency of local basic services, the reforms aim to increase local capacity by reaping economies of scale from larger municipal size and shared services provision (see Chapter 6 for a description of the PARAS reform). Municipal structures will be reinforced by merging municipalities and incorporating parts of some municipalities into other municipalities. Service structures are reinforced by forming larger catchment areas and increasing co-operation among municipalities. This reform assumes that the population base required for primary healthcare and associated social services is about 20 000 inhabitants, whereas the population base desirable for vocational education would

be 50 000 inhabitants. Local governments are free to decide whether they would like to merge, but are stimulated by merger grants. In order to create larger catchment areas for service provision, they form co-operation areas led by a joint municipal organ or board, and with decision making power based on the municipal population (unless otherwise agreed by the participating municipalities). Joint municipal boards are obligatory for specialised medical care and special care for the mentally handicapped. Consolidating service delivery in larger catchment areas will allow medical professionals to perform specialised procedures in order to maintain their skills. Joint municipal authorities are voluntary within the fields of vocational training and regional enterprise development support. For some services, such as waste management, municipalities create common limited companies. Co-operation by agreement takes place for a variety of services, such as libraries, music schools and vocational high schools.

All forms of co-operation and common service delivery could stimulate the sharing of administrative capacity such as data entry and case work, across sector areas like education, health and social services. As such, it is important that both the conditions for structural change (*e.g.,* mergers, co-operation, joint services boards) and the incentives for making necessary underlying process changes (*e.g.,* truly sharing administrative capacity, rather than simply reducing municipal staff without improving efficiency) are in place. Both the central government and the Association of Finnish Local and Regional Authorities could play a role in these efforts. Similar associations of sub-national governments elsewhere in the OECD are engaged in building local capacity (*e.g.,* Denmark and Norway).

The reforms also aim to clearly establish the responsibilities of local governments. Tasks transferred from local to central government in 2009 include consumer advice guardianship measures and tasks related to the *Security of Child Maintenance Act*. Funding responsibilities that have been transferred to the central government include reporting on sexual abuse of children, forensic psychiatric reports, and healthcare and medical treatment for people under the direct responsibility of the government of Finland (*e.g.,* under EU legislation or international agreements).

The municipal merger reform has reduced the number of municipalities from 415 in 2008 to 348 in late 2009, improving the conditions for effective grants reform. However, most mergers have been taking place in the less remote areas of the country. The margin for economies of scale is limited in isolated areas with large distances, especially in the North of Finland. Despite relative effectiveness in increasing economies of scale, these efforts will therefore not help municipalities located in the most remote areas in Finland.

Alignment and policy co-ordination: Gaps and tools

Horizontal alignment. The Basic Services Programme has improved policy alignment across ministries. When the ministers concerned with service provision (*i.e.,* Finance, Public Administration and Local Government, Health and Social Services, Social Affairs and Health, Education, Migration and European Affairs and Justice) come together with the Association of Finnish Local and Regional Authorities to prepare the Basic Services Programme document, they have an opportunity to share and co-ordinate ideas. The reform of the transfer system in 2010 centralises grant allocation within the Ministry of Finance; this move was facilitated by the transfer of the Directorate of Municipal Affairs from the Ministry of the Interior to the Ministry of Finance in 2008. Barriers among sectors will be reduced; less specific grants will require more strategic vision on public service provision at the local level, which might stimulate horizontal co-operation within

municipalities. The Basic Service Programme fits in with wider inter-ministerial policy co-ordination initiatives such as inter-ministerial re-organisations (*e.g.*, merging the Ministry of the Economy and Employment) and horizontal programmes (*e.g.*, the Government Programme) and horizontal processes like the Productivity Programme.

As the grant reform creates more strategic local debate on public services, further policy alignment among municipalities may be necessary. This is particularly the case for public services with significant external impact, *i.e.*, "externalities". Because externalities are not taken into account in local decisions, local governments tend to under-invest (in case of many positive externalities) or over-invest (in case of negative externalities). Specific matching grants make sense for services with large externalities.[14] An example of a positive externality is higher education; when educated people move away from the places where they were educated, the benefits of the investment in higher education spill over to the new communities. Several local services in Finland could be considered to have externalities: in some cases, people use schools, health services and other social services that are not located in the municipality where they live and pay taxes. General grants leave more freedom to the local level of government, which might ignore externalities and thus increase the need for policy alignment among municipalities at the regional level. Specific interventions could include uniform standards, regulations and budgets that follow users. In order to promote the use of services across municipal boundaries, data definitions and standards could be improved and harmonised.

In fact, the recent reforms require that urban regions align their local plans to address externalities. The new *Act on Restructuring Local Government and Services* requires 17 urban regions to create a plan to improve the reconciliation of land use, housing, and transportation, as well as the use of services across municipal boundaries. The main city and its neighbouring municipalities – which make up the urban region as defined in the law – must work together on the plan, unless the municipalities in question decide unanimously that it is not necessary. Special initiatives have been put in place to increase metropolitan co-ordination in the Helsinki metropolitan region. Because most externalities take place in urban regions and remote areas have fewer spillovers to neighboring areas, it makes sense to focus horizontal policy alignment on urban centres. However, horizontal co-ordination among remote municipalities could to some extent create economies of scale for services where daily face-to-face contact is not crucial and where relatively long travel distances might be justified (such as specialised medical care).

Vertical alignment. The Basic Services Programme is embedded in vertical policy alignment mechanisms: negotiations between central and local government representatives, in which regional and local governments are represented by the Association of Finnish Local and Regional Authorities. (This association also participates in the ministerial working group on the Basic Services Programme.) Direct relations between central and local governments take the form of efficiency incentives initiated by the central government such as quality standards, overview mechanisms, service delivery agreements, reporting requirements and the Productivity Programme. A new vertical dynamic is being developed in Kainuu, where the regional level has taken over some local tasks, which it funds through part of its tax revenue – the regional/local dynamic was previously absent from Finnish policy making.

One goal of the vertical alignment mechanisms is to better balance sub-national responsibilities and resources. Although the Finnish Constitution obliges the central government to make sure that new sub-national responsibilities are matched with sufficient

resources, sectoral ministries have generally been more concerned with government grants for their programmes than with the resources that individual municipalities have to fulfil their responsibilities in these areas. This has led to a vicious regulation circle: sectoral ministries tend to increase regulation in sectors where gaps emerge in sub-national service provision due to insufficient resources (such as elderly care), ensuring that resources are prioritised towards these sectors but creating new policy gaps where resources are withdrawn, provoking a new round of more intense regulation. A more holistic approach to basic services by the central government, building on complementarities among policy areas, can stop this cycle. Despite improved policy alignment among ministries, substantial sectoral regulation complicates service provision across sectoral domains and prevents service connections among social services, child care and education. Both harmonizing the regulation of local basic services and limiting new service obligations for municipal governments could create needed policy complementarities. Such an approach could help the government to ensure basic services for all Finns, regardless of where they live, and to find a balance between national and local concerns.

Monitoring efficiency and yardstick competition

Competition among local governments provides an important incentive for more efficient public services provision. This competition can take different forms. Good public services or low tax rates could attract mobile citizens and firms. However, when citizens judge the performance of their municipality by comparing their outcomes with their neighbours, tax mimicking and policy mimicking could lead to more subtle competition. There are indications that such competition takes place in Finland. For example, Finnish municipalities behave strategically in terms of tax setting; when the average tax rate of a neighbouring municipality is raised by one point, a Finnish municipality will generally raise its tax rate by 0.303 point.[15] This is a tax-mimicking rate similar to those found in other OECD countries.[16]

In order for such competition to generate efficiency gains, transparent information on the performance of local governments must be made accessible to the public. Greater autonomy (in the form of reduced regulation and earmarking of funds) will have to go hand-in-hand with greater accountability and more transparent information about outcomes. Although the Basic Services Programme document provides some basic financial information for municipalities by region, it does not give indications on performance of local public services. Outputs on public services per municipality – such as the number of graduated pupils, patients treated and operations fulfilled – are available through the sectoral ministries, which are working to develop more sophisticated outcome information. However, this information is not publicly accessible. Initiatives to create more transparent, comparable and publicly accessible performance information on local public services should be stimulated.

The Norwegian KOSTRA model could be a useful reference for such initiatives. The KOSTRA system, introduced in 2001, includes uniform standards which have enhanced the comparability of municipalities and service sectors. KOSTRA has helped the central government to determine if municipalities are complying with national standards and regulations, and facilitated a common assessment of the local economic situation. This report is used as the basis of a parliamentary discussion on the transfer of resources to municipalities. For municipalities, KOSTRA lessened the administrative burden of reporting and provided a tool for internal planning, budgeting and communication at the local level. In

addition, it facilitated the sharing of knowledge among municipalities, which are able to use indicators for the purpose of benchmarking performance[17] (see Box 5.8 in Chapter 5). Norwegian sub-national authorities (19 counties and 431 municipalities) account for approximately 50% of public spending. However, the de-centralisation of expenditure does not accurately reflect the role these entities play in resource allocation. In some areas, earmarked transfers constrain their ability to use funds as they wish. Municipalities also have limited room for raising revenue through taxes. This means that the central government plays a large role in the transfer and allocation of public funds, and that it requires substantial amounts of information (indicators) in order to execute this role effectively.

Reinforcing regional equity and competitiveness

Despite regional-equity principles underlying Finnish policies, there are major differences in basic service provision among municipalities. Per-capita healthcare expenditures are an example; very small municipalities have faced growing financial difficulties in addressing the economic risks of hospital care expenditures, which are relatively higher for them than for the bigger municipalities.[18] The municipal fiscal revenue base is one possible explanation for the differences: local tax rates have been used to finance local services and compensate for disparate municipal financial capacities.[19] Another possible cause is differences in grant allocations among municipalities; the choice of criteria can impact fund allocation. For example, the indicator that local governments use to express the rate of illness is the share of people outside the workforce, which only gives a rough indication. More precise indicators, such as data on people with diseases in municipalities, are available at the national level in Finland, but not used for the allocation of grants. Expenditure-needs measurement is considered a challenging task,[20] and allocation criteria for government grants need to be refined.

A strong revenue equalisation system exists to even out tax-base differentials between rich and poor municipalities. This is particularly relevant in Finland, as the bulk of municipal revenues are raised through municipalities' own sources (grants represent only about 12% of total local tax revenues in Finland). The state grants system might have to pay more attention to reinforcing municipalities' revenue bases and financial capacity to secure funding and provision of public healthcare. The 2010 grants reform intended to improve and refine allocation criteria, but within the context of the economic downturn the government decided to keep current allocation criteria to ensure that no municipality would lose grant revenues due to the reform (*ceteris paribus*).

As the equalisation system attempts equity in basic services provision, other programmes are in place to increase regional competitiveness. The Regional Development and Cohesion (Coco) programme builds on existing regional endowments, targeting successful development efforts and forming inter-regional networks for greater learning, innovation and co-operation as a means to promote competitiveness (see Box 5.5 in Chapter 5). Coco is multi-disciplinary and involves different line ministries around themes that are relatively unconnected to basic services provision: innovation environments, well-being, creative sectors and culture. On the other side, local basic public services will arguably have an impact on regional competitiveness and attractiveness, even if they are considered necessary conditions rather than determining factors.

Implementation of the reform

The success of any reform is critically dependent on its implementation. Several elements of the implementation process are crucial in helping to address political economy of reform challenges: timing and sequencing, informational strategies, incentives and the enforcement of reforms.

Time considerations

The Basic Services Programme can be considered the consequence of reforms implemented since the 1990s. The Basic Services Programme as a document and procedure was created in 2003; it was integrated into the *Act on Restructuring Local Government and Services*, implemented in 2007, and embedded in a set of other Acts (on municipal boundaries, etc.) that were also implemented in 2007. The grants reform piece of the Basic Services Programme is envisaged for 2010. Consolidating the block grants that remain into one large basic services grant (including the 2008 transfer of the Department of Municipal Affairs from the Ministry of the Interior to the Ministry of Finance to allow for a more holistic approach to basic services[21]) will complete the reform process kicked off in 1993. Most of the municipal mergers and the creation of co-operation areas took place in 2009; the incentives for such mergers were higher in 2008 and 2009 than in 2010 and 2011, in order to ensure quick implementation by local governments.

The sequencing of the reforms has been logical. The full reform package was rolled out over the course of a few years, allowing well-informed debate on each element. However, there is a limited time period during which government administrations can be subject to reforms. An option might have been to introduce the grant reform at the same time as the restructuring of the municipal boundaries, which would have reduced the transition period for local governments. The resources made available, such as incentives for municipal mergers, create a window of opportunity to both change institutional structures and reform processes so that efficiency gains are actually realised. The sequencing of reforms does not guarantee that these reforms take place simultaneously.

Informational strategies

The main stakeholders of this reform have been central government departments (including political leadership) and local government representatives. In fact, the current package of local government reforms has been the outcome of political compromise, which could explain its heterogeneity; this is a positive factor, as it leaves room for local preferences and experimentation with different models. At the same time, however, it leaves local governments with uncertainty about the course of developments in the longer term, and does not allow for clear messages about the reform package. Municipal mergers, increased inter-municipal co-operation, the creation of a regional-level government in one region (Kainuu) and strengthened regional de-concentration (via the ALKU reform) all take place more or less simultaneously.

Local government representatives have been actively involved in the formulation of the reforms. The Association of Regional and Local Authorities has officially been consulted, and informal discussions with large municipalities have informed the policy making process. The Basic Services Programme has gone hand-in-hand with an increased focus on evaluation. On the other hand, neither citizens nor union leaders have been involved. Considering that the future sustainability of Finnish basic services provision

would depend on either controlling rising costs or dedicating additional public resources – and more generally on reforms within the field – there appears to be a need to explain this situation to citizens. Presenting possible approaches could stimulate societal acceptance of current and future reforms.

Incentives

The grants reform that is part of the Basic Services Programme foresees compensation for municipalities. The reform will be cost-neutral for municipalities concerned. In addition, the Basic Services Programme 2010-13 will consolidate EUR 30 million over this period into the basic services grant to solve structural problems caused by low population density for eight archipelago municipalities and 20 municipalities with population density lower than two inhabitants per square kilometre. The economic slowdown and subsequent weakening of tax bases have complicated some elements of the grants reform, such as plans to re-vamp allocation criteria. In addition, the municipal share of corporate tax revenues has been temporarily increased, and public investments have been advanced.[22] These provisions facilitate the reform by lowering possible resistance from local governments.

