



SIGMA Papers No. 11

# Budgeting and Monitoring of Personnel Costs

**OECD**

<https://dx.doi.org/10.1787/5kml6g63ffzv-en>

**SUPPORT FOR IMPROVEMENT IN GOVERNANCE AND MANAGEMENT  
IN CENTRAL AND EASTERN EUROPEAN COUNTRIES  
A JOINT INITIATIVE OF THE OECD/CCET AND EU/PHARE**

**BUDGETING AND MONITORING OF PERSONNEL COSTS  
SIGMA PAPER NO. 11**

**ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT**

**Paris**

**52498**

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## THE SIGMA PROGRAMME

SIGMA -- Support for Improvement in Governance and Management in Central and Eastern European Countries -- is a joint initiative of the OECD Centre for Co-operation with the Economies in Transition and the European Union's Phare Programme. The initiative supports public administration reform efforts in thirteen countries in transition, and is financed mostly by Phare.

The Organisation for Economic Co-operation and Development is an intergovernmental organisation of 29 democracies with advanced market economies. The Centre channels the Organisation's advice and assistance over a wide range of economic issues to reforming countries in Central and Eastern Europe and the former Soviet Union. Phare provides grant financing to support its partner countries in Central and Eastern Europe to the stage where they are ready to assume the obligations of membership of the European Union.

Phare and SIGMA serve the same countries: Albania, Bosnia-Herzegovina, Bulgaria, the Czech Republic, Estonia, the Former Yugoslav Republic of Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Established in 1992, SIGMA works within the OECD's Public Management Service, which provides information and expert analysis on public management to policy-makers and facilitates contact and exchange of experience amongst public sector managers. SIGMA offers beneficiary countries access to a network of experienced public administrators, comparative information, and technical knowledge connected with the Public Management Service.

SIGMA aims to:

- assist beneficiary countries in their search for good governance to improve administrative efficiency and promote adherence of public sector staff to democratic values, ethics and respect of the rule of law;
- help build up indigenous capacities at the central governmental level to face the challenges of internationalisation and of European Union integration plans; and
- support initiatives of the European Union and other donors to assist beneficiary countries in public administration reform and contribute to co-ordination of donor activities.

Throughout its work, the initiative places a high priority on facilitating co-operation among governments. This practice includes providing logistical support to the formation of networks of public administration practitioners in Central and Eastern Europe, and between these practitioners and their counterparts in other democracies.

SIGMA works in five technical areas: Administrative Reform and National Strategies, Management of Policy-making, Expenditure Management, Management of the Public Service, and Administrative Oversight. In addition, an Information Services Unit disseminates published and on-line materials on public management topics.

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## PREFACE

This publication<sup>1</sup> is the product of a multi-country seminar on budgeting and controlling personnel costs which SIGMA organised in March 1996 in Paris. The seminar's purpose was to provide an opportunity for senior practitioners from central and eastern European countries to examine different approaches to budgeting and controlling personnel costs, and their viability in light of the specific needs and constraints of each country. Drawing in particular on the experience of EU Member countries, the seminar enabled participants to compare different types of budgeting and monitoring, their respective advantages and disadvantages, as well as their prerequisites regarding institutions and procedures.

## FOREWORD

Personnel costs are usually the largest single cost factor in state budgets. Efficient budgeting and monitoring of personnel therefore has a significant impact on the capacity of a given government to control its expenditure, while at the same time fulfilling its mission (to the satisfaction of the public) with the limited budgetary resources available.

At a time when governments are struggling, due to the overall economic situation, with stagnant or even decreasing state revenues, improved budget management becomes even more important. The crucial issue is how to allocate the limited budget resources to substantive programmes and staffing in order to ensure the most efficient and effective use of resources, while at the same time meeting the growing demands of the citizen. Indeed, in the prevailing economic situation, an increase in unemployment and precarious job situations can be observed. This not only reduces the available budget resources due to reduced inland revenue volume, but at the same time raises public expenditure obligations due the growing demands for public services, in particular unemployment benefits and social assistance.

Governments are facing an enormous challenge which can be perceived as a vicious circle: they are forced to reduce overall public expenditure, and the easiest and most effective way of doing this seems to be to reduce personnel expenditure. However, the provision of public services (and thus of public service personnel) is most needed in times of economic difficulty. To meet this challenge, the prevailing trend in governments all over the world is to do more with less, i.e. to achieve efficiency gains in order to make ends meet. There are various ways of doing this, but they are all based on reforming public management, including budget management.

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1. Also available in French under the title "*La Budgétisation et le contrôle des dépenses de personnel*".

