

English summary
of Fafo-rapport 2019:36

ACPD as an efficiency tool. The ABE reform in Norway

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In 2014, Erna Solberg's government proposed introducing a 'debureaucratisation and efficiency reform' (the ABE reform), and it was introduced in the 2015 fiscal year. In the Proposition, the government stated that it assumed annual public productivity growth of 0.5 per cent, and that it expected all government agencies to implement measures every year in order to increase productivity. By cutting 0.5 per cent of the operating expenses of all government agencies and allocating the cuts to politically prioritised areas, the government would stimulate more efficient public sector operation and create room for manoeuvre in order to fund initiatives. According to the Proposition (Ministry of Finance Proposition No. 1 to the Storting (2014-2015) p. 84), this would be a transfer 'to the community'. The ABE reform thus does not entail a reduction in the total allocations for operations over the national budget, but is rather a matter of moving money to priority areas. The ABE reform has been included in every budget since, and in its budget reviews, the Storting has decided to increase the rate of cuts, to 0.6 per cent in 2015, 0.7 per cent in 2016, 0.8 per cent in 2017 and 0.7 per cent in 2018, while keeping the government's proposal of 0.5 per cent for 2019. The agencies themselves are free to decide how to implement the budget cuts.

The ABE reform was inspired by the OECD's recommendation, and experiences from the other Nordic countries, Australia, and New Zealand. This type of public measure is called 'automatic cuts of productivity dividend' (ACPD). Evaluations of such measures in other countries have shown that ACPD can increase efficiency. However, the efficiency gains have declined over time, and the potential for increased efficiency has lessened as the agencies have gradually become more efficient. The cuts have therefore resulted in some agencies having had to reduce staff and limit the services offered.

Fafo's study of the reform

Fafo conducted a study of the ABE reform for the LO Stat group of the Norwegian Confederation of Trade Unions in the autumn of 2019. The main questions were:

1. How do ministries and subordinate agencies implement the annual budget cuts?
2. What impact do the budget cuts have on service quality and efficiency?

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3. How do the budget cuts impact on the working days of managers, employee representatives and employees?

The study is based on a questionnaire administered to 1 365 employee representatives and managers in five ministries and their associated agencies and the Office for Children, Youth and Family Affairs (Bufetat). We received 408 replies (30 per cent response rate). We also interviewed 18 managers and employee representatives in five government enterprises: a ministry, a directorate, one of the Norwegian Labour and Welfare Administration's county organisations, a Bufetat region, and the Norwegian Public Roads Administration. We also reviewed international research literature on this type of reform.

How is the ABE reform implemented at the agencies?

The ABE cut covers the entire operating framework of a ministry and every operating item in its subordinate agencies. The ministries are free to allocate ABE cuts between the agencies they are responsible for. However, the managers we interviewed point out that the ABE cuts are only one of several types of cut that need to be implemented by the ministries. The minister determines the allocation of the ABE cuts and other cuts in the ministries' agencies.

- ABE cuts generally are not reallocated during the budget process.

We interviewed managers at two ministries, and they say that they in theory can 'arrange' the ABE cut among their subordinate agencies. They say that in practice it is best for them not to differentiate the agencies' ABE cuts. This means that all subordinate agencies have the same cut rate, so that the cuts are implemented fairly equally in each agency. Our review of letters of allocation and interviews with managers and employee representatives at both the ministry and agency level indicates that the specialist ministries generally do not assign different cut rates to different agencies but make the same reduction in allocations for operations within their subordinate units.

- Employee representatives have varying influence on how budget cuts are made.

About one out of three employee representatives respond that the trade union has some influence on how ABE-related budget cuts are made locally. About half of them respond that the trade union has little influence on how the cuts are implemented, while only two out of ten answer that the trade union has no influence on decisions at all.

What impact do the budget cuts have on service quality and efficiency?

The ABE reform is only one of several processes that impact on agencies' operations. Many agencies are experiencing restructuring processes and/or other budget cuts that are unrelated to the ABE reform. This means that it can be difficult to distinguish the effects of the ABE reform from other reforms.

- The impact of the ABE reform differs among the agencies.

If we assume that the ABE cuts are virtually identical in each agency (0.5 to 0.8 per cent per year), the responses indicate that the impact of the ABE reform varies in different agencies. The operations and the size of the budget of some agencies means that the ABE cuts are considered small, and have little or minimal impact on operations. Other government agencies may have little room for manoeuvre in the budget, for example if the agency handles statutory tasks or its competence is highly specialised and cannot be substituted. Cuts in such agencies are considered to be large, and the ABE reform is viewed as having a major impact on the agency's operations.

- The ABE reform is implemented by means of reduced staffing, restructuring and increased efficiency.

Our study indicates that the most frequent measure implemented in connection with the ABE reform in government agencies is not replacing employees who retire or leave. Over 70 per cent of the respondents believe that employees are not replaced at their agency when the positions become vacant.

Over half report that the agency also implements ABE cuts through different forms of restructuring. During the past few decades, government agencies have experienced many restructuring processes, several of which have been comprehensive, and these have not necessarily been related to the ABE reform. The new reform of the county authorities has also led to several restructuring processes in governmental agencies. The ABE cut may therefore be experienced as a negative extra factor in the restructuring. At the same time, the ABE cuts can be incorporated into existing restructuring processes, making it difficult to distinguish between the effects of the reform and the restructuring. Furthermore, restructuring may be a form of increasing efficiency that increases the agency's productivity. However, it can also be a measure to reduce activity when the budget is cut. The form of restructuring most respondents identified on the questionnaire was reprioritisation of tasks. Many respondents also selected the box for reassignment of employees, who were given new responsibilities. Restructuring also was a result of the agency being assigned new content.