Financial incentives have helped to stimulate municipal mergers, and to counteract disincentives in the regular grant system; part of the grant is a basic lump sum that every municipality receives irrespective of its size, but a merged municipality only receives one such lump sum. Another example is the allocation criterion for population density. Currently, municipalities with lower population density receive relatively higher grants, and as a result, municipal mergers (especially those between smaller scarcely populated municipalities and larger densely populated areas) result in net loss of government grants. Some of these disincentives still exist, even after the grant reform. The central government has worked to balance these factors by guaranteeing municipalities that they will not receive fewer grants than before the merger for a period of five years – and it provides a merger grant during three years if the merger starts between 2008 and 2013 (with higher incentives for efforts begun in 2008 and 2009 than those that will take place in 2010 and 2011). The merger grant is based on two components – number of inhabitants, and number of municipalities – multiplied by a factor of 1.8 in 2008 and 2009, and by 1.4 in 2010 and 2011. Although these incentives definitely ease local merger decisions, the structural disincentives in the grant system will need to be addressed in order to sustain the tendency to reap economies of scale through amalgamations.

There is no explicit roadmap for sustaining the reform when a new government comes into power. Several elements would need to be developed beyond the current reform: revision of the grant-reform allocation criteria (including those for health services and solving structural disincentives for mergers), harmonisation of regulations for basic services, and improving performance information on local basic services. The elements that were included in the original reform proposals but delayed due to the current unfavourable economic climate might be expected to be introduced as soon as the economic climate improves. This would require leadership, and these and other elements of a reform package might be underlined in a new government's Government Programme. This could be made explicit now.

Enforcement of reforms

Although there is political commitment to the principles of the Basic Services Programme, it is weak in comparison to sectoral engagements. The main policy document

of the central government, the Government Programme, has a strong sector bias and contains limited indications for implementation of a holistic local Basic Services Programme. Political actors tend to identify with sector interests, rather than an inter-sectoral approach that brings together several ministries (Social Affairs and Health, Education and Culture) to deal with basic services. Many public actors and stakeholders are also organised on a sector basis, which reinforces sectoral responses from political leaders. These elements contribute to limited *de facto* engagement or pressure on public actors to enforce reforms within the Basic Services Programme. In order to successfully implement the aims of the Basic Services Programme, political involvement and commitment towards inter-sectoral co-ordination and citizen consultation would need to be strengthened.

Conclusions

A variety of changes to the Basic Services Programme could be suggested. Greater clarity is needed in the government document, along with stronger tie-ins to the Government Programme that forms the basis for every new national government. Although the Basic Services Programme has improved horizontal co-ordination among ministries in government procedures, more could still be done. For example, the Government could work to harmonize regulations concerning basic services, and strengthen vertical coherence. The central government grant reform makes sense, but the allocation criteria for the basic services grant should be improved over the longer term.

It is clear, however, that the Basic Services Programme is broadly in line with international practice, and that it has been well-conceived and well-executed. To achieve its full benefits, however, the government will have to put conditions in place that allow municipalities to take advantage of increased freedom and ensure that they have the capacity to do so. As the state moves away from earmarking funding and regulating services, many more tough decisions will have to be made at the municipal level – including whether or not to amalgamate with other municipalities, create service co-operation areas, or otherwise co-ordinate horizontally with other municipalities and regional authorities. Maintaining quality services, especially in sparsely populated areas, will also lead to some difficult choices. Increasing the role of citizens on the one hand, and improving performance information on the other, will provide some of the tools for municipalities to innovate and to improve their performance in order to meet these challenges.

Notes

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Chapter 8

E-Government Case Study

Introduction

Finland is one of the early adopters of e-government within the OECD, and has achieved impressive results based on international comparisons.[1] A number of specific strengths have placed it in a favourable position for relatively fast development of e-government. Its basic culture is open to change and modernisation, and its citizens are, on average, well-educated and ready to use new information and communication technology (ICT) and e-services. Finland is the home of Nokia, one of the global leaders in mobile communications, along with many competent and competitive software enterprises. Its citizens have traditionally trusted their government, which uses unique identifiers and shared databases for residents, companies and corporations, vehicles and real estate in order to improve the quality and efficiency of public service delivery. Historically, Finland was able to use these strengths to become a world leader in e-government.

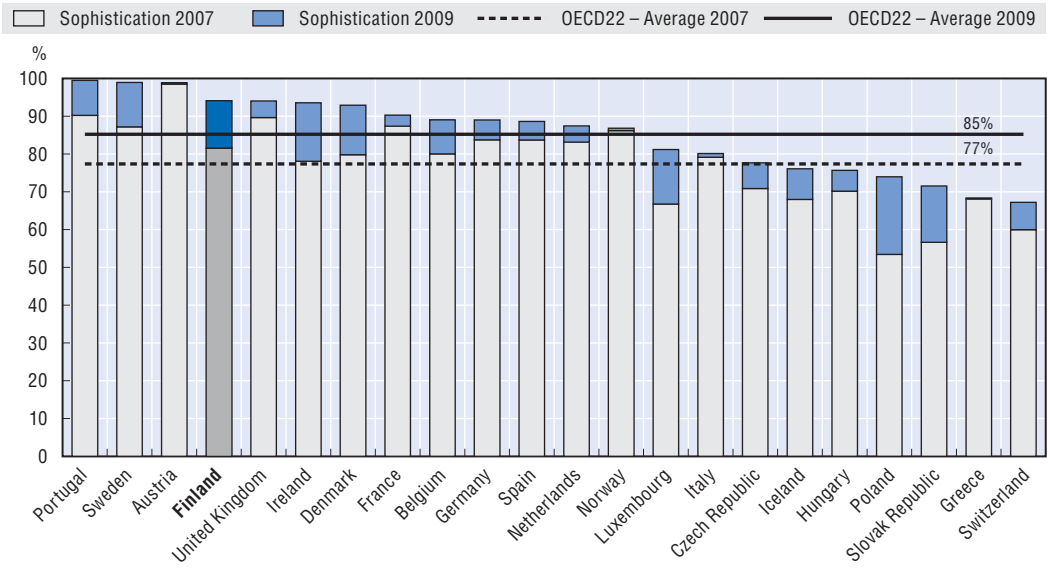
It seems that more recently, however, Finland has been unable to keep pace with other countries, which may have advanced further, according to some international rankings. The deterioration in Finland's e-government rankings provides an example of the consequences of a lack of strategic agility embedded in the public administration.

Finland's position in international e-government rankings

The EU's latest report[2] on the information society provides a set of benchmarks that clearly show that the information society in Finland – although well evolved – is lagging behind the leading countries. Finland is ranked fifth in the index on the take-up of advanced private and public services, sixth in the index on socio-economic context, and only 13th in the aggregated broadband performance index. Finland is above the EU average in the index of digital literacy, but is at the same time consistently outranked by its neighbours – Denmark, Norway and Sweden – which share the same general social and cultural context.

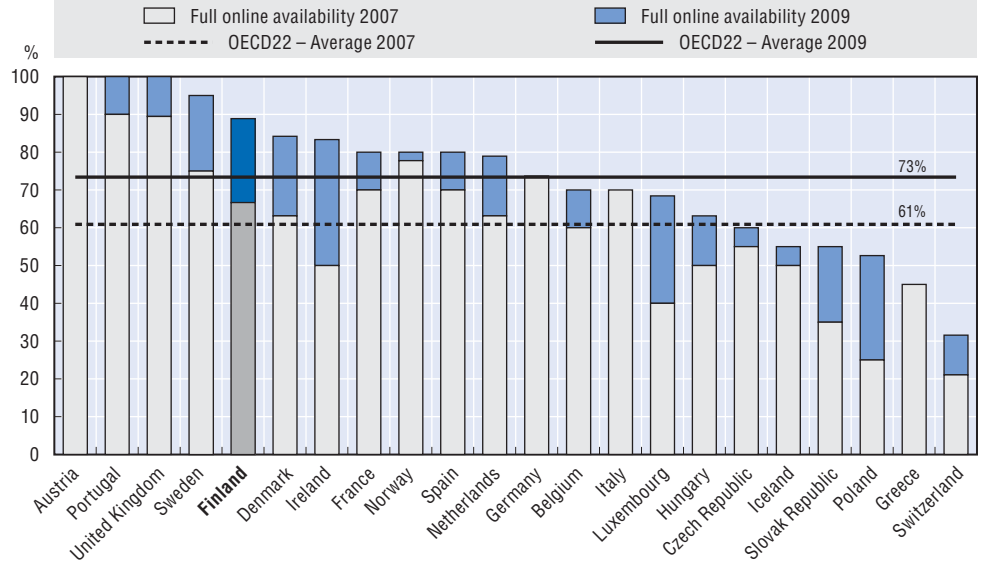
Another important set of benchmarks is the EU's recurring rankings of e-government, which is primarily an output index and looks exclusively at the provision of services to residents and enterprises (but does not include progress in transforming structures and processes, or in administrative effectiveness and efficiency). The two main composite indicators in this benchmark include "online sophistication" and "fully available services". In addition, the latest ranking contains a composite index on "user centricity". Finland has always been among the top countries in these benchmarks, and its ranking has consistently been above the EU average. Its performance has increased over time, but its place in both of the main indices slipped from second in 2001 to 13th in 2007. However, its performance has since increased relatively quickly, and as at November 2009,[3] Finland was ranked fourth for "online sophistication" and fifth for "fully available services" among the 22 EU countries that are members of the OECD (see Figures 8.1 and 8.2). In 2007, Finland was awarded maximum points for 11 of the 20 services covered by the composite index, but ranked below the EU average for eight other services. In 2009, Finland's scores

Figure 8.1. **Online sophistication, 2009**



Source: EU (2009), *Smarter, Faster, Better e-Government*, 8th Benchmark Measurement, November 2009, Prepared by Capgemini, Rand Europe, IDC, Doget and DTi for the European Commission.

Figure 8.2. **Full online availability, 2009**

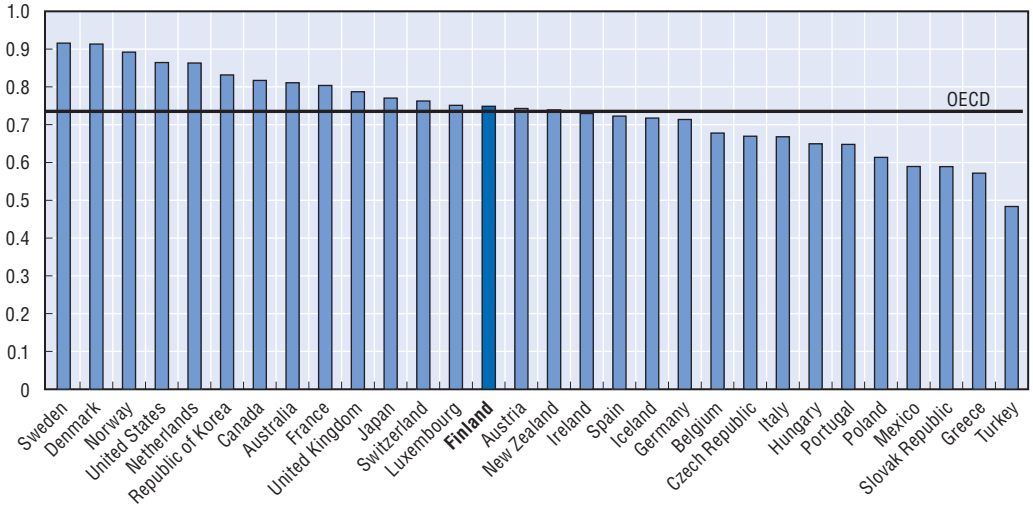


Source: EU (2009), *Smarter, Faster, Better e-Government*, 8th Benchmark Measurement, November 2009, Prepared by Capgemini, Rand Europe, IDC, Sogeti and DTi for the European Commission.

improved, and it was awarded maximum points for 15 of the services and only ranked below the EU average twice.[4] The November 2009 report contained a first attempt at benchmarking the user experience. Here Finland ranked first with maximum points awarded for usability, user-satisfaction monitoring and user-focused portal design. The report also contained a benchmarking of e-procurement, where Finland only ranked 26th out of the 31 countries covered by the benchmark.

A similar story is told by the United Nations' e-government readiness index,[5] where Finland dropped from eighth place among OECD countries in 2005 to 14th in 2008. This index covers a broader range of countries and is partially based on implicit or explicit best practices, which entails a risk for bias. It is noteworthy that Finland shared first place in the sub-index on human capital with Australia, Denmark and New Zealand (see Figure 8.3).

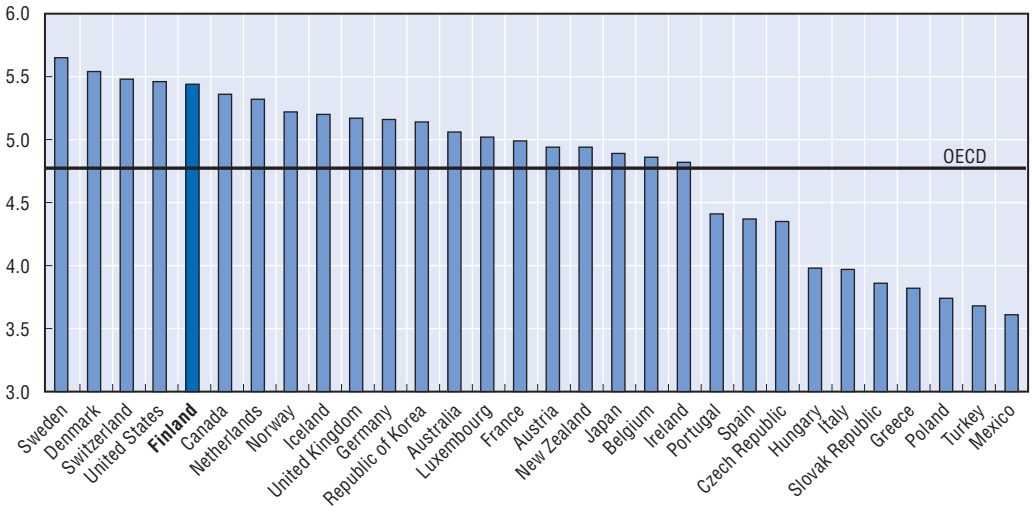
Figure 8.3. **UN e-Government Readiness Index, 2008**



Source: United Nations e-Government Readiness Knowledge Base.