Several countries make use of staff ceilings — either global or specific to each public body. The overall number of personnel can be limited, as well as the number of personnel in each grade and the staff ratio for different categories. Other countries have put in place strict limits on personnel expenditure. Most countries are closely monitoring the necessity for recruitment. This generally includes a thorough assessment of whether or not vacancies need to be filled. The United Kingdom, as well as some other Anglo-Saxon countries, is pursuing a more radical reform strategy. Over the past few years, the United Kingdom has implemented a financial management reform programme that emphasises close control over current costs. This approach leaves the decision on the ratio between personnel and other current costs to the individual public body, and only limits the overall running cost. The various approaches to limiting personnel costs all have advantages and disadvantages and call for a greater or lesser amount of regulatory and/or organisational change.

Countries in transition to a market economy face an even greater challenge than OECD Member countries in their efforts to control and consolidate personnel budgets. As a heritage from the past, they are left not only with a rather high level of public employment, but also more often than not with a rather limited understanding, on the part of public employers, of the impact of staffing levels and personnel costs. The very sectorised organisation of public administration, combined with a high degree of discretion given to the heads of the various administrative units, have led to significant variations in staffing levels and differences in pay between government branches and institutions.

At the same time, central government administrations often are understaffed in relation to the workload they face. Moreover, pay levels generally are not competitive with the private sector — even when taking into account fringe benefits, such as job security or specific social advantages. This overall situation has repercussions not only on the ability of governments to control and monitor personnel budgets, but also on their ability to attract and retain well-trained personnel — a critical resource needed to carry out the necessary reforms.

Recognising the importance, on the one hand, of meeting budget constraints and thus properly monitoring and controlling state budgets (including personnel budgets), and, on the other hand, of attracting and retaining qualified personnel, this publication offers central and eastern European countries comparative information on the various approaches of EU Member states. Their efforts to improve the quality of the civil service while reducing its costs aim to strike a balance between reduced budget resources and growing demands of the citizens for services. This publication intends to assist central and eastern European countries in discerning the issues at stake and in solving the problems involved in budgeting and monitoring personnel costs.

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## EXECUTIVE SUMMARY

Personnel costs often constitute the main cost factor in state budgets, and thus their control is critical to ensuring the most effective and efficient use of finite budgetary resources. *Budgeting and Monitoring of Personnel Costs* contains five chapters which originally were prepared as background papers for a national workshop in the Czech Republic in October/November 1995 and a multi-country seminar held in Paris in March 1996.

In a general overview chapter, Feridoun Sarraf, a SIGMA consultant, reviews the concepts, objectives, and scope of personnel expenditure control. After defining terms, he explains the reach of control, the role of control organisations, recent developments, and reasons for controlling personnel expenditures (eg macroeconomic concerns, efficiency gains). Sarraf also analyses mechanisms for controlling personnel expenditures. In this context, he addresses such issues as budget preparation, policy controls, budget execution and administrative controls.

Heinrich Traumüller, Ministry of Finance, Austria, describes the federal budgetary process. He explains recent changes concerning the personnel budget, in particular the possibility to award bonuses within given financial limits. A government-wide accounting and payroll system operated by the Federal Accounting Office serves as the backbone of the financial management system. The Court of Auditors has *inter alia* the task to audit the efficiency and effectiveness of administrative structures, including the number of staff and the staffing levels.

Bernard Pêcheur, *Conseil d'Etat*, France, describes the four components of the French public sector: state-owned enterprises in the competitive sector; state-owned enterprises in a monopoly position; local authorities; and the national civil service. Pêcheur notes that public servants are governed by service regulations and that ministerial staffing levels are set by an annual budget. General wage adjustments take place once or twice yearly, and responsibility for managing public servants on an individual basis rests mainly with line ministries. Line ministries, the Civil Service Ministry and the Ministry of Finance are the key entities involved in managing public servants and the budgets supporting them. The chapter also addresses the French state budget's structure, preparatory process and implementation.

Orlando Caliço, Deputy Director of Banco de Portugal, reports on the Portuguese experience in controlling personnel costs. The main instruments for controlling these costs are staffing ceilings and uniformity in the conditions of payment and organisation in all general government sectors. As part of the budgetary exercise, the Ministry of Finance fixes ceilings for new recruitment. The Court of Auditors plays a role in controlling the budget for such admissions. Caliço also examines the treatment of personnel costs in the state budget, responsibility for staffing, and discretion of line ministries for personnel cost decisions.