- In many cases, the ABE reform led to hiring freezes and fewer employees.

The findings in the questionnaire show that the ABE reform impacts on staffing strategies at government agencies. Over 60 per cent of respondents reply that the number of employees at their agency has been reduced. The number of public sector employees in general has not declined, but the effect of the reform likely varies among agencies.

- The ABE reform increases workloads.

According to the responses to the questionnaire, one of the clearest consequences of the ABE reform is a greater workload. Three out of four respondents report that the reform has a negative effect on workloads.

- The ABE reform may diminish service quality.

The range of services and level of activity at many government agencies also appear to be affected by the ABE reform. Among the respondents who believe that their agency has had to make budget cuts, 75 per cent respond that there has been a reduction in the level of activity and the services offered. Over 60 per cent also respond that the ABE reform has had a negative effect on service quality.

- Over time, small budget cuts put pressure on service quality and the working environment.

Time is a factor in the effects of the reform. Some agencies had no difficulty implementing the ABE reform in the beginning, and it helped improve the efficiency of parts of their operations. Managers and employee representatives report that they were able to make the cut by implementing comprehensive individual measures or at a level of the organisation that protected the core activity. According to the managers and employee representatives we interviewed, the most common measures implemented in connection with ABE cuts while protecting the core activity are not filling positions that become vacant, centralising tasks that were previously performed separately by several units, and reducing travel and the agency's shared and support services. In the long term, it became increasingly difficult to protect the core activity and maintain the service quality, even though this was a priority for the agencies. For some of the agencies, the ABE cuts eventually led to a need to reduce staffing and the services offered. For others, the ABE cuts led to increased workloads, and the employees being 'rushed off their feet'. A more stressful working environment and increased workload can also have a negative impact on service quality.

- The ABE reform leads to the implementation of measures to increase efficiency.

At the agencies whose budgets have been cut, 43 per cent of respondents say that their agency has implemented measures to increase efficiency. This includes measures that ensure that fewer employees have to take on more work, the use of digital solutions that increase efficiency, restructuring, use of new work methods, and reductions or cuts to some services or tasks. Seven per cent of respondents believe that the ABE reform helps agencies implement measures to increase efficiency.

- The ABE reform may have both a positive and a impact on innovation and the use of new technology.

This study shows that ICT is important in most government agencies, and that investing in ICT is a measure that increases efficiency. We cannot say whether the ABE reform results in the adoption of ICT. Forty-five per cent of respondents find the introduction of new technology to be time-consuming, and 28 per cent believe that the reform has a negative impact on innovation. However, 17 per cent of respondents are of the opinion that the ABE reform has had a positive impact on innovation, which includes the use of new technology. According to the managers and employee representatives we interviewed, cuts in travel and shared and support services were made possible through the use of new technology that allowed meetings to be held by video conference and the simplification of administrative tasks. At the same time, employee representatives pointed out that the introduction of new technology takes time, and that the 'productivity dividends' associated with digitalisation are often cashed before they are realised, which means before they have actually increased efficiency.

How do the budget cuts impact on the working days of managers, employee representatives and employees?

Increased pressure on budgets and a focus on budget cuts may impact on the everyday lives of managers and employee representatives. Small and large decisions must be made, with potentially negative consequences for agencies and employees. If this situation lasts, it can also affect employees and the working environment.

- Budget cuts cause uncertainty at agencies and among employees.

The interviews with employee representatives and managers show that the ABE reform may result in great uncertainty at the agency level. Uncertainty should not

be considered a direct consequence of the ABE reform alone, but a consequence of the agency receiving lower allocations for operations over time. One element that creates uncertainty is the decision of the Storting to increase the ABE cut rate. In practice, this means that the reform has become unpredictable, and does not offer agencies a stable and predictable incentive for the government's intended long-term increase in efficiency. Continuing budget cuts also make employees uncertain about the future. Employee representatives say that the budget cuts mean that they do not know what the agency will look like the following year. The employees do not know what parts of the agency will be considered lower priority in future, what they will work with, where they will work, or whether they will even have a job. This uncertainty and unpredictability means that employees, especially those who are young and recent graduates, begin looking for other work, which can make it difficult to recruit new employees.

- The ABE reform can change the culture among the employees.

Together with other cuts and restructuring in the public sector, the ABE reform helps create a more competitive culture among the employees. Employee representatives say that the employees have become more conscious of which tasks they are performing, and are more protective of 'their' areas of responsibility, they mention seniority more, who was hired last, and who will be able to take contractual pension, in order to prepare for possible staffing reductions. According to the employee representatives, the cuts also mean that there is less money for professional development measures, and that instead of improving the expertise of existing employees, the management wants to bring in the necessary competence by hiring new people.

The ABE reform as a public governance tool

The ABE reform is a political tool which is intended to create a more efficient public sector and 'less bureaucracy'. The reform offers automatic budget cuts to government agencies, as well as freedom to decide how to implement them. The ABE reform thus entails a *depoliticisation* of budget cuts. The ABE cuts are a permanent part of the budget process, and the cuts made at each agency are not based on any specific decisions. This means that politicians cannot be held accountable for the actual cuts or their consequences.

This creates tension within the reform. On the one hand, the objective is to increase the efficiency of the public sector. On the other hand, the instrument used is relatively small cuts to the agencies' allocations for operations. According to the heads of the agencies we talked to, they need political support in order to be able to implement comprehensive measures that actually increase efficiency. The ABE reform does not pro-

vide for such support. While the measures that can be implemented under the ABE reform are relatively small and unfocussed, our study shows that they may have a negative impact on the quality of public services. There therefore appears to be tension between the objectives and instruments of the reform.

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