Another global index is produced by the World Economic Forum. For 2009/10, Finland ranked fifth on its networked index, on par with its position in 2008/09.[6] What is noteworthy about Finland's results on this index is that its weakest point is government usage, where the country is only ranked in 10th place (see Figure 8.4).

Figure 8.4. **The Networked Readiness Index 2009-10**



Source: World Economic Forum (2009), *The Global Information Technology Report 2008-09* – Mobility in a Networked World, INSEAD and World Economic Forum.

Finland's strategic vision for enhanced e-government

Until recently, Finland has been a world leader in exploiting ICT to renew its economy and to reform its public administration. It enjoys one of the highest e-government take-up rates by business in the OECD, and while there is room for improvement in citizen take-up rates (50% on average), citizen usage of e-government services is still well above the OECD average of about 35%. However, in recent years, Finland's position as a leader in e-government has been slipping; this has perplexed the government, which sees strong e-government as a key factor in Finland's competitiveness. In response to the slippage in international rankings, the government has implemented a series of programmes that aim to re-invigorate Finland's position in the international comparative rankings. The goal of the Finnish government is for Finland's rankings in established international e-government surveys to improve by 2015 and to be, on average, among the top five countries.[7]

In 2003, in an attempt to increase the coherence and co-ordination of ICT in the Finnish public administration, one of the first horizontal Policy Programmes was dedicated to the Information Society Policy Programme (see Box 8.1). The aim of the Information Society Programme (2003-07) was to improve competitiveness and productivity, promote social and regional equality, and improve citizens' well-being and quality of life through the effective use of information and communication technologies. To support the implementation of the Information Society Policy Programme, the government appointed a large Information Society Council, which included representatives of both the public administration and private organisations and businesses, as a consulting and co-ordination body. The Information Society Policy Programme was directed and co-ordinated by a ministerial group chaired by the Prime Minister and supported by a programme director in the Prime Minister's Office.

While the work undertaken under the Information Society Policy Programme made considerable progress to raise understanding of the importance of information society policy at the political level, the work programme was not completed. To follow up, a new programme of work was agreed (Government Resolution on the Objectives of the National Information Society Policy 2007-11, which included details of the government's key objectives and priorities to accelerate information society development) and is being implemented under the National Information Society Programme 2007-11. This programme of work is based on the National Knowledge Society Strategy 2007-15, which outlines the national vision and strategic intent for the kind of information society the government of Finland wishes to create.

As the National Information Society Programme 2007-11 was launched, the government appointed the Ubiquitous Information Society Advisory Board (replacing the Information Society Council), whose role is to ensure the implementation of the National Knowledge Society Strategy 2007-15 and the National Information Society Programme 2007-11. In undertaking this role, the Advisory Board released the Ubiquitous Information Society Action Programme 2008-11 as a platform for projects to support the National Information Society Strategy.

Another government initiative – the Action Programme on eServices and eDemocracy 2009-12 (SADe) – is a joint development programme covering both the state administration and the municipalities. It is intended to accelerate the development of Finland's information society and the spread of e-services. The main objectives of the programme are well established: improved service availability; customer-oriented services;

Box 8.1. **Information Society Policy Programme: Principles of the model of corporate management in state information management**

The main achievements of the Information Society Policy Programme included: introduction of the model of corporate management to state information management, increased co-operation between state and local authorities in relation to information society issues, and developments in the health sector.

The model of corporate management was introduced through the "Organisation and Steering of State IT Management" report (2004), which was a cornerstone for a new state public administration ICT strategy (which was later adopted in 2006) and led to structural reforms relating to public sector information management and co-ordination of information society issues.

The State IT Management Unit was established in the Ministry of Finance in 2005 to co-ordinate common information management within the public administration; and, in 2006, an equivalent Local Government IT Unit (KuntaIT) was established in the Ministry of Interior to co-ordinate information management co-operation among Finnish municipalities. In 2008, the Local Government IT Unit was transferred to the Ministry of Finance as part of another wave of structural changes.

The model of corporate management identified four major principles in state ICT management:

- ICT activities should be managed as in a consolidated company.
- Common ICT services should be provided centrally. Government agencies should concentrate on using ICT in their core businesses.
- State ICT should use a common model of economic supervision and performance management.
- State ICT should support the development of customer-centric services and productivity enhancement.

In June 2006, the government approved a new State IT Strategy (called "Government Policy Decision on the Development of IT Management in State Administration 2006"), which supported the consolidation of IT management in state public administration. The strategy introduced common structures and common IT services, and fostered inter-operability of IT systems to enable government agencies to focus their IT resources on the systems of their core business processes. The 2006 State IT Strategy was implemented within five development programmes focused on:

- Customer-centred e-services.
- Inter-operability.
- Shared IT systems.
- Harmonized basic IT services.
- Information security and contingency planning.

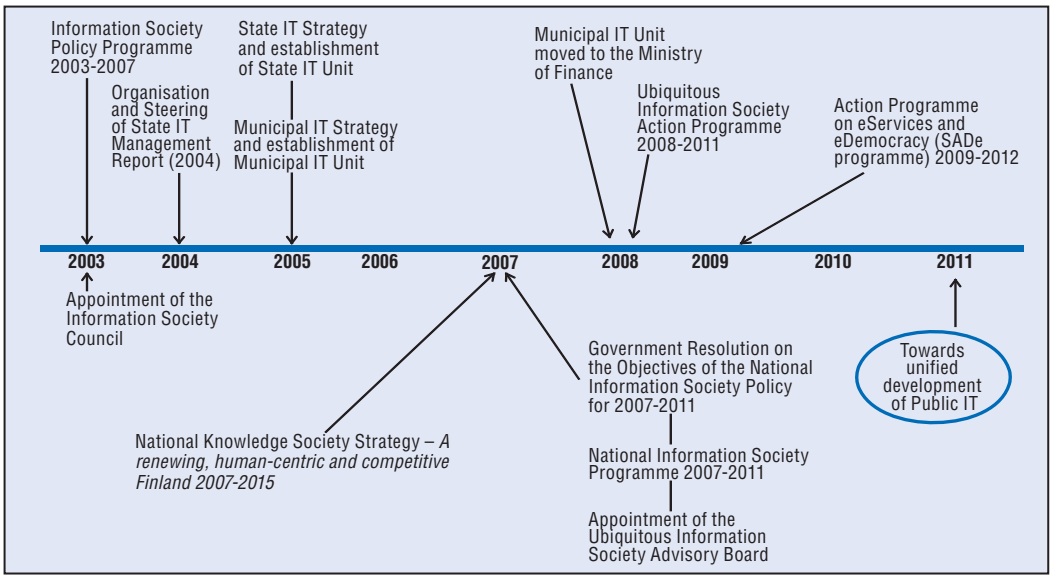
Later in 2006, the Strategy for Local Government IT Management was published, supporting the Local Government IT Unit in providing inter-operable, customer-centric IT services for the use of all municipalities. The strategy was elaborated as more detailed measures in an action plan adopted early in 2007. It aimed to respond to incoherence among the then-450 municipalities developing their own IT systems, which could not exchange information.

Source: Ministry of Finance, Finland.

increased competitiveness; minimised administrative burden; improved investment profitability; and a strong civil society.

Figure 8.5 provides a timeline of the implementation of strategic e-government and information society activities by the Finnish government during the period 2003-10.

Figure 8.5. **Timeline of Finnish e-government and information society strategies and actions, 2003-11**

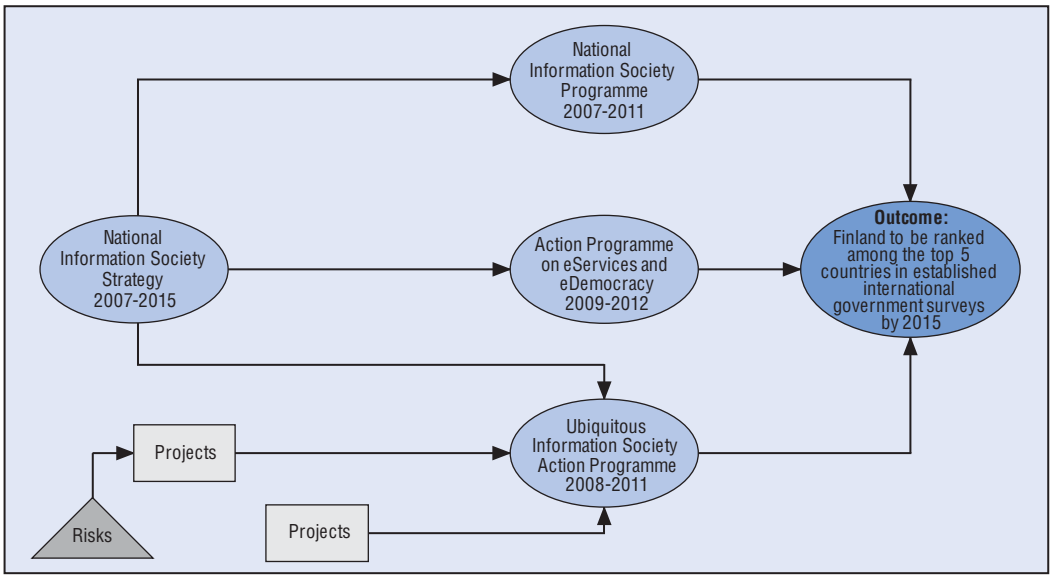


Source: OECD, from Finnish government strategy documents.

Together, the National Information Society Programme 2007-11, the Ubiquitous Information Society Action Programme 2008-11 and the Action Programme on e-Services and e-Democracy 2009-12 establish a very broad and ambitious work programme. As evidenced in Figure 8.5, quite a lot of activity is being undertaken to progress towards Finland's information society goals. However, it can be argued that the volume of activity has led to a lack of clarity within the public administration as to the strategic vision to be achieved. It is difficult to ascertain how all the programmes and strategies currently in play link together to achieve Finland's strategic objective: increasing Finland's rankings in established international e-government surveys to be among the top five countries by 2015.

Chapters 4 and 5 describe how layering strategic objectives can lead to a lack of true prioritisation, in which secondary objectives are dropped or reduced in scope in order to ensure that sufficient attention and resources are available for real top priorities. This can be exacerbated by a lack of supporting evidence to ensure that policies will actually achieve intended objectives (see Chapter 3). Existing information society and e-government activities should be mapped using a results chain to demonstrate how the various projects and programmes are being co-ordinated to achieve the intended strategic outcomes. Benefits realisation modelling can be used to compare resource investment to the achievement of quantifiable benefits and/or outcomes. This type of mapping enables the public administration and the government to identify risk areas and assumptions in the chain, and to better manage the achievement of outcomes. This type of modelling is also very effective for communicating strategic vision and the processes and activities that need to be enacted to achieve that vision (see Figure 8.6).

Figure 8.6. **Potential schema for conceptualising the linkages across e-government and information society strategies as they relate to the overall e-government outcome objective for the Finnish government**



The difficulty in operationalising the strategic e-government vision mirrors the challenges being faced in operationalising the government's strategic agenda more broadly across the Finnish public administration. Much effort has been taken to develop a vision, but that vision is not clearly communicated and major implementation failure is a risk. The remainder of this study addresses the challenges facing Finland in achieving its strategic vision of being ranked among the top five countries in established international e-government surveys by 2015.

Achieving collective commitment through alignment of governance and leadership

E-Government policy requires action from multiple actors – the public administration needs to co-ordinate various stakeholders and players to promote collaborative working methods. E-government requires parallel action in multiple policy or administrative areas, and is dependent on adequate outcomes or policy results in other areas. These include the country's physical infrastructure, penetration and use of the new technologies outside the public sector, a sufficient supply of relevant skills and competences in the national market, and the market supply of adequate and competent IT-related services.

In Finland, responsibility for e-government, information society, and data privacy and data protection policy are shared across three ministries – the Ministry of Transport and Communications is responsible for the information society portfolio; the Ministry of Finance has responsibility for the e-government portfolio; and the Ministry of Justice has responsibility for privacy and data protection issues and the citizen participation portfolio. In terms of developing e-services, each line ministry is responsible for its subordinated executive agencies, both their performance in developing e-services and for co-operation with other executive agencies. At the sub-national administration level, e-services are delivered by a large number of autonomous local municipalities and joint municipal authorities.

In order to perform well and to achieve progress towards the government's e-government and information society policy objectives, Finland's challenge is multi-dimensional: horizontally, across ministries and their subordinated agencies; vertically, among the ministries and the largest executive agencies; and constitutionally, between the national and the local governments and their respective administrations. In addition, the Social Insurance Institution (KELA), which is a key player in joined-up e-government, is not subordinated to the government but only to the Parliament. This type of fragmentation, however, does not necessarily prevent a strong performance in e-government development – as demonstrated by Sweden, which also uses a diffuse administrative structure to support e-government, but which has still managed a world-class performance during recent years. Comparatively, Finland seems to have been less successful in managing its fragmented administrative system, and to suffer more from sectoral and silo sub-optimising, and from a lack of inter-sectoral co-operation and coherent funding. Both Sweden and Finland have recently updated their e-government strategies with some significantly different approaches (see Box 8.2).

The key barrier to e-government collaboration across central ministerial units, agencies and municipalities is the tendency to sub-optimise, which is an unavoidable companion of specialisation and distribution of responsibilities across parallel organisations. The transversal goals have to be broken down into separate adapted goals and targets for each organisation, and each organisation must then attempt to maximise the achievement of its own goals, even if this comes at the expense of other parts of the transversal goals. This is true for public administrations in all countries. Improving e-government co-ordination therefore requires governance and leadership arrangements that cut across narrow sector interests to establish strong cross-organisational cohesion, co-ordination and co-operation to overcome barriers.