In the publication's final chapter, Professor R.F. Elliott of the University of Aberdeen, United Kingdom, observes that the United Kingdom has moved away from controlling personnel costs through manpower ceilings and restrictions on pay settlements. The emphasis is now on direct controls on the running costs of departments and agencies, thus an indirect control of personnel costs. Within their allocated budget, departments and agencies are now free to determine their expenditures on personnel, but must consult HM Treasury on their opening pay offer at the time of annual pay negotiations, and must seek its approval for any proposed restructuring of the reward system. Elliott also examines efficiency, cost control and running costs and offers information about new pay and grading arrangements.

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**CONTROLLING GOVERNMENT PERSONNEL EXPENDITURES:  
ISSUES AND APPROACHES  
BY FERIDOUN SARRAF<sup>2</sup>**

**1. Introduction**

Budgeting and controlling personnel expenditures is one of the main concerns of governments in different countries so as to ensure effective macroeconomic and fiscal policy management; economy and efficiency in government operations; and, ultimately, parity and uniformity in government pay structure. In some OECD countries, the reconstruction and expansion of infrastructure after World War II, the extension of welfare services, and, in some cases, the modernisation of defence forces, have brought about such a sharp increase in public sector employment that it now represents on average more than 20 per cent of the labour force in OECD Member countries.

In transition economies<sup>3</sup>, in addition to the fact that all economic activities and services were performed by public organisations, the adoption of policies under which the state was obliged to provide employment to its citizens have contributed to a rapid expansion of government personnel. These policies were implemented by not only state-owned enterprises, but also by the government ministries and agencies.

In both OECD and transition countries, the growth in the number of government employees has resulted in greater portions of government expenditures being allocated to salaries and wages, and attention focused on problems encountered in formulating and controlling personnel expenditures. Simultaneously, growth in personnel numbers and increased influence of civil service unions has created new realities in government budget formulation and implementation.

More recently, and perhaps more importantly, the necessity of reducing government deficits in almost all countries has called for downscaling of the government wage bill. Since the 1980s, this aspect has become a central point in the economic policy-making of almost all OECD countries. It appears that these phenomena now pose new challenges to decision-makers in transition economies as well. These challenges refer to the reduction in the number of posts and active manpower, as well as to revisions in government pay structure.

This paper discusses the main issues regarding policy considerations and procedural aspects of manpower budgeting and controlling of government personnel expenditures. It was presented and discussed in a workshop arranged by the Czech Ministry of Finance and SIGMA held in Prague in October 1995. It will be supplemented by other papers addressing the experiences and practices employed by selected OECD countries.

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2. Feridoun Sarraf is an independent consultant based in Vienna, Austria

3. The term “transition economies” in this paper refers to the countries with formerly centrally planned economies in Central and Eastern Europe as well as former republics of the Soviet Union.

## **2. Concepts, Objectives and Scope of Personnel Expenditure Control**

### **2.1 Concepts and Definitions**

The term "expenditure control" in this paper implies all policy decisions adopted by governments in respect to size and structure of payments to government employees and all the methods by which the implementation of these policies in line ministries is monitored by government central agencies. The meaning of word "control", therefore, is not limited to its narrowly defined administrative supervision task, but also applies to the analysis of policy options and their implementation in a co-ordinated manner in all government agencies. The co-ordination and monitoring of government personnel policies and controlling their associated costs in the government organisations have always been a central point in public administration. In different countries, over the decades, several organisational and procedural institutions have been created and a number of models have been developed for managing personnel expenditures.

### **2.2 Scope of Control and the Role of Control Organisations**

#### **2.2.1 Types of Control and their Objectives**

In theory, there are two main types of control and co-ordination tasks in managing government personnel expenditures:

- a) *Managerial control*, which generally concerns technical aspects of pay structure for establishing parity in payments; organisation and staffing for micromanagement improvement in government services; and, more comprehensively, issues regarding working relations between government and its employees which are normally covered by a Civil Service Law.
- b) *Budgetary control*, which mainly concerns financial aspects of pay structure for macroeconomic and fiscal management purposes; sectoral policy setting; as well as economy and efficiency in government operations for programme management purposes.

In practice, however, certain components of these two groups of control measures are very much interrelated, and, therefore, cannot be easily targeted and administered in separation. For example, it is most unrealistic to have a central personnel management office to design or approve an organisation and create posts for a given ministry, because it lacks the knowledge and mandate for co-ordinating policies and operations in the sector in which the ministry is involved. Likewise, such a design has little working value if the designer has no knowledge of the government's macroeconomic and fiscal policies.

On the other hand, if a finance ministry has no co-ordination role and no knowledge of the financial aspects of pay structure of a civil service, it would not be able to design and implement a meaningful macroeconomic and fiscal policy. This, however, should not imply that all managerial control measures can technically be handled by finance ministries.

