Utilization of Payroll Funds Allocated for the Payment of Performance Wages

Summary of audit results

Both in 2001 and 2002 the Parliament gave the Government about 100 million kroons for remuneration in the framework of the state budget for the purpose of implementing the principles of result-based management (hereinafter referred to as "performance pay"). In 2001 the SAO audited the expediency of the use of appropriations for 2001 by examining the system introduced for the payment of performance pay and in four Ministries the results and reports giving rise to such payments. In addition, the SAO assessed whether the system applicable in 2002 has been improved in the light of experience gained over the preceding year.

Main audit conclusions

The author of the system was the Ministry of Finance, which prepared Government Regulations. The main objective of granting the performance pay was to motivate public departments to achieve better results with the same resources. Furthermore, this pay was to serve the purpose of recognising public departments producing outstanding results in order to achieve more effective implementation of functions and goals and more effective public administration.

The SAO supports the goals of this initiative, but unfortunately the desired goals have not been achieved. The main reasons for this are listed below.

1. In most cases, eligibility for and the amount of the performance pay did not depend on the implementation of the working plan (or the achievement of results described therein), but on the salary fund and the number of people.
2. The agencies' capacity to set measurable goals was low.
3. Nearly all the agencies initially included in the system got the performance pay. Only some agencies, which were undergoing reorganisation, were considered as not producing "outstanding results".
4. The granting or performance pay on the sole basis of the working plans of public departments favoured rather the concealment of problems than anything else.

A major factor of failure was the lousy preparatory work of the Ministry of Finance and its weak methodological support in the introduction phase. The general concept of result-based management, which would establish the relationship between salary administration, budgeting, planning, accounting and reporting, is still missing in the Ministry of Finance and only single elements of this concept are being implemented. Also, the Ministry did not eliminate the problems that occurred in 2001, leaving the regulatory framework of performance pay practically unchanged in 2002.

The SAO finds that at the moment the Estonian public sector is not ready to apply performance pay, because the results expected from the agencies do not stem from the objectives of the government and information on such results is not gathered and assessed. In addition, the Ministry of Finance has failed to provide adequate methodological support to public departments, whose own knowledge and experience in the area of result-based management are insufficient.

Proposals by the SAO and reply from the Minister of Finance

The SAO made proposals to the Minister of Finance (see Annex 6) to improve the system: to relate the results of individuals to the objectives of the Government, to consider the use of action plans as the main tool of result-based management, which would establish the relationship between the budget, the performance pay and the results. Also, we asked the Minister of Finance to produce a vision of the developments in salary administration and to end the payment of performance pay in agencies where the results are not related to the core activity, are not measurable or comparable to the preceding periods and where there are no effective staff evaluation and salary administration systems.

The reply from the Minister of Finance (namely page 53 thereof) allows concluding that the performance pay system used for two years will not be applied in the same form in the future, as, hopefully, the new Civil Service Act (CSA) will enter into force. Therefore it would not be reasonable to make major changes to the current system this year. However, the Minister did not present a vision of salary administration in the applicable legal framework (in case the CSA does not enter into force in 2003). The Minister's reply allows concluding that the payment of performance pay shall continue this year regardless of the fact

that in many public departments, including the Ministry of Finance, the system has failed to produce the expected results.

The SAO finds that there should be no reoccurrence of cases where such individual and broad short-term initiatives are implemented, which the co-ordinator has neither considered carefully nor related to other processes taking place at the same time and for which it has not made any test runs. But this might happen, if the new CSA, to which the Minister of Finance refers, enters into force according to the plans, i.e. on June 1, 2003. This could necessitate changes to the 2003 state budget currently prepared, but the instructions for the establishment of the budget do not indicate that the new CSA should be taken into account.

The SAO cannot accept that the Minister of Finance does not have a vision of what should be done, if the CSA does not enter into force in summer 2003. However, activities should be planned within the applicable legal framework as well. Neither is the SAO satisfied with the situation where the payment of performance pay in public departments continues this year on the basis of a system, which will effectively terminate and which can be therefore considered as a failure.

Recommendations to the Parliament

In the light of the audit and the reply from the Minister of Finance we recommend the Parliament to determine whether the 100 million kroons allocated for the purpose of applying performance pay were used in accordance with the Parliament's expectations and to decide whether to continue the payment of the performance pay this year or to terminate such practice in the course of the supplementary budget process.

We also recommend the Parliament to adopt a position as to whether the Parliament intends to establish yearly objectives for the Ministries and other public departments and assess the achievement of those objectives and if so, how detailed should these objectives be. In this context the status of action plans, which today are submitted as annexes to the explanatory memorandum of the draft state budget, should be determined. One possibility is to use them as a tool for result-based management (see also the agreement on results on Drawing 38), which would help establishing the relationship between the results of government agencies, on the one hand, and the budget, the government's strategic objectives and a part of the remuneration paid to the officials, on the other hand.

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