The key instruments guiding Finland's strategic planning and leadership of e-government policy have been the Information Society Policy Programme 2003-07 and the follow-up National Information Society Programme 2007-11. The basic principle underlying these programmes has been to guide actions and deliberations of different ministers and ministries, leading to sufficient horizontal co-ordination and a proportionate political thrust. In reality, the ability of these programmes to achieve their intended objectives has been dependent on the level of leadership and political cohesion in the government and the public administration.

The relatively slow evolution of e-government during the period covered by the first horizontal Information Society Policy Programme indicates that the political leadership during that period may not have been sufficiently forceful to overcome the natural barriers to transversal co-operation. The Government has, however, taken more forceful action after the adoption of the National Information Society Programme 2007-11. By creating the Ubiquitous Information Society Board, the government has co-opted other stakeholders in formulating shared goals and action programmes, assuring active support and contributions from these stakeholders.

The government has also announced that it intends to strengthen central governance in such areas as basic information technology, basic databases, architecture at the state level and other shared architectures, shared information systems and services, compatibility, data security and readiness, quality control, and competence development. It also intends to intensify the development of information management using strategic

Box 8.2. **E-Government strategy in Finland and Sweden: Similarities and differences**

The public governance models in Finland and Sweden share the same historical and cultural origins. Both countries have relatively fragmented public administrations, with separately managed executive agencies and independent local government with a strong public service delivery role. Recently, however, the administrative arrangements and cultures of the two countries have evolved in slightly different ways, demonstrated by their respective approaches to e-government development.

Both Finland and Sweden have recently reviewed and revised their e-government strategies. The main goals set by the governments are almost identical: a more efficient public sector, improved services for citizens and enterprises, more transparent public processes, and improved access to public information. Both countries also intend to strengthen the governance and co-ordination of e-government development. They intend, however, to do so in different ways.

Finland has focused on strengthening the political governance of its development efforts. For this purpose, it has established the Ubiquitous Information Society Advisory Board – composed of representatives from key ministries, agency heads, senior business leaders and prominent academicians, and chaired by the Minister of Transport and Communication.

In contrast, Sweden focuses on strengthening the arrangements for the horizontal co-operation that already dominates its e-government work. It has established the e-delegation, composed of key agency heads and chaired by the former Director General of the National Tax Agency. It has also set up an internal co-ordinating committee within the government offices composed of key state secretaries.

The choice of strategy also differs between the two countries. Finland is focusing on technical and operative harmonisation and standardisation across the central and local government administrations. The State ICT Unit, within the Ministry of Finance, has been tasked with standardising the equipment and software used by the national government administration, and with developing shared back-office services to be used by both national and local government administrations. The latter will be financed by adjustments in budget allocations and provided free or at reduced costs, ensuring sufficient take-up.

Sweden abstains from any technical and operative standardisation and instead focuses on inter-operability, information management and procurement co-operation. It also intends to develop shared back-office services, but will rely on agency clusters, where one agency is tasked with promoting service cohesion and co-ordination. The financing of shared projects will be devised on a project-by-project basis.

Both countries have built their e-identification arrangements on co-operation with commercial banks. Finland has not signalled any reforms to its relatively weak system, while Sweden prioritises further development of its system to reduce costs, improve security and facilitate usage for both citizens and private and public service providers.

Source: Public administration for democracy, participation and growth. Swedish government bill 2009/10:175.

directives, information directives, procurement management and norms. The Ministry of Finance holds responsibility for the preparation of the necessary legislation for enhanced central governance, and for ensuring compatibility of the information systems. However, at the time of writing, the expected timetable for Parliamentary approval and implementation are unknown.

In addition, the new Action Programme for e-Services and e-Democracy 2009-12 (SADe) will strengthen national governance of development activities and consolidate Finland's technical infrastructure and ICT investments. Preparatory work is underway to launch a joint organisation to oversee the operative production and management (*e.g.,* procurement, implementation, maintenance) of shared public IT solutions in January 2011. Shared IT solutions will be financed through a designated budget line.

In launching these ambitious initiatives, the Ministry of Finance is taking on a dual role: providing policy (and political) leadership to advance the e-government strategy, and being the technical enabler through standardisation initiatives and the development and provision of technical solutions. This duality of roles can pull an organisation in different directions in terms of staffing and organisational needs.

The increasingly strong role of the State IT unit can, in fact, be seen as a deviation from Finland's standard constitutional model of weak ministries. The consolidation of the Municipal IT Unit into the State IT Unit, while supporting consistency and whole-of-government perspective, for example, will give this Unit unprecedented power in the Finnish context. This level of leadership is probably necessary to secure the high-level political support and decision making authority necessary to achieve the ambitious goals of the e-government strategy. Looking to Sweden's experience, however, the failure of the Swedish Administrative Development Agency (VERVA) could be instructive for Finland. VERVA was established in January 2006 as one of the government's central advisory agencies. Its remit was to co-ordinate the development of central government in Sweden while driving and promoting the country's e-government development in both state and local governments. It was shut down at the end of 2008, based on the view that it had not made any substantial achievements.

The Swedish experience demonstrates some of the potential difficulties with trying to use strong leadership in an administrative culture where leadership can be distrusted and government bodies are used to acting independently (see sub-section on leadership in Chapter 5 on Collective Commitment). Other issues, such as lack of financial resources, also played a role in this outcome. The necessary trust and authority to show leadership cannot be taken for granted and, instead, must be exercised in conjunction with more traditional dialogue and catalyst roles.

In terms of the State IT Unit's more technical functions, one could argue that the services developed within the Ministry of Finance can help to "buy the goodwill" of state and sub-national authorities and encourage them to follow the national e-government agenda. All governments – whether with department-based or agency-based administration – need the support of a range of specialised competence centres. In other OECD countries, however, more technical support functions are often provided by separately managed agencies or advisory bodies, in part because longer-term technical perspectives are invariably crowded out by short-term political concerns, and because ministries' human resources policies may prevent them from recruiting and retaining the qualified technical staff they would need. An important exception is technical and organisational standardisation – a major component of the Finnish e-government agenda – which may require the leadership of a ministry in order to achieve buy-in from other actors. On the other hand, technical service provision for agencies (*e.g,*. framework procurement and technical assistance) can be provided more easily on an agency-to-agency basis.

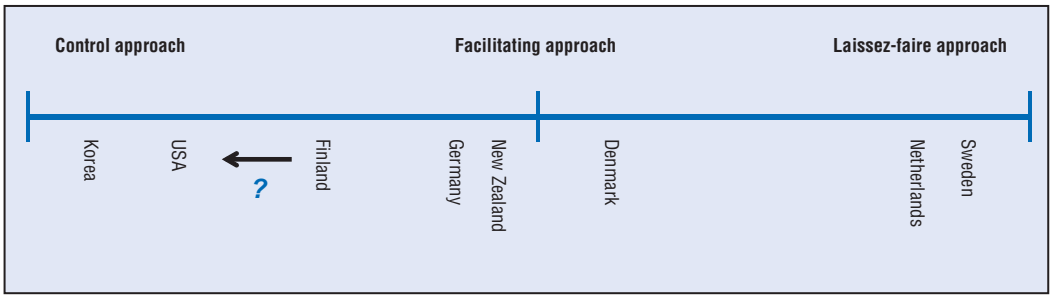
Bringing local governments on board presents special challenges in Finland's administrative structure. Local governments are independent not only in relation to the national government, but also in relation to each other; and there is no central organisation mandated to take binding decisions for all local governments. The key issues are to ensure that there are effective mechanisms available to support agencies and local governments in fully implementing central initiatives and centrally decided policies and services.

The Finnish government has stated that it intends to use a mixture of legislative frameworks and economic incentives to achieve co-ordination and coherence of e-government policy across the state and sub-national public administrations. It is not yet known how far the Finnish Parliament is prepared to go in legislating on e-government, and it can be assumed that the economic incentives may be the most important piece. The intended use of budget deductions to finance investments in shared services and other projects for both executive agencies and local governments is innovative, given the strong emphasis on delegated mandates for agencies and local government autonomy in Finland. These intentions should be carried out; they would provide Finland with the necessary impetus for extending advanced e-government to the local government sector.

The government must also ensure that the Regional Councils and local governments participate fully in the networked administrations. It is therefore necessary to engage them as partners in the design and implementation of e-government policies, and to opt for strategies and solutions that are compatible with their autonomous standing.

While many of these initiatives are still relatively new, the current difficulty in advancing the e-government agenda raises a troubling hypothesis that Finland's lacklustre performance in e-government development during a number of years might be the result of a fundamental mismatch between its fragmented administrative structure and its choice of a centralised steering model. As Finland moves towards a more controlling approach – for example, with regard to the identification of shared corporate services and the establishment of Shared Service Centres (see Figure 8.7) – it is important that its leadership style, and its governance structure and culture, remain aligned with its strategic approach. As noted earlier, Finland shares a fragmented administrative model with Sweden, but Sweden has opted for a more decentralised way of e-government development based on empowering executive agencies and holding them responsible, and on choosing voluntary co-operation before compulsory co-ordination whenever possible.

Figure 8.7. **Countries' approaches to the organisation of common business processes**



Source: Adapted from OECD (2005), *e-Government for Better Government*.

The most serious obstacles to the information society and e-government policies in Finland may thus be general government arrangements. The government-wide programmes are intended to promote cross-ministerial priorities and focus, but are not sufficiently linked to or integrated with main governance arrangements, such as the budget or the annual instructions to each agency/sub-government body. Ministerial stovepipes remain a key factor, and any cross-ministerial projects seem to require negotiations and adaptation to the whims of individual ministries.

The strategy selected by the Finnish government may prove as appropriate as, or even better than, the Swedish strategy but it clearly requires more active and visible political involvement. As discussed in Chapter 5, strategic vision alone will not provide governments with the flexibility and agility needed to adapt to the changing and increasingly complex policy environment. Collective commitment is required to support the successful operationalisation of a strategic vision; this relies on a clearly communicated vision and whole-of-government co-ordination and collaboration. The implementation of the government's strategic e-government vision requires a strong, coherent strategy that links the various programmes. It will also require strong, effective leadership at the political level and within the public administration to commit to the vision and inspire and motivate the public administration to work collaboratively to operationalise that vision within and across the levels of government.

A decisive factor for Finland in progressing towards its goal of becoming one of the five leading e-government countries will be its ability to achieve joint action across political sectors, administrative silos and levels of government. In order to do so, it needs to achieve sufficient co-ordination and coherence across the policy areas in the three primary ministries, and implementation efficiency and inter-operability at the state and sub-national levels.

To overcome fragmentation of ministerial silos, the government must act in a concerted manner. This will require political determination and leadership, and strong direction from within the state public administration. It is not just a question of leadership, however; it also represents a governance shift for Finland in which accountability and resources are re-aligned around a stronger centre. Finland must present a clear vision of networked government, hold agencies accountable for failures in implementing the government's strategy, focus on the standards and shared functions and services necessary for a well-functioning networked administration, and avoid the pitfalls of over-centralisation. Many of these changes will require legislation, and legislative drafting has already been mandated for the standardisation and inter-operability of state ICT under the SADe programme. Strategic vision, leadership and accountability for collective commitment, and resource flexibility to achieve priorities, are all inter-dependent and necessary for the success of Finland's e-government strategy.

Resource flexibility to harness the information society

As discussed in Chapter 6, resource flexibility involves not only the ability to re-allocate resources based on changing strategic priorities, but also ensuring that resource capacity is available in the right place and at the right time. Enhancing Finland's administrative and infrastructure capacity will be critical to ensuring that its strategic e-government vision is successfully achieved.

Enhancing administrative capacity

Most OECD countries are in a stage of e-government development that can be called output centred, and involves enhancing cost efficiency and making services available via telephone and on the Internet. Development strategies are, as a rule, based on the separation of front-office and back-office processes, enabling functionality-driven development of individual back-office functions. There are three different types of back-office functions to be discussed in the context of enhancing Finland's administrative capacity:

- the supply of basic information required for case handling and service delivery by executive agencies and sub-national government administrations;
- the sharing of back-office functions and corporate services to improve efficiency and effectiveness; and
- the standardisation of procurement and provision of software and hardware for the different parts of the public administration, which forms the technical foundations for e-government.

Information infrastructure and management

Adequate information infrastructure and management are essential pre-requisites for efficient e-government. Data must be collected appropriately and managed in such a way that they are available to agencies/service providers as needed. The issue is less technical standardisation than semantic and legal standardisation or inter-operability, and adequate regulations. Deficiencies in the way the public administration manages its data stores can reduce service quality, unnecessarily increase costs, and harm public confidence in its ability to appropriately handle sensitive information.

Information sharing practices and policies differ from country to country, depending on the administrative and political culture and historic background. The Nordic countries (*e.g.,* Denmark, Finland, Iceland, Norway, and Sweden), have for several decades maintained central key databases containing basic citizen data like name, birthday, addresses, etc. to be shared among all public authorities. Legislation and regulation are not strong barriers to information and data sharing in the Nordic countries (even though privacy protection does limit re-use of information and data); however, administrative challenges such as the pricing of information and data for re-use and exchange, do exist and are discussed within the public sectors in a number of OECD countries (*e.g.,* Denmark, the Netherlands, and Finland).

The pre-conditions for efficient and appropriate basic information management in Finland are stronger than in most other OECD countries. Finland has unique identifiers and shared databases for residents, companies and corporations, vehicles and real estate. Public basic data are stored in a number of different state and municipal registers, and Finland has thus avoided the creation of a public mega-database.

The National Information Society Programme 2007-11 states that the usability of basic data registers and shared use of data will be promoted, and that public administration data should be easily available to all public organisations. Citizen information needs should also be addressed. Guidelines for information disclosure and shared use should be clarified, and the related issues of responsibility should be harmonized across registers.

This part of the programme does not, however, seem to have led to any visible results. The utility of the present arrangements seems to be taken for granted and little attention is

given to how trust and integrity protection might evolve over time under existing arrangements – or to potential strategies for enhancing basic information management. The arrangements for accessing public basic data registers seem to be relatively un-sophisticated (generally through insecure online access, with the associated privacy and security risks). Nor does access seem to be limited to the data required for the handling of specific cases.