There exist several managerial concerns and specialty areas, such as staffing, training, drafting and revising Civil Service Laws, etc. which can only be handled by a separate central agency.

#### **2.2.2 The Role of Control Organisations**

Typically, the managerial control measures in various countries, though different in scope and coverage, are co-ordinated and exercised by central personnel management offices, such as civil service commissions, public service boards, and establishment boards. In the case of most transition economies,

the assignment of these tasks is not yet final, perhaps due to their former decentralisation. For the time being, it is often the ministry of labour which, although only to a certain extent, carries out responsibilities of personnel management offices. Most of these control measures have been around for a long time in OECD countries and with different characteristics in transition economies. These measures are exercised through laws, government regulations, and administrative instructions initiated and monitored by central personnel management offices in their co-ordinating capacity. The budgetary control measures on the other hand, are co-ordinated and exercised by finance ministries as an integrated part of government fiscal policies and budget management systems.

Under certain circumstances, changes in economic conditions and political environment may easily result in the change of balance of significance between these two groups of control measures. These factors bring about discussions on the tasks and location of control organisations within the government and their working relationships. For example, in most OECD countries, since the 1980s, reducing manpower levels in government operations through the budgeting process, and retrenchment of active personnel, has created an additional role for budget authorities in certain aspects of managing government personnel expenditure policies.

In general, controls on manpower budgets are exercised in the framework of or parallel to the budget cycle. In countries where in addition to central agencies in charge of budgeting or personnel management, other agencies are involved in managing government personnel affairs, control activities are organised by means of co-ordinating committees at both political and administrative levels. In other countries, however, many interrelated tasks are entrusted to a single central agency.

For example, in the United States, the Office of Budget and Management of the President's Office is in charge of budgeting as well as exercising selected managerial control measures such as determining manpower levels and co-ordination of personnel policies. These activities are fully integrated in the budget cycle. Similar arrangements can be observed in Denmark where manpower levels and pay structure is determined by the Ministry of Finance, again within the government budgeting process<sup>4</sup>.

### 2.2.3 *Co-ordination Between Budgetary and Managerial Controls*

As mentioned above, performing some managerial control measures requires certain specialties outside the mandate and competence of finance ministries. These areas — co-ordination of staffing; securing parity in work conditions and pay structures in technical terms; job classification; training; and the drafting, updating and monitoring of the implementation of civil service laws and regulations — normally justify the presence of separate personnel management organisations.

However, the main problem is managing the control measures which are in one way or the another interrelated and shared by central personnel management offices and finance ministries, such as organisation and reorganisation of line ministries, including creating or reducing existing posts, and determination of pay scales, including establishing of allowances and bonuses.

As can be observed, all these measures have financial implications, and are matters of serious concern to finance ministries. Thus, *a central authority is needed to formulate pay structures for government employees*. In most OECD countries, the managerial and technical aspects of pay structure are traditionally designed by personnel management offices; in some cases, limited responsibilities have been delegated to

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4. Since country experts' papers cover selected OECD countries' practices and experiences, specific details of national practices are excluded from this paper.

line ministries within a general framework. However, in both cases, finance ministries play a dominant role in determination of financial aspects of pay structure.

In most transition economies, both technical and financial aspects of pay structure are shared between labour ministries (as central agency) and line ministries, though in many cases line ministries have extra-ordinary powers in this regard. It appears that, by and large, this area is a neglected one in many countries. In some countries, frequent adjustments for inflation, introduction of incentive awards, prevalence of too many grades, and normal rate of grade or salary creep that adds to expenditure have led in recent years to more extensive discussion of determination of pay structure and its revisions.

These developments have resulted in increased involvement of finance ministries in determining the financial components of pay structure. Similar co-ordination problems have been experienced on the issue of creation of posts in line ministries, and the responsibility of finance ministries and central personnel management offices in controlling the organisations and staffing of the line ministries.

#### 2.2.4 *Increased Role For Finance Ministries*

Concerns about financial implications of personnel policies has brought about discussions on the traditional roles of control organisations. A. Premchand<sup>5</sup>, a pioneer in comparative studies of government budgeting systems, believes that:

“An organisational dualism has developed where the creation of posts is done by personnel management offices, while funding is provided by the finance ministry. This division of duties, in some countries, has led to several practical problems. The separation implies that the creation of posts will take place without resource constraint and that, once posts are created, either more resources are provided or the posts reduced. As budget reviews take place at different times, confusion between the creation of posts and their funding is to be expected. When reduced financial allocations are made, line ministries find it difficult to make adjustments and, to alleviate the problem, resort to overestimating their demands, which cannot be met by finance ministries for the reasons of macroeconomic management and fiscal constraints.