Moreover, Finnish government agencies that provide information to other public organisations charge these organisations for its use. The charges are not negligible; for example, they account for about half the revenues of the Population Register Centre. As a result, massive downloads are being stored and re-used by other public organisations, creating parallel registers that contain the same sets of information, but which are updated at different times. This almost certainty leads to differences in the same data posted in different public registers. Finnish officials interviewed by the OECD criticised these arrangements, but acknowledged that abolishing charges would have substantial budget effects.

Appropriate pricing of public information is a key part of good information management. On the one hand, it can be argued that the full costs of producing, maintaining and supplying public information should be borne by those who use the information. This allows users to see the full cost of providing the information and balance this against the value generated by using it. Costs will also be appropriately itemised so that the full costs of different activities will be apparent in users' financial reports. On the other hand, information is a non-rivalrous good; that is, consumption of the good by one individual does not reduce its availability for consumption by others. Economic research has shown that the optional price for this type of good corresponds to the short-term marginal cost for distributing it. A higher price will reduce the use of the good and lower its economic yield. Many governments charge external commercial re-users of public information, although there are exceptions such as the United States, where public information, as a principle, is free of charge. Very few governments charge internal re-users.

The health sector provides an especially troublesome problem due to its many different databases. These generate extra costs and contribute to inefficiencies in the health system. A number of development activities are going on in large cities and hospitals, but without any cross-sector integration. The "own health service entity", which is in a preparatory stage in 2010 under the SADe programme, envisages the creation of electronic "well-being and health" files which would be controlled by individual citizens and include health data provided by citizens as well as electronic health and treatment data provided by their healthcare professional and data from the National Archive of Health Information (KanTa).[8]

Three groups have recently been set up to review state information management arrangements and the re-use of public information. Such efforts need to be supported at a high level in order to maintain focus on maximising overall benefits for the state and for citizens, especially through the conditions and modalities for sharing information among public organisations. The present arrangements in Finland seem to be dominated by a cost-allocation logic, which has led to government agencies charging other government agencies for the re-use of public information. The motives for applying this logic to internal information sharing within the public administration does not seem sufficiently compelling to compensate for its evident drawbacks.

A comparison can once again be made with the proposed e-government strategy recently tabled by the Swedish e-government delegation.[9] The delegation considers the

provision of basic data as a public function in itself, rather than a service to other information users. It has therefore proposed that the government designate a small number of executive agencies as main information providers, and task them with providing information free of charge to other executive agencies and local governments.

Another characteristic of Finland's management of basic public information is that executive agencies normally have online access to each other's databases, which they can use to build duplicate databases. This contravenes one of the main tenets of good information management: that a set of information should only be stored in one database in order to avoid discrepancies between registers. The incentives for building duplicate databases will be reduced if internal charging for basic information is abolished, but government should still look to ban this practice.

Another drawback of online access is that it typically gives a user access to more information than necessary for case handling. Governments need to be able to assure citizens that the responsible organisation monitors the use of basic information in databases and acts to ensure that it is only used or distributed as intended. There are a number of technical solutions for better control over data sharing. These include eLink and other similar products, which are recommended by the EU's IDABC programme for data sharing between the administrations of its member countries. The Finnish government should consider adopting one of these solutions to achieve more stringent information management.

Back-office functions and shared corporate services

The networking and inter-connectivity made possible by ICT provides new opportunities for identifying and eliminating duplications and redundancies, and for remedying incompatibility of systems and processes across government. Most governments work to identify common business processes, and have or are deliberating measures to standardise and share such processes in areas such as finance, human resources and information technology management, administrative support, legal services, facilities management, travel services, marketing and communication, and other similar functions.[10, 11] The evolution towards separating back-office and front-office functions has been in play for more than a century, and the transformations enabled by the technological revolution have vastly expanded these opportunities and the ensuing potential for increased efficiency. Many OECD countries are now designing and implementing this type of reforms.

A survey of practices and reforms in OECD countries shows a spectrum of in-house separations, where one part of the administration provides services for other parts of the administration, and of outsourced provisions. In-house arrangements may be a way to ensure coherent implementation, for example in the case of the Selektiebureau van de overheid/Bureau de sélection de l'administration (SELOR) in Belgium. In other cases, the in-housing seems mainly to have been motivated by a desire to minimise disruption, for example in the case of Okonomiservicecentret (the Economic Service Centre) in Denmark. The probability of a second reform phase leading to full outsourcing is then increased, as in the case of a Swedish agency set up to assist other executive agencies in negotiating office leases when that function was devolved.[12]

Efforts to improve the efficiency of Finland's public administration following the 2004 report on Organisation and Steering of State IT Management have led to a strong

focus on the sharing of corporate back-office services in the state administration. The Shared Service Centre project was started by state ministries, who modeled it on how large private sector entities organised their financial and HR services. The Ministry of Interior and Ministry of Defense were the first Finnish state ministries to adopt the idea, followed by the Ministry of Justice. Each ministry launched its own Shared Services Centre. Then the Ministry of Finance has also developed a Shared Service Centre.

Given the success of the models in these four portfolios, in 2007 the Finnish government decided to increase efficiency by implementing one Shared Service Centre for all state-level ministries and agencies. At the time the cost of processing one invoice in the public administration was estimated at around EUR 30-40, when the cost in the most efficient private companies was only EUR 8. In addition, the public administration launched an electronic method to process invoices, followed by electronic financial and HR processes. Agencies have targets to achieve in relation to these processes.

As of 1 January 2010, the four Shared Service Centres have merged into one centre. All state ministries and agencies are required to use the centre for all financial and HR services (this will be implemented through a staged rollout of the services offered through the service centre). The merger will reduce the number of locations around the country from 10 to six. As part of the regional policy initiative, the Ministry of Finance will keep six locations to ensure some state-level presence in the regions. In the absence of the regional policy initiative, the Ministry of Finance would have maintained only two locations as a means of further increasing efficiency. However, the benefit of a higher number of locations is better access to a greater skills base and employees who are less likely to leave their jobs (than if the centres were in Helsinki using Helsinki staff). Also, the rental of the premises is much less expensive in the regions.

In addition to the Shared Service Centre mergers, the government had also invested in new data processing facilities – merging computer systems (such as payroll, HR and accounting) across all state ministries and agencies. The government gives these systems to agencies to use for free (to interface with the Shared Services Centre). The first pilots of the new computer systems roll out in 2010, and will align each agency's computer systems (there are currently up to 53 different computer systems in some portfolios). Although all agencies use the same brand of computer system, each organisation seems to tailor it differently, which is very inefficient.

One important issue is whether the use of shared services should be compulsory or optional. Participation in the Shared Service Centres is mandatory for the Finnish state administration, consistent with a control approach to organising shared services (see Table 8.1). It may seem logical to argue that the use should be always compulsory in order to maximise the return on the public investment. Ensuring coherence is another motive for compulsion. A drawback of mandatory use, however, is that units providing compulsory shared services have captive customers, and may therefore not have sufficient incentives to innovate and to keep costs as low as possible. In fact, some state agency staff have suggested that the cost of joining the Shared Service Centre is 2.5 times their original costs for delivering the same services. This assertion cannot be tested, as the cost structure of the service centres is not known (the Ministry of Finance is currently producing a study of good practices in Shared Service Centres). As such, the comparison of costs between arrangements in individual ministries and agencies through salary costs compared to the total costs of the service centre to the client do not naturally bring a comparative result. In

Table 8.1. **Characteristics of approaches to the organisation of common business processes**

	Control approach	Facilitating approach	*Laissez-faire* approach
Building the business case	Strong central agency	Central agency in co-operation with involved organisations	Involved organisations
Decision to develop a CBP	High political level	Politicians and involved organisations co-operate	Involved organisations
Developing a solution	Committee appointed by politicians	Politicians and involved organisations co-operate	Committee appointed by involved organisations
Implementing the solution	Mandatory (sometimes)	Incentives for usage	Optional

Source: OECD (2005).

addition, the Ministry of Finance has argued that achieving cost efficiencies will take time, as customer service relations develop.

The OECD has noted that member governments increasingly require sufficiently attractive business cases before moving forward with proposed ICT projects.[13] Among the questions that should be covered by the business cases are clear outcome indicators, quality data, risk-management techniques and an understanding of both the intended and unintended benefits of the investment. Such analyses need to be conducted *ex ante* and then verified as part of an *ex post* evaluation. The SADe programme has provided guidance for e-government service entities to draw up cost-benefits analyses for the administration, as well as for customers, based on the Standard Cost Model.

Achieving greater efficiency through shared services will require better data about baseline service costs, including the entire cost of service delivery, as well as appropriate incentives and controls to ensure that service provision costs stay below the baseline cost of providing the same service in the corresponding government agencies. Interestingly, there is some indication that shared services developed in a more bottom-up fashion (*i.e.,* a facilitiating or *laissez-faire* approach) actually result in greater co-operation at the agency level than those imposed from the top down (see Table 8.1).[14] It is also possible – at least for some potential shared services – to argue that an organisation that can satisfy its requirements at a lower cost by using another provider should be allowed to do so.

Denmark has also adopted a control approach to the identification and consolidation of shared services. From 2010-12, eight ministries will join the Agency for Governmental IT Services (SIT), with a combined total of about 30% of central administration users. Other ministries may join later, depending on the evaluation of the first phase. The government estimates that centralisation of routine activities will contribute about DKK 368 million, while more efficient administrative functions within ministries will contribute DKK 204 million, and the consolidation of ICT-infrastructure and applications, DKK 230 million. In terms of evaluation, it was decided that the service centres will implement activity-based cost models from 2011, though the precise models have not yet been identified.[15]

Standardisation and procurement of ICT. The technical foundations for e-government are composed of the hardware used for running different applications, and the software necessary for operating this hardware. These are typically purchased from private companies. Many OECD countries are now actively consolidating their technical systems in order to reduce heterogeneity and costs. Leading countries are also actively working with technology roadmaps to implement visionary planning for the introduction of new innovative arrangements and applications.

One factor highlighted by government officials was an ambition to consolidate IT resources through standardisation of hardware, centralised procurement and Shared Service Centres. This type of policy is frequently pursued by countries with a department-based government administration. Implementing them in Finland, with its agency-based administration and independent local governments, will present substantial challenges to be handled at the political level.

Centralised hardware procurement generates substantial inertia, and transaction costs may consume a large part of intended savings. The government should instead assess the use of framework procurement agreements that verify the quality of the products and the capacity and reliability of selected suppliers, but leave the actual procurement decisions and volume to the organisations needing the products or services.

The key issue is not so much weighing standardisation and consolidation, but determining the appropriate balance between consolidation and delegated responsibilities. Central purchasing is not the sole alternative to fragmented purchasing of systems and programmes. Some countries have achieved good results with framework procurement contracts. These entail a formal procedure for selecting a small number of reliable suppliers with approved products, and a less formal procedure through which different public organisations can order the products they need.

The Finnish government should assess the pros and cons of different levels of consolidation of ICT resources. While the government can clearly reduce its costs by co-ordinating public procurement of ICT equipment and services, centralised procurement can also lead to significant transaction costs, including those caused by inertia. There are also questions as to whether inter-operability will be increased. Technical development is also moving towards new modes of computing, where the choice of hardware becomes less significant than the adherence to open data standards and communication protocols. In this context, one can note that the National Information Society Programme 2007-11 aims to promote the use of open interfaces in ICT systems in a competition-neutral way. The SADe Action Plan states that "Application of the pre-commercial procurement procedures will be assessed in the service entities to find new innovations", and makes a commitment to the utilisation of open source code.[16]

The organisation responsible for framework procurement should be instructed to promote the use of open interfaces in ICT systems, as proposed in the National Information Society Programme. Finally, the government should ask the Ubiquitous Information Society Board to discuss and propose a programme of action for the promotion of electronic procurement for e-government. The guiding paradigm should be a new model adapted to networked government rather than the traditional hierarchical one dominant in industrial societies. The challenge is to find an optimal balance between the requirements of a well-functioning and cost-efficient network, and the need to preserve sufficient empowerment and accountability of agency heads when it comes to business re-engineering and service development.

Information society policy and e-government

The Finnish approach to the mutually supporting aspects of e-government and information society policy are strongly linked. "The information society" is an analytical concept, and not a well-defined state. It signals that information has become the key production factor in the society, replacing industrial capital (just as industrial capital

previously replaced agricultural land). The key message is that economic growth and competitiveness now depend on how well a country can develop its information resources and processes. As such, e-government is not only a marker of the level of ICT advancement in a country, but also a significant source of ICT spending in its own right, a way to attract knowledge workers with high expectations for quality services, a major tool for strengthening social cohesion in remote and rural areas, and a driver for take-up of electronic services in general.

The key document for reviewing and understanding Finland's strategy and programmes for promoting the transition to an information society is the Ubiquitous Information Society Action Programme 2008-11, which enumerates a number of action areas and objectives.

E-Services

The government promotes the change to electronic commerce and electronic services by developing the operating environment for electronic commerce. The National Information Society Programme 2007-11 indicates that the purchasing process in public administration – from invitations to tenders and to invoicing and payments – would be made electronic in order to foster the development of new business, and so that it can be used for cross-border purchases. This entails the development and establishment of appropriate standards and common procedures. This is done in close collaboration with businesses and by supporting the introduction of electronic invoicing and purchasing. The main body driving the change is the Finnish Information Society Development Centre (TIEKE), where a number of private enterprises and public organisations co-operate.

An evaluation group presented its report on the National Accessibility Strategy in February 2007, and the strategy was to be updated and necessary measures taken to ensure unhindered access to information society services. This includes preparing a special action programme for improving the consumer's position in offering information society services. However, so far, no action appears to have been made public about how these parts of the Ubiquitous Information Society Action Programme are to be implemented.

Broadband availability

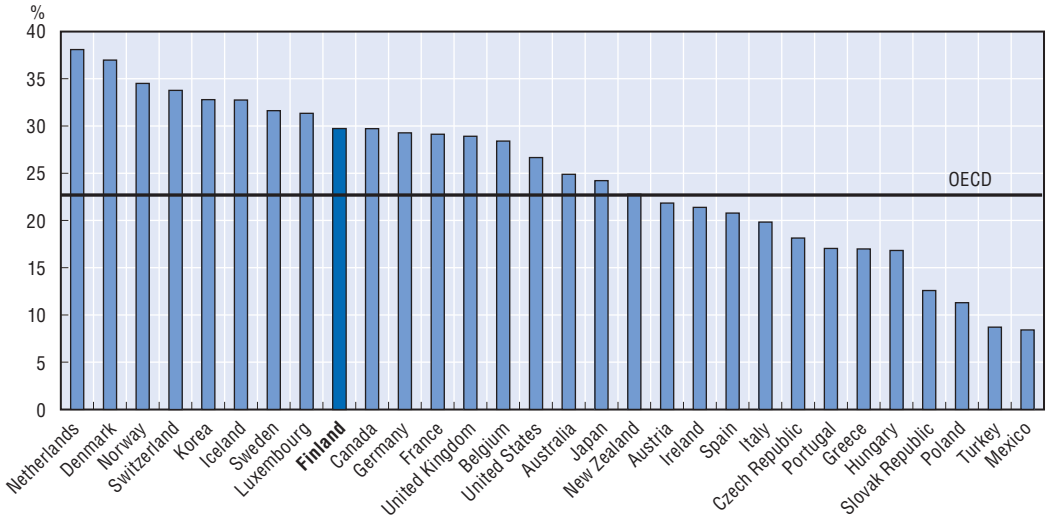
A key element in support of both the information society and e-government is broadband penetration and access. Residents and enterprises need access to fast and reliable data transmission networks, able to handle large data quantities, at a competitive cost. Promoting increased investments in such networks is a *sine qua non* (without which there is nothing) for all OECD countries. This is also why progress in this area is monitored by the EU as part of its Lisbon Strategy for a more dynamic and competitive European economy.

This is one area where small and compact countries such as Denmark, Luxembourg and Malta have advantages over countries containing large areas with low population density, such as Australia, Canada and Finland. The latter group of countries can therefore be expected to invest more in mobile broadband services as a complement to fixed lines in densely populated areas.

Many countries also find themselves in a situation where private investments in broadband networks are inadequate, resulting in increasing demand for public investments. A parallel can be drawn with the creation of national railway and electricity grids a century ago, which also required substantial state intervention.

The European Commission monitors broadband access in the EU countries; its recently published survey report[17] showed that Finland was fifth in fixed broadband penetration at 30.5%, but also indicated that Finland had not made any measurable progress during the last 12 months – several other countries also lacked action over this period. Data on mobile broadband penetration was not available, although it would have been of interest given the large sparsely populated areas in Finland (see Figure 8.8).

Figure 8.8. **Broadband penetration rate, 2009 Q2**



Source: OECD Broadband Portal.

The National Information Society Programme 2007-11 states that communications infrastructure should be developed to provide Finnish households, businesses and public sector organisations throughout the country with high-speed data transfer connections which enable versatile use and provision of content, business processes and transactions, and provision of high-quality electronic public services. Wireless broadband networks and mobile networks should be developed to provide more versatile content. Introduction of next generation technologies should be accelerated.

In addition, the Ubiquitous Information Society Action Programme 2008-11 states that the national broadband strategy will be updated and that the level of the universal service obligation covering the whole country will be evaluated. In September 2008, the Minister of Transport and Communications announced that the government had agreed in principle to draft and adopt a programme extending broadband access over the entire country through 2015.[18] The goal would be access to a 100 Mbit/sec net at a distance of not more than two kilometres for all citizens. As a first step, the minimum standard of the existing base nets would be raised to 1 Mbit/sec. In October 2009, the government adopted its legislative proposal to Parliament for the enactment of the Programme.[19]

The cost of two kilometres of access lines is not negligible, and thus broadband access might be out of economic reach for isolated rural households even after 2015. The proposed enhancement would, however, probably cover all built-up areas and most residents and enterprises in Finland. The Finnish example is one of the most ambitious expansions planned among the OECD countries – with the exception of Australia, which is

in the process of developing a National Broadband Network (see Box 8.3). Both Australia and Finland have a large geographic land area, with citizens living in rural and very remote areas. The difference between the Finnish and Australian examples is that the Australian government has not been as ambitious as the Finnish government and has only committed to connecting up to 90% of all Australian homes, schools and workplaces with broadband speeds of up to 100 Mbit/sec, rather than the 100% of citizens as in Finland. The Finnish programme still has to be finalised, and a financing agreement among the state, the Regional Councils and the local governments must be reached.

Box 8.3. **Australia's National Broadband Network**

In April 2009, the Australian government announced that it would invest AUD 4.7 billion (over eight years) to establish a new company to deliver superfast broadband to Australian homes and businesses.

This new National Broadband Network, built in partnership with private sector, will be the single largest nation-building infrastructure project in Australian history. This National Broadband Network will connect 90% of all Australian homes, schools and workplaces with broadband services with speeds up to 100 megabits per second, 100 times faster than those currently used by many households and businesses; and connect all other premises in Australia with next-generation wireless and satellite technologies that will deliver broadband speeds of 12 megabits per second. The new superfast network is expected to:

- Connect homes, schools and workplaces with optical fibre (fibre to the premises or FTTP), providing broadband services to Australians in urban and regional towns with speeds of 100 megabits per second, 100 times faster than those currently used by most people in towns with a population of 1 000 or more people.
- Use next-generation wireless and satellite technologies that will be able to deliver 12 megabits per second or more to people living in more remote parts of rural Australia.
- Provide fibre optic transmission links connecting cities, major regional centres and rural towns.
- Be Australia's first national wholesale-only, open-access broadband network.
- Be built and operated on a commercial basis by a company established at arm's length from government and involve private sector investment.
- Be expected to be rolled out, simultaneously, in metropolitan, regional, and rural areas.

Source: Department of Broadband, Communications and the Digital Economy, *www.dbcde.gov.au/broadband/national_broadband_network*.

Information security

Adequate information security is a second key element. Users of communication media have to be able to trust its availability, integrity and non-corruptibility if they are to use it as a base for vital economic functions, or for the transmission of confidential information. These issues are global, and primarily beyond a country's reach, since they involve the design of commercial software such as office programmes and web browsers, and the functioning of the Internet.

Much depends, however, on the national implementation of these global tools. Data systems must be sufficiently robust to survive overloading attacks; protection against viruses and other forms of malware have to be up-to-date and optimised. Users must be made aware

of risks and of the need for appropriate behaviours, and protection must be sufficient. Governments have a dual responsibility: both for the general level of information security in the society, and for the information security standards in the public administration.

Finland is giving high priority to information security. The National Information Society Programme 2007-11 promotes the information security of networks and services, particularly defining and ensuring the critical infrastructure of the information society. The Ubiquitous Information Society Action Programme 2008-11 states that the National Information Security strategy would be updated by the end of 2008. In November 2009, the Ministry of Transport and Communications adopted a decision on the principles for developing information security in the national government administration.[20]

Electronic identification

A third key element is access to adequate and appropriate methods for electronic identification. Available methods range from user names combined with short pin codes, to separate devices using asymmetric encryption for transformation of longer data strings. There is a general agreement that service providers need to choose an appropriate security level for each service, allowing simple methods to continue to be used in parallel with more sophisticated methods. Officials also believe that the more sophisticated methods should be universally valid, which requires a degree of government intervention in their design and administration.

OECD countries have chosen different levels of government intervention to implement sophisticated security measures. In some countries the state takes the lead, while others have let commercial banks or other private companies play that role. Some countries have established smart-card-based solutions, although with varying success. Others have so far only used software-based methods. The level of security of these methods varies, with hardware-based solutions normally being more secure than software-based options.

The lack of international standardisation creates challenges for service providers that want to enable cross-border services and transactions. Here, the EU plays a leading role. Its STORK[21] project aims to establish a European eID Interoperability Platform that will allow citizens to conduct new cross-border e-transactions just by presenting their national electronic identifications. STORK classifies the different national methods according to a four-level scale to enable service providers in one country to know what identifications from other countries are adequate for the chosen security level.

Some countries have created or intend to create so-called single sign-on services that give access to a range of e-services requiring an electronic identification. There are also private e-service providers offering the same type of service to users. While these services facilitate transactions for users, they also increase possible damage in the case of malicious capture of the system's identification method. Therefore, such systems should use a highly secure method of electronic identification. This is, however, not always the case.

Access to widespread and sufficiently secure methods for electronic identification is essential for the development of the information society, and a vital part of its infrastructure. The use and development of electronic services requires reliable, secure and easy-to-use electronic identification methods suitable for different purposes. Finland has the advantage of a national population register and unique personal identification numbers for all persons residing in Finland, including those without Finnish citizenship.

Finland was an early leader in providing residents with e-identifications, fostering a high degree of security.[22] The Finnish Population Register Centre started issuing electronic ID cards in December 1999, but so far only 5% of the population has acquired them and less than 1% of all online authentications are based on this card.[23] The main reasons for the lack of interest seems to be that when the card was introduced, there were few e-services using it. The cost of the card is also likely creating a barrier to take-up.

The standard mode of electronic identification today is the TUPAS tokens issued by commercial banks, which use their own proprietary methods to identify their Internet banking customers. These vary from bank to bank, and some are vulnerable to malicious attacks using the so-called "man in the middle" method.[24] The tokens can only be issued to persons who have an Internet bank account at a Finnish bank.

A 2008 National Audit Office (VTV) report on eID services in Finland[25] found serious flaws in nearly all eID initiatives, services, implementations and procurement practices. The report also found many problems related to the use of TUPAS, which is clearly is not suitable or usable for identity federation and single sign-on, and is not compatible with the current Finnish eID strategies.

The National Information Society Programme 2007-11 also states that coherent procedures of electronic identification in public administration would be agreed and widely introduced. It recognises that several identification procedures could be used at the same time. The intention was to create an extensive joint operating model for the public and private sectors on the basis of existing identifiction methods, with the aim of providing citizens and businesses with easy access to reliable methods for e-identification.

The Ubiquitous Information Society Action Programme 2008-11 notes that secure electronic identification is particularly important for the use of public electronic services that contain sensitive personal data and for those that require payment. It identifies a reliable method allowing users to identify themselves for all, or at least most, public and private sector services as a key objective of an efficient information society. The Action Programme also assumes that a number of methods will be used simultaneously, and aims to ensure the inter-operability of different identification methods in Finland and to prepare for the requirements of internationally inter-operable e-identification. Furthermore, it states that conditions for the introduction of mobile identification would be established during 2008, that legislation on certification services would be reformed, and that a resolution on ways to implement electronic identification would be prepared by the end of 2008. However, so far, nothing seems to have been made public about how this part of the Ubiquitous Information Society Action Programme is to be implemented. Finland is also not participating in the EU's programme for secure identification across borders (STORK).

There is room for significant improvement to existing Finnish arrangements for the development of more secure methods for electronic identification. The level of security needs to be higher for applications that give access to sensitive information about individuals or enterprises than for mere economic transactions – an economic transaction can always be reversed, while an unintended release of confidential information cannot. The dominant use of identification methods developed for Internet banking leaves Finnish e-government vulnerable. Specifically, it is not acceptable to use identification methods that are vulnerable to "man in the middle" attacks.

At the same time, Finland should continue to aim for methods of electronic identification that can be used by all private and public service providers. Since a large

volume of transactions will involve payments and other financial services, close co-operation with banks for the continued development of electronic identification methods is essential. The government should also assess the security level of its own arrangements against the level in other European countries, to ensure that Finnish users can use cross-border services and transactions.

Serving the citizen

The transition to an Information Society requires implementation of a wide range of public electronic services, and developing associated service processes. The EU's e-government benchmark shows that Finland has a number of public services that are fully available over the Internet, but it is not ranked among the five top countries in the index for fully available services. One of the goals of the Finnish government is to improve Finland's rank in this and other similar indices.

OECD countries are actively working to place as much information and as many services as possible online. How they do this and their place in the development chain (*e.g.,* organisation-centred, output-centred, or citizen-driven and integrative) varies depending on the culture and maturity of their basic administrative arrangements. Although electronic technologies provide new tools, enable new arrangements and present new opportunities, support for administrative transformation is limited and governments may have to prioritise among various urgent needs. This is giving rise to new thinking about how to better manage service delivery channels in order to both increase access and manage costs.

OECD countries are also increasingly making a distinction between front-office functions for interactions with users, and the back-office functions that manage information and provide basic case handling. There is general agreement that both residents and enterprises should have access to electronic one-stop shops, single information and transaction portals for each service, regardless of how many public organisations are involved in providing that service.

Some countries have taken this concept one step further, setting up single government portals giving access to all public services. Early examples of such projects were the Netherlands' Overheidsloket and the United Kingdom's UK Online, developed about a decade ago. The failure of many commercial portal projects has, however, showed that users generally prefer to go directly to the service in which they are interested at the moment. Some OECD countries are therefore setting up online service clusters around specific life situations or business needs, as well as using public websites to engage customers and citizens.

Re-organisation of public electronic services

OECD countries' e-government experiences show that merely transferring online the traditional producer-oriented processes typically found in government organisations will not allow the full potential of electronic service delivery and e-government to be realised. It is thus crucial to focus on what needs to be done to modernise the business processes and governance mechanisms that underpin this transition.[26]

The key government document in this respect is the Action Programme on eService and eDemocracy (SADe programme), through which the government intends to prioritise 10 to 12 cross-administration projects for citizens and enterprises for electronic case handling. Ministries, municipalities and the pension authority have submitted

74 proposals for consideration, which has resulted in the selection of seven service entities so far (learner's service, participation environment, own health, built environment and housing, employer's service, citizen's welfare service planning, and business establishment). Nine criteria were laid down for the selection of programmes that will receive central financing. These are: customer orientation and quality; importance; cross-administrative character; productivity potential; cost efficiency in implementation; readiness and implementation speed; need for legislative changes and readiness to enact them; compatibility with the architecture of the public administration; and innovation and creativity.[27] In addition, special emphasis was placed on those projects that help to increase the productivity of municipalities.