The main issue in personnel budgeting and controlling government wage bill is the role to be assigned to the ministry of finance. Since institutional dualism has contributed to avoidable problems, the solution may be to bring the two institutions together and arrange for their integrated functioning. It appears that the integration of selected sections of personnel offices with finance ministries would bring a coherent policy for the fast reorganisation of the line ministries and revising pay structures. This integration, however, should not imply that the finance ministry has a managerial function that most central budget agencies are not equipped to perform. It can also lead to extreme centralisation, with which the finance ministry may find difficult to cope.”

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5. A. Premchand, *Government Budgeting and Expenditure Controls, Theory and Practice* (International Monetary Fund, Washington DC, 1983), page 164.

The most immediate and manageable areas in which the finance ministries should be involved, and which should be integrated into the budgeting process, are determination of:

- a) manpower levels in line ministries;
- b) long- and short-term financial implications of staff reduction and retrenchment policies; and
- c) financial components of pay structure for civil service as a whole.

Other managerial control measures referred to above tend to remain in the central personnel management offices in many countries. The main point here is that the central themes of financial control and personnel planning should be well co-ordinated, and greater opportunities need to be accorded to the finance ministries in the budget related issues. It may be debated that considering the complex nature of reduction in manpower levels, the budgetary measures may have limited influence in the exercise. This may be true, but it seems that no known alternative to implementing the policy has been developed outside the budget process.

### **2.3 *Recent Developments and Additional Reasons for Controlling Personnel Expenditures***

It is most difficult to draw any general conclusion from a comparative analysis of government personnel expenditures across countries. This is because the historical backgrounds, defence considerations, degree of private sector involvement in provision of certain goods or services, and social and employment policies all contribute to the scope of governments' operations and accordingly to the number of their employees as well as their pay structure. However, almost all OECD and transition countries are increasingly finding themselves in a situation that requires a more vigorous approach towards controlling personnel expenditures.

In most cases, targets are set not only to prevent an increase in personnel expenditure (in terms of a percentage of GDP or total government expenditures), but to reduce it in real terms. Apart from country-specific justifications, there are reasons which apply to all cases and which justify this practice. These reasons, cited below, have increased the role of budgetary control measures, and accordingly the role of finance ministries in controlling government personnel expenditures. They also pose serious challenges to politicians, economists and managers both in OECD countries and transition economies.

#### **2.3.1 *Macroeconomic Concerns and Fiscal Constraints***

Here the problem is simply the need to lower government expenditures, thereby contributing to the reduction of fiscal deficits to a level required by the macroeconomic conditions. Unlike in the 1970s and 1980s, today in nearly all OECD countries are experiencing structural fiscal deficits. In many cases, over-borrowing in the last two decades has dramatically increased public debt ratios to GDP and total government expenditures. Apart from long-term implications, the immediate concern for the budget authorities in low-inflation OECD countries is the share of interest payments to total government expenditures, which adversely affects the allocation of financial resources to government operational programs and other types of expenditures. In high-inflation OECD countries and transition economies where, with few exceptions, inflation rates are extremely high, there are additional reasons for quick reduction of budget deficits.

Given the size of personnel expenditures, policies which lower expenditures will reduce budget deficits and accordingly additional borrowing requirements. A new emphasis is now being put on controlling the government wage bill, and a range of policy options aimed at reducing the number of government employees or freezing their remuneration — or a combination of the two — is being implemented in

several countries. As a result, the finance ministries now have a fresh interest to know the determinants and trends of personnel expenditures, as with any other kind of expenditure.

### 2.3.2 *Economy in Operations and Efficiency Gains*

In most OECD countries, increasing attention to reducing the overall level of manpower in government operations is linked with the desire to improve efficiency in the public sector. The issue itself is not new and theoretically has always been a point of attention. Since the efficiency measures are not sufficiently known in some government activities and the options to change them have mixed results, the only way of promoting greater efficiency may be to restrict inputs.

A typical example in this field is increased usage of information technology in government services and changed procedures, which with any argument, including improved quality of services, should result in reduction of overall manpower level. It is obvious that in transition economies, as economic performance improves, and privatisation policies and rationalising government services take new momentum, the efficiency gain factor becomes increasingly prominent.