The SADe programme is intended to provide impetus for the development of e-services. The large number of project proposals that have been submitted indicates a high level of interest within the government administration. The selection criteria are, however, numerous and quite general, and no relative weight has been specified. The steering group, and ultimately the government, has thus been able to exercise substantial discretion in the selection of projects for financing.

One rule of thumb for the development of e-government is that good e-services cannot be built on unsatisfactory processes and structures. The government should therefore avoid selecting project proposals from organisations that have not yet reviewed, and at least started to modernise, their business processes. The government should also require that project proposals have been assessed from a user point of view to ensure that they will generate sufficient added value for users to justify development costs. Finally, the SADe programme does not yet have a mechanism to shut down existing services made redundant by newly developed shared services. Such a step is necessary in order to harvest and re-invest savings for additional e-government development.

The SADe programme includes development of a uniform method for evaluation of the government's information-systems projects. Large projects will only be continued if the evaluation function approves the project, and the ministries will have more influence over both approval and management of such projects at sub-government levels. A pilot programme was started in early 2010. As noted earlier, such mechanisms are necessary as part of an overall governance shift towards more central accountability in support of the current e-government vision.

Multi-channel customer service

Finland is not only set on expanding and standardising the range of electronic services offered, but also on exploring new approaches and arrangements for public services. The aim is a multi-channel customer service concept, incorporating both the physical network of service points and services provided electronically and via call centres. The government intends to create a common basis for enhancing co-operation within the national government administration, with the Social Insurance Institution, and across local governments.

The latter is an especially challenging task for Finland due to the extensive autonomy of local governments and to their important role in providing public services. In additional, Finland has large, sparsely populated areas in the Northern inland, which creates a large variation in the size and capacity of local governments. The development and provision of shared back-office services and functions will be key. The National Information Society Programme 2007-11 states that a new multi-channel model for shared services would be

developed, including one centralised portal to provide administrative services in electronic form. The programme recognised that this would call for reform of public service structures, closer cross-administration co-operation, and the introduction of a service-based architecture. Processes and systems for financial and personnel administration should be harmonised to support cost-efficient services and service centres.

A multi-channel e-service approach can improve service to users by integrating delivery across different systems including the Internet, call centres, over-the-counter services, e-mail and postal mail. Improved networking of organisations, and aligned standards and policies will aid in this transition. Making it easier for users to find and use government e-services can also result in savings to government. However, achieving better services with a fixed or limited overall investment depends, in part, on moving large numbers of users from traditional channels to electronic channels for high-volume services. Governments therefore have to pay attention to adapting traditional service structures to a drastically shrinking transaction level.

Single gateway to electronic public services

Under the Ubiquitous Information Society Action Programme, an important goal is to create a uniform, secure and reliable single gateway to electronic public services. The aim is to develop a common solution that will provide a centralised website where every citizen can track how their interactions with the government are being handled, and where they can obtain public documents, such as decisions, in electronic form. This "citizen's web portal" should allow residents to review and update their personal register information. Electronic contact data management, as well as the management of consents and authorisations, should be integrated into the portal. The portal is expected to promote development of proactive services according to citizens' life situations and companies' life cycles.

The Ubiquitous Information Society Action Programme also includes plans for the development of shared national transaction portals and a net service concept, and for the promotion of the use of shared basic databases. This includes revising the two information portals, *Suomi.fi* (individuals) and *YritisSuomi.fi* (enterprises), to allow transactions, and creating a shared system for online identifications and payments, *Vetuma.fi*, that will include electronic signatures, time-stamping and delivery of messages to citizens' email accounts.

At the same time, Finland is also intent on reforming its traditional provision of public services. The Ubiquitous Information Society Action Programme states that physical one-stop shops for public services can help safeguard diverse, high-quality services in both sparsely populated areas and population centres. Strong customer service and effective utilisation of information technology can help in delivering a high-quality and comprehensive service network that will improve productivity and cut costs. Good customer service is expected to increase citizen satisfaction and improve the image of service providers.

The development of joined-up e-services will require adequate co-operation among executive agencies subordinated to different ministries, the Regional Councils and local governments, and a number of other important stakeholders. It is not reasonable to believe that co-operation can be replaced with legislation, and the government should therefore continue its policy of promoting the involvement of all stakeholders in designing strategy and development measures.

There is a risk that the introduction of a central financing resource may have the perverse effect of slowing down projects that are not selected for central financing, if

executive agencies choose to wait for the next round of central financing instead of using their own resources. It is therefore essential that e-government continue to be pursued through existing channels; that is, by transmitting clear expectations to executive agencies and other actors, monitoring their actions and achievements, and holding agency heads and boards to account for how the e-services which they are responsible for are evolving.

Provision of shared services and functions

The development of sophisticated public e-services is accompanied by measures to strengthen e-government networks. Enhanced central provision of shared services and functions is thus a central element of Finland's e-government strategy. As noted, in spite of its traditionally de-centralised administrative model, Finland has operated in a relatively centralised manner.

The SADe programme includes the creation of a shared service development and provision agency called JulkIT (PubIT) for state and municipal government and for KELA. It would be tasked with developing shared solutions for national and local government administrations and be responsible for the procurement, implementation and operational support of these shared solutions. Finnish officials have indicated that the national government's administration would be obliged to use the shared solutions.

The government's intention is that these activities would be financed by a single allocation within the Ministry of Finance's expenditure area. The necessary resources shall be transferred from other expenditure areas, and from the national budget allocation for block transfers to local governments. The size and distribution of each source's contributions shall be determined annually depending on the composition of the project portfolio. In this way, it will be possible to make shared solutions available to executive agencies and local governments at no cost or at a reduced cost. It might not be feasible to legislate mandatory use by local governments, and this would probably be unnecessary.

Arrangements for the provision of shared services and functions have yet to be approved by the Parliament. A first proposal is included in the government's budget bill for 2010, and a detailed proposal is expected to be discussed in internal budget negotiations during the spring of 2010.

Social and healthcare services

Most OECD countries are looking at ways to improve their health services. The potential for increased efficiency of health services is substantial – through e-services such as online health information and appointment bookings, better integration of service providers, and better back-office management of patient journals and other health or treatment-related information. Experiences and progress have varied, mainly due to the sensitivity of the information concerned, complexities of national health systems that involve a number of separate private and public service providers, and strong professional associations.

Finland has assigned high priority to improving its social and healthcare services. As part of the National Information Society Programme 2007-11, an economical, reliable and secure national information technology infrastructure will be created to enable customer-oriented and cost-efficient provision of high-quality services in these sectors. The benefits are expected to be significant for both healthcare providers and clients.

The goal off the Ubiquitous Information Society Action Programme is to develop electronic medical records, an electronic prescriptions system and an electronic clinical

data repository. After the planned reform, clinical data would be recorded electronically in a uniform format in nearly all public and private healthcare units. Documents would be signed electronically and sent to a national repository service, from which they can be retrieved with patients' consent by health providers involved in their care. All Finns over 18 years of age would be able to view their own medical records and prescriptions over the Internet. Prescriptions would be sent electronically to a prescription database maintained by KELA, for retrieval by pharmacies. These measures are expected to improve patient safety and quality of care, as well as facilitate more cost-effective healthcare operating models. The first step towards realising this vision has been the establishment of the own health service entity under the SADe programme.

The government expects that by 2011, all public actors will have joined the national electronic archiving service for patient documents, and that all healthcare organisations and pharmacies will have access to e-prescriptions. Citizens will be provided with information and interactive services concerning health promotion and medical treatment, enabling them to take personal responsibility for actively maintaining their health and capacities.

E-Participation

The Ubiquitous Information Society Action Programme also notes that, while the Internet facilitates civic participation, these opportunities are still in the early stages of development. It states that information and communication technology should be utilised more effectively to improve and grow pre-conditions for civil participation. The opportunities for information and communication technology to enhance both democracy, and more open and transparent administrative processes, should therefore be actively developed.

The recommendations of the SAG-group report[28] noted the following thematic areas for consideration in relation to e-participation:

- Transparency and information sharing during the preparation and drafting of government decisions.
- Rules for Hearings.
- New mechanisms and structures for involving stakeholders.
- Competence building for public servants and organisation activists.
- Internal co-operation, especially within the organisation group for Swedish-speaking Finns.

The SADe programme also supports creation of a shared e-participation environment. A participation environment service entity has been approved, with a preliminary report in September 2010. The service entity comprises the services of the participant and the services for the arrangement of participation as well as data reserves in order to enhance the possibilities for citizens to participate using ICT and the internet. This project will provide an important platform for promoting citizen participation efforts by lowering administrative barriers to conducting citizen consultation, reducing overlapping development work, creating a more standardised approach and more versatile possibilities for citizen engagement, and improving the quality of preparatory work by strengthening underlying data.

Conclusions

Finland has been a leading country in e-government, although it seems to have lost speed during the last few years. The government has recently presented a number of broad

e-government action programmes and taken specific steps to implement these measures. However, work remains before Finland can reach its goal of being among the five most highly ranked countries in the world.

Finland's main weakness does not concern its strategies and government programmes, nor is it technological or financial. Instead, Finland needs to overcome the administrative fragmentation inherent in its policy and administrative model with a coalition government, separately managed government agencies and local governments which are not subordinated to the national government to achieve adequate co-operation and co-ordination across policy areas, administrative silos and levels of government. Such a re-alignment of the governance model would be consistent with set of objectives and strategies laid out in ongoing e-government plans.

Finland has chosen a relatively centralised model for its continued e-government work, using organisational changes, legislative amendments and financial arrangements to strengthen central capacity and authority. There is a risk that this will create a mismatch with Finland's disparate administrative structure, unless the government is sufficiently active in co-opting local governments and strategic government agencies.

Excessive centralisation to counterbalance a decentralised governance model with strong executive agencies may lead to increased inertia and transaction costs. Finland should therefore continue to search for an optimal balance between central norms and standards, and dispersed empowerment, engagement and discretion in managing and developing public services.

Insufficient central frameworks and standards may, at the same time, hamper devolved efforts. The tangible measures undertaken by Finland so far seem to let some areas lie fallow, at least for the moment. Thus, Finland needs to take action to improve its basic information management, its arrangements for electronic identification and its level of e-procurement.

A more controlling approach also needs to be matched by sufficient high-level leadership. The use of a small number of ministerial committees to oversee thematic government programmes has enabled Finland to undertake innovative and successful reforms in a number of areas. The government now needs to ensure that its efforts in managing the transition to an information society are driven by sufficient political determination and impetus.

Finally, a citizen focus needs to be more embedded in the operations of Finland's e-government and information society strategies. Taken together, the National Information Society Programme, the Ubiquitous Information Society Action Programme and the SADe programme seem to reflect an output-driven e-administration. Although the intention is to create value for citizens, little seems to have been done to look at value creation from the citizens' point of view. Finland's approaches are typically dominated by large central initiatives with common solutions for the whole administration. A sobering note is that surveys of international experiences show that such reform programmes have often failed to deliver expected results.

Finland is probably the world's leading country in improving e-government users' experiences; however, its e-government arrangements are still mainly producer-driven and output-oriented. By providing funding, leadership, and guidance, the SADe programme has taken some important steps towards cutting across administrative boundaries and levels of government in terms of organising service delivery around areas of need rather than

organisational structures. However, these efforts are still in an early stage and will continue to face a number of challenges ranging from achieving the legislative basis needed for change to putting in place the supporting services to enable cross-cutting services, and embedding the necessary cross-organisational working methods and culture to realise user-centric services. In order to achieve the strategic agility needed to realise its e-government objectives, Finland should strengthen the user perspective in e-government development and aim for a more user-driven e-government.

Notes

1. It should be noted that there are many international e-government benchmarks. The ranking of countries in different systems is seldom exactly the same, and the differences can sometimes be remarkable. The benchmarks done by the European Union for EU members and in some cases for European Economic Area countries are among the most reliable. One reason is that the methods used in compiling them have been assessed and aproved by a high-level group composed of national representatives.
2. EU (2009), *Annual Information Society Report 2009*, Commission Staff Working Document, SEC(2009)1103.
3. EU (2009), *Smarter, Faster, Better eGovernment,* 8th Benchmark Measurement, November 2009, prepared by Capgemini, Rand Europe, IDC, Sogeti and DTi for the European Commission.
4. Building permits and registration of a new corporation.
5. UN (2009), *UN eGovernment Survey 2009 – From eGovernment to Connected Governance,* UN/ECOSOC document ST/ESA/PAD/SER.ER/112.
6. World Economic Forum (2009), *The Global Information Technology Report 2008-09 – Mobility in a Networked World,* INSEAD and World Economic Forum.
7. Ministry of Finance (2009), *Working Party Suggests Several Measures for Developing Electronic Case Handling*, information to the Press 28 January 2009 (this document only exists in Finnish and Swedish language versions).
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9. Swedish e-delegation (2009), *Strategy for the e-government Work of Agencies,* Government Commission Report SOU 2009:86 (this document only exists in Swedish).
10. Gershon, P. (2004), *Releasing Resources to the Front Line: Independent Review of Public Sector Efficiency*, HM Treasury, London.
11. OECD (2005), "Approaches to Common Business Processes", in *E-Government for Better Government,* OECD, Paris, pp. 67-96.
12. This was an agency set up to advise and assist other executive agencies which were empowered to lease their own premises, and abolished less than a decade later.
13. OECD (2005), *E-Government for Better Government,* OECD, Paris, pp. 111-112.
14. *Ibid*., p. 95.
15. OECD (2010), pp. 54-55.
16. Ministry of Finance, pp. 15-16.
17. EU (2009), *Broadband Access in the EU: Situation as 1 July 2009,* Working Document for the Communications Committee, COCOM09-29 FINAL.
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24. A malware (*i.e.,* a Trojan) establishes itself in the computer and imitates a legitimate e-service in order to get access to security codes.