It may be argued that in countries where some generous unemployment benefit packages have been established, releasing staff and providing them with transfer payments will not substantially reduce government expenditure and its deficit level. However, it should be noted that first, generous unemployment packages do not exist in all countries; second, some retrenched persons may well be absorbed in the private sector; and third, even in those countries where transfer payments increase, the efficiency gain justifies the reduction of manpower levels in most government services. In other words, apart from macroeconomic considerations, payments in the form of supporting a social security net or welfare programs seem to be a preferred option from the management point of view and efficiency gains in public sector. Besides, welfare payments are not as permanent as payment to active civil servants, and may be adjusted with less difficulty compared to civil service remuneration.

Apart from these arguments, the distortion factor of an underpaid civil service, because of overcrowded government offices and administrative costs associated with these offices, should not be underestimated. The main issue is that retaining unnecessary manpower in government organisations often results in low remuneration packages compared to the private sector. This normally leads to brain drain in some very important government services. The alternative is reducing the number of employees and improving pay packages as far as, of course, the macroeconomic situation allows.

As can be observed from the above, both macroeconomic and managerial concerns justify reducing manpower levels in government operations. Indeed, most OECD countries are now implementing a series of retrenchment and early retirement programs. This is encouraged by the gradual acceptance of the fact that governments cannot solve unemployment problem by absorbing the unemployed in already overcrowded government offices. Instead, they should initiate policies to support and encourage the introduction of job creation programs in the private sector as well as to improve overall economic performance. It should, however, be noted that in some countries strong political concerns over unemployment may encourage adoption of certain policies such as public job creation programmes or part-time recruitment in government offices. These may create some conflicting policies for budget authorities in trying to reduce overall personnel expenditures.

The acceptance and practice of controlling and reducing manpower levels in government ministries and organisations in many countries has involved or increased the engagement of the budget authorities in the exercise. As mentioned earlier, this exercise is now integrated in the budget management process in most countries.

### **3. Mechanisms of Controlling Personnel Expenditures**

#### **3.1 Budget Preparation and Policy Controls**

##### **3.1.1 Sectoral Policy and Programme Analysis**

It is now widely believed that *the most successful and least harmful way of controlling the government wage bill is to conduct a meaningful policy analysis exercise at the budget preparation phase of the government budget cycle*. This requires a comprehensive analysis of both the necessity and scope of government involvement in the economic and social sectors. This approach addresses the very heart of the problem, by which ongoing sectoral and operational policies are analysed with a view to identifying the marginal tasks performed by line ministries. As a result of the exercise, a number of unnecessary inputs to operations, including idle employees, are identified and removed from government services.

The paramount advantage of this approach is to minimise the possible trade-off of reducing personnel expenditures by using an analytical approach to the exercise versus random or across-the-board reductions mentioned below. To apply the approach, a comprehensive policy and operational revision of public expenditure and the use of modern government budgeting techniques appears necessary. In other words, before budgeting for manpower begins, the very necessity of the operations to which the employees contribute as an input should be analysed, streamlined, downsized, and in some cases, entirely eliminated. Without this exercise at the policy decision making level, no administrative or managerial technique can adjust the manpower level in government services. A programme-oriented budgeting system or similar budgeting approaches under different names, but with the same messages and contents seem to be necessary for a start<sup>6</sup>.

In practice, because of political factors and, more importantly, the strong defensive nature of bureaucracies, rationalisation of government activities in some countries proves to be complicated and time-consuming. Furthermore, objective/operations criteria and measures for creations and elimination of posts have not been fully developed in a number of countries, although several others have made noticeable progress. Because of the urgent need for reducing manpower levels, parallel control measures yielding immediate results are normally employed in the budgeting process to support the sector/operations analysis approach.

##### **3.1.2 Staff Ceilings**

One such method often used by finance ministries is the notification of predetermined manpower levels by the central budget office to line ministries. These *staff ceilings* normally are indicated in the form of number of full-time equivalent posts that will be considered for funding by the budget authorities. Observance of these staff ceilings by line ministries in the preparation of their budget proposals is compulsory, and the central budget office normally is not allowed to provide additional finance for manpower numbers over and above the ceilings. In order to facilitate the implementation of this method, countries such as the United States, Denmark, Canada, and the Netherlands, provide notice of staff ceilings well ahead of time in the framework of a multi-year plan.

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6. For a detailed discussion of this topic, see: Feridoun Sarraf, *Programme Budgeting —Theory and Practice*, a SIGMA document presented to the Czech Ministry of Finance in July 1994.



### 3.1.3 Expenditure Ceilings

Another approach which is used for controlling personnel expenditures in various countries is notification of *expenditure ceilings* (also known as cost or cash ceilings) by the central budget offices to spending ministries in the budget preparation process. By employing this method, finance ministries limit spending agencies manpower allocations in terms of budget allocations. The method may be used independently or as a supplementary measure to the staff ceilings method. Expenditure ceilings normally are calculated by finance ministries on the basis of certain policies which are made known to line ministries in advance or in parallel to the notification of expenditure ceilings.