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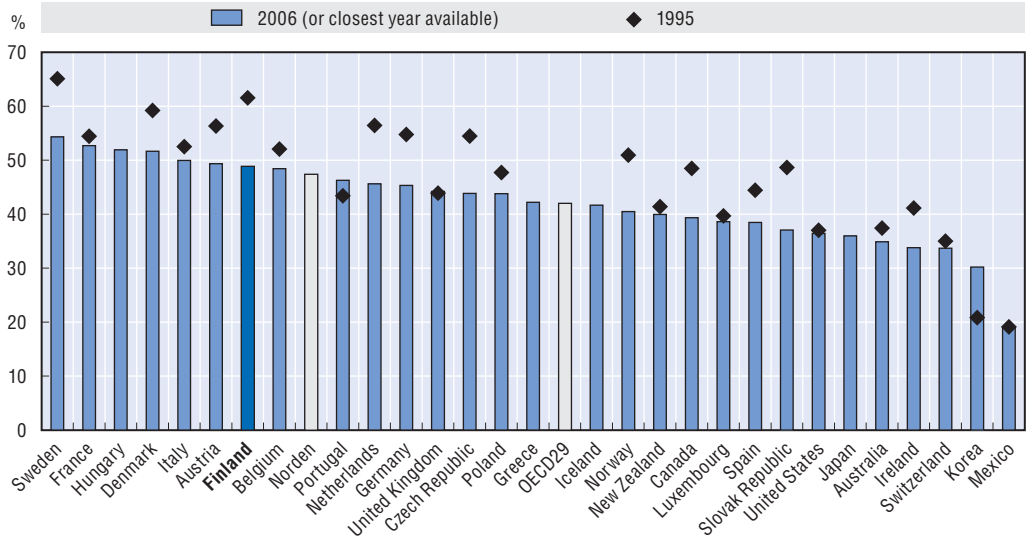
ANNEX A

Accompanying Economic Figures and Tables for Chapter 2

Figure A.1. **General Government expenditure as a percentage of GDP, 1995[1] and 2006**

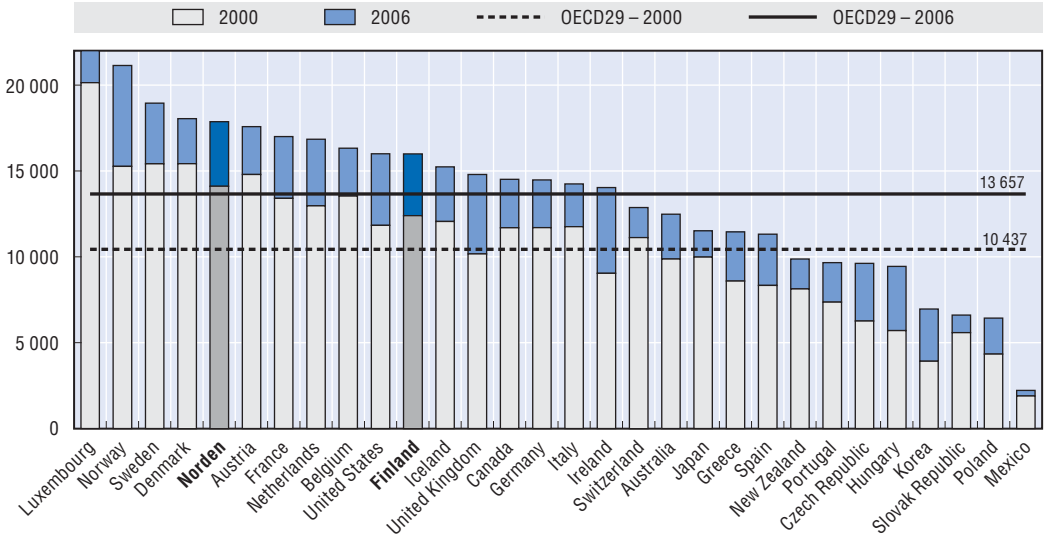


1. 1995 data missing for Greece, Hungary, Iceland and Japan; Data missing for Turkey; New Zealand: 2005; Mexico: 2004.

Source: OECD (2009), *Government at a Glance*.

Figure A.2. **Government expenditure per capita, 2006**

Expenditures per capita in USD PPP, 2000 and 2006 or latest year available



Notes: New Zealand: 2005 and Mexico: 2004; Data missing for Turkey.
Methodology: public expenditures expressed in USD and divided by the population.
As PPP for the public consumption is not available (only PPP for GDP or PPP for private consumption), PPP for GDP was used.

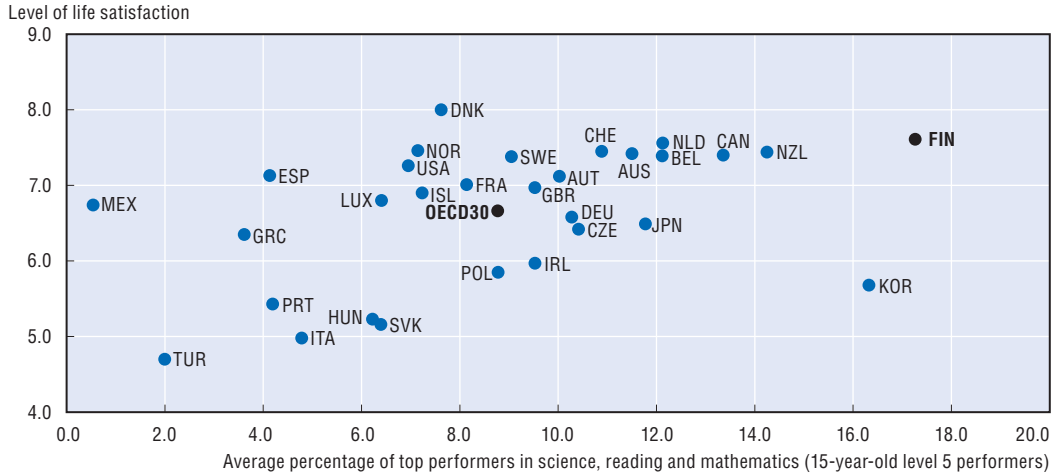
Source: OECD (2009), *Government at a Glance*.

Table A.1. **Consumer Price Index, % change from previous year**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Finland	0.4	1.1	1.2	1.3	1.3	2.9	2.7	2	1.3	0.1	0.8	1.3	1.6	3.9	1.6	1
Denmark	2.1	2.1	2.2	1.8	2.5	2.9	2.3	2.4	2.1	1.2	1.8	1.9	1.7	3.4	1.3	1.5
Iceland	1.7	2.3	1.8	1.7	3.2	5.1	6.4	5.2	2.1	3.2	4	6.7	5.1	12.7	10.8	2.4
Norway	2.4	1.2	2.6	2.3	2.3	3.1	3	1.3	2.5	0.5	1.5	2.3	0.7	3.8	2.4	1.3
Sweden	2.5	0.5	0.7	–0.3	0.5	0.9	2.4	2.2	1.9	0.4	0.5	1.4	2.2	3.4	–0.04	0.9
Norden	1.8	1.4	1.7	1.4	2.0	3.0	3.4	2.6	2.0	1.1	1.7	2.7	2.3	5.4	3.2	1.4
Euro Area	3	2.3	1.7	1.2	1.1	2.1	2.4	2.3	2.1	2.2	2.2	2.2	2.1	3.3	0.5	0.7

Source: OECD Economic Outlook 85 Database.

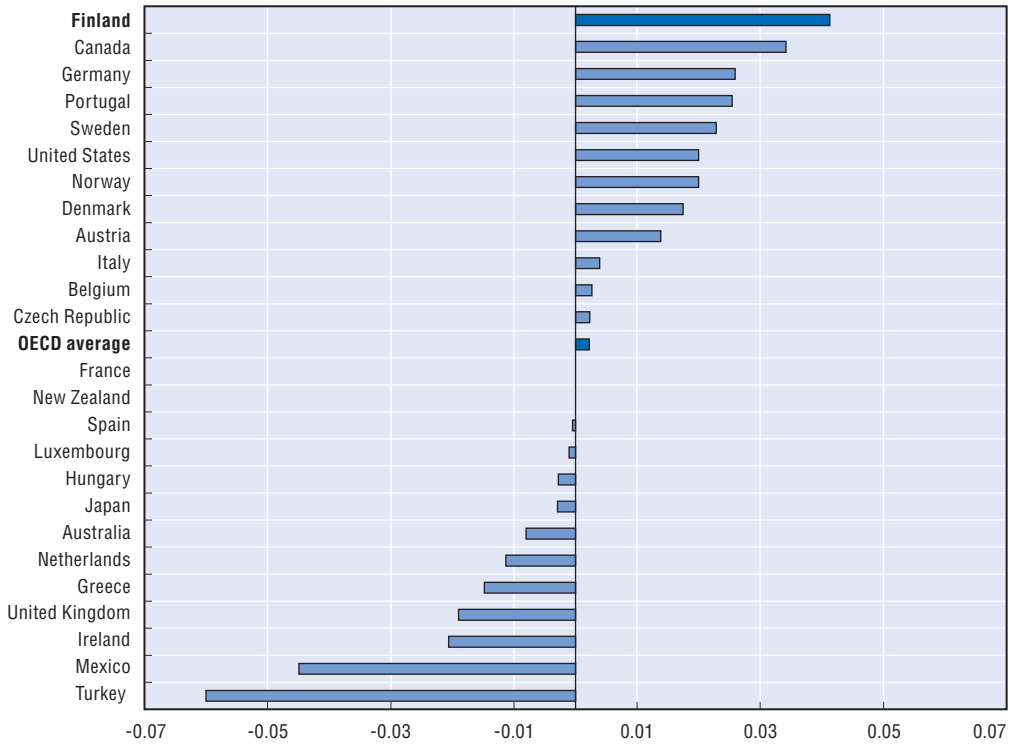
Figure A.3. **Examples of societal indicators: Education performance and life satisfaction, 2006**



Source: *OECD PISA Database*, 2006; and World Gallup Survey, 2006.

Figure A.4. **Trends in income inequality (% point changes in the Gini coefficient)**

Mid-1990s to mid-2000s



Source: *OECD Factbook*, 2009.

Box A.1. **Defining urban *versus* rural regions: TL3 Level**

The OECD classifies regions as predominantly rural (PR), intermediate (IN) and predominantly urban (PU) on the basis of the per cent of population living in local rural units. First, a local unit is considered rural if its population density is below 150 inhabitants* per square kilometre. Second, a TL3-level region is classified as:

- Predominantly rural, if more than 50% of its population lives in rural local units.
- Intermediate if less than 50% and more than 15% of its population lives in rural local units.
- Predominantly urban if less than 15% of its population lives in rural local units.

If a predominantly rural region includes an urban centre with more than 200 000 inhabitants and representing at least 25% of the regional population, the region is classified as intermediate. If an intermediate region includes an urban centre with more than 500 000 inhabitants, and representing at least 25% of the regional population, the region is classified as predominantly urban.

* Threshold population figures differ for Japan and Korea.

Source: OECD (2009), *Regions at a Glance 2009*, OECD, Paris.

ANNEX B

Management and Consultation

In January 2009, the Government of Finland commissioned a major review of the Finnish public administration, undertaken by the OECD. The objectives of this review were to examine how a whole-of-government perspective can be fostered in public management areas such as e-government, accountable and open government, the structure of government and multi-level governance relations in order to promote a better-performing, more forward-looking government that is better prepared to meet current and future challenges.

The review was conducted by the OECD's Public Governance and Territorial Development Directorate through a multi-disciplinary team of OECD staff members and national experts from a number of OECD countries.

As part of the data collection phase of the review, the OECD met with a large number of key stakeholders at the political and administrative levels, as well as with representatives from civil society organisations and academics.

Table B.1. **OECD interviews: Political level**

Members of the Parliament of Finland Parliamentary Audit Committee

Table B.2. **OECD interviews: State public administration**

Ministry of Agriculture and Forestry
Ministry of Defence
Ministry of Economy and Employment
Ministry of Education
Ministry of Environment
Ministry of Finance
Ministry of Foreign Affairs
Ministry of Interior
Ministry of Justice
Ministry of Social Affairs and Health
Ministry of Social Affairs and Health – SATA Committee
Ministry of Transport and Communications
Prime Minister's Office
Finnish Environment Institute (SKYE)
Finnish Food Safety Authority (EVIRA)
Finnish Funding Agency for Technology and Innovation (TEKES)
Finnish Road Administration
National Audit Office
State Treasury
Statistics Finland
The Finnish Institute of Public Management (HAUS)
Retired Programme Director of the Citizen Participation Policy Programme

Table B.3. **OECD interviews: Sub-national**

Association of Finnish Local and Regional Authorities
City of Helsinki
City of Jyväskylä
City of Kajaani
City of Kauniainen
City of Vantaa
Lapinjarvi Municipality
State Provincial Office of Oulu
Joint Service Centre of the Ministry of the Interior in Kajaani
Measurepolis Centre of Measurement Technology Expertise
One-Stop-Shop in Ristijarvi
Self-government experiment in Kainuu
Seniorpolis

Table B.4. **Other OECD interviews**

Office of the Chancellor of Justice
Ombudsman's Office
The Social Insurance Institution of Finland (KELA)
The Finnish Innovation Fund (SITRA)
Katholieke Universiteit Leuven
Michigan State University
University of Helsinki
Confederation of Unions for Professional and Managerial Staff in Finland (AKAVA)
The Trade Union for the Public and Welfare Sectors (JHL)
The Federation of Salaried Employees (PARDIA)
Talent Partners
ADHD Association
Finnish Association on Intellectual and Developmental Disabilities
Finnish Federation of the Visually Impaired
The Central Union for the Welfare of the Aged
The Finnish Association for Nature Conservation
The Finnish Red Cross
The Mannerheim League for Child Welfare
The Service Centre for Development Cooperation (KEPA)

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FINLAND

WORKING TOGETHER TO SUSTAIN SUCCESS

Finland's traditional Nordic model is under pressure: A rapidly ageing society, the global economic crisis and growing societal disillusionment require the public administration to be strategically agile in order to maintain fiscal sustainability and to respond to a complex and rapidly changing environment.

The government's capacity to act in these difficult times will depend on the public administration's ability to work together – across all of the public administration at the state and local level, and with society as a whole – in order to sustain success and maintain its global position in the future.

This report is the second in a series of OECD country reviews that look at governance and public management issues from a comprehensive perspective. These reviews help countries to identify how reforms can better reinforce each other in support of overall government objectives. They also examine reform strategies that have worked in other countries and provide advice as to which reforms can be appropriately adapted to a given country.

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