### 3.1.4 Pay Structure Revisions and Wage Negotiations

As briefly mentioned above, the pay structure has two distinct components: managerial and financial. On the managerial side, the pay structure reflects the factors relating to the job, the individual, and the market as follows:

First, *job position*, which includes components of responsibility, education and experience;

Second, *job variable*, containing factors of inconvenience and working hours;

Third, *person*, which refers to personal qualification and personal performance; and

Fourth, *market*, which reflects the scarcity of supply of labour and the strength of trade unions.

It is clear that none of the above factors and their divisions (eg job classification, job description) can be or should be handled by the budget authorities, though some of them are entrusted to other departments of the finance ministries. In principle, these components are co-ordinated and controlled by central personnel management offices. The main concern of the finance ministries is determination of financial components of the pay structure, which simply refers to the availability of funds to translate the above factors to the pay scales in a given period. To control this aspect, a central responsibility similar to that of managerial aspects of pay structure is needed, because decentralisation would lead to chaos in the absence of parity between rates paid and kinds of work. This responsibility traditionally belongs to the finance ministries.

As Premchand observes:

“In practice, a number of factors make the pay determination a difficult and debatable task. In most countries, general principles of price determination — supply and demand — are not entirely applicable to the pay structure of the civil service. Although supply factors do have some implications, the major economic factors are the government's capacity to pay, the parity principles within government services, and, to a lesser extent, the opportunity cost of attracting personnel.

In most countries, there are differentials in pay for employees of central, provincial, and local governments although they might be working in the same city. While cost of living raises and similar compensations are offered on a uniform scale, the basic pay itself is different, partly because of differences in responsibilities and partly because of different fiscal capacities of the employer. In cities where the private sector is dominant, governments have to compete to attract talent, but in reality their pay structure cannot compete with that of the private sector because their capacity to pay is limited.

However, the government structure cannot remain static. It needs frequent revision to assure continuation of the standard of life that formed the basis for the original pay structure. Such revisions have to be made within a given framework. First, any revision must be compatible with other national objectives, particularly growth of the economy, distributional concerns, and likely impact on the rate of inflation. Second, following this precept, it should be a part of national wage policy. Third, in keeping with the objective of containing inflation, it must ensure that the increase in the total wage bill is not more than expected increase in the productivity of the public sector.

Within this framework, consideration must be given to the ability to pay and the need for having wage structures that are comprehensive and easy to administer. The revision must also have a degree of solidity about it, as too frequent revision or a revision limited to a specific sector will only bring demands for further revision. Some other issues in personnel budgeting may be noted. Some countries have found that decisions on pay revision is either too frequent and outside government control or too infrequent, resulting in a need to raise the pay level considerably at one time. Any pay revision incorporating such a precipitate rise will also lead to a substantial jump in the wage bill and to cutbacks in other areas if expenditures are to be maintained at projected levels<sup>7</sup>.”

Also, it is important to note that any system of job evaluation and pay structure creates incentives which affect human behaviour. The challenge is to estimate what incentives are implied by a particular proposed scheme and to try to avoid those which are seriously counterproductive. For example:

- if the system awards a higher salary to a supervisory post when the number of employees is higher, then the incumbent will be motivated to fight against reductions and to strive for increases in his staff;
- if the system permits different ministries to pay different salaries for the same level of job, the following results can be predicted: in a higher paid ministry, a very low rate of natural departures will reduce the intake of fresh skills, the retention of non-performers, and gradual deterioration of overall quality; in lower paid ministries, it will be difficult to compete in attracting the best qualified candidates, and the better people, seeing no chance of migrating to a higher paying ministry, may leave the government altogether; and
- if a performance pay system permits the manager to award bonuses without third-party supervision, many will channel the money by favouritism rather than merit, thus increasing costs but without any efficiency gain.

No system can be neutral regarding incentives. The important thing is to evaluate the design in this light.

Again in these areas, comparative analysis among various countries proves unhelpful. There are several factors which reduce the value of such comparison. Apart from general economic conditions, among others, the wage determination power of unions, the inflation indexation, the composition of pay structure in terms of basic salary and allowances seem to be substantially different countries. The latter factor more

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7. A. Premchand, *Government Budgeting and Expenditure Controls, Theory and Practice* (International Monetary Fund, Washington DC, 1983), pp 165-166.

specifically should be carefully taken into account if the comparison includes transition economies, where the ratio of allowances, bonuses, and other direct and indirect benefits paid to government employees within their remuneration packages are extremely high. Indeed, in transition economies, the size of such benefits have created additional concerns and responsibilities for the finance ministries, because most of the allowances are, in practice, determined arbitrarily by the line ministries.

Finally, one of the personnel expenditure control measures is managing wage negotiations between employees who are represented by the trade unions and employer (government) who is normally represented by the finance ministries. The possibility of using this measure for controlling overall personnel expenditures and its effectiveness vary across countries in accordance with the role, bargaining power, and the degree of militancy on the side of unions. However, even with powerful unions, the finance ministries play a dominant role in the wage negotiation process. In many OECD countries where inflation rates in recent years have been relatively low, management of this measure has proved less complicated. However, in countries with high and sharply fluctuating inflation rates, including some transition economies, the role of such negotiations in controlling overall government wage bill becomes very crucial.

### 3.1.5 Evaluation of Policy Controls

All these budget preparation and policy measures for controlling government personnel expenditure — policy and operation analysis, staff ceilings, expenditure ceilings, and pay structure revisions — have certain advantages and disadvantages in practices. As noted previously, the analytical approach has obvious and distinct advantages, including optimising manpower adjustments and budget cuts by securing vital and well-justified operations, and concentrating the reductions on marginal and less important operations. However, certain factors limit its implementation in some countries. Spending agencies are reluctant to undergo central evaluation of their work, since this might reveal where staff reductions could be made and thus lead to reduced budget allocations. Furthermore, in some countries, the central budget offices technically are not yet equipped to conduct such analyses.

This approach appears particularly relevant for transition countries where the incidence of over-staffing seems very uneven across ministries and agencies. Many old tasks have become redundant while many entirely new responsibilities have been imposed on governments. The need seems to be to ensure personnel reductions in the former areas while protecting or even increasing staff in the latter. *To achieve this cost/efficient outcome in a systematic way, there is really no alternative to the sectoral policy and programme analysis approach.*

On the other hand, the staff ceilings and expenditure ceilings approaches, because of their top-down nature, can be implemented with less difficulty, though in the periods of coalition governments, finance ministries normally lack enough power to impose the ceilings without serious problems. Indeed, by employing these approaches, the authority of reduction in the numbers and remuneration of government employees is delegated from central budget office to line ministries within the limits determined by finance ministries. However, because of their across-the-board cut treatment, using these methods may be more costly in the long term. This is because many managers in the line ministries may choose to distribute the cuts evenly among existing operations, some substantial parts of which may not be justified. Consequently, some questionable operations may continue to exist. Furthermore, if the expenditure ceilings approach is chosen, finance ministries have to increase their control role on the budget execution phase, because using different adjustment packages in different ministries may distort the classic principle of parity in payments.

Whichever approach is selected for reducing active manpower in government organisations, relevant policies in respect to retrenchment of identified additional personnel must be developed and its economic,

financial, managerial, and social implications have to be addressed. From a legal point of view, some countries are allowed to reduce the civil service by layoffs of tenured staff in case of redundancy. In the other countries where an assignment right exists, an abolished position allows the employee to be assigned to another position. Only when an employee has no right of assignment or turns down an offered position may the government agency separate the employee. Some countries aim to reduce the proportion of tenured to total employment. In this process, each OECD country has developed its own policies in accordance with its political and economic conditions, and experienced successes and failures in implementing these policies.

Finally, it is important to note that reducing manpower levels in government services is a long-term policy and should serve medium and long term objectives. In fact, redundancy payments in the short term may be very costly because of compulsory payments in the form of lump sum redundancy packages, early retirement benefits, and social security systems. Short-term measures and inconsistent approaches without changes in the underlying policy cannot be expected to yield dramatic or durable results. *A properly planned attrition programme, undertaken jointly with medium term expenditure planning should therefore be considered for whole exercise.*

### **3.2 Budget Execution and Administrative Controls**

In controlling personnel expenditures, like other types of expenditure, utilising policy-oriented control measures is more effective than administrative measures. This is because the administrative control measures are to materialise the policy choices, and by themselves do not represent fully effective expenditure control. However, administrative measures, which normally are performed in the course of budget execution, have their own significance in terms of provision of information and facilitating the initiation of corrective measures when variations from policies occur. In principle, co-ordinating and controlling of personnel expenditure at the budget execution phase are similar to the measures used in other types of government expenditures. Normally, finance ministries monitor the developments compared to budget decisions and initiate corrective measures when necessary.

#### **3.2.1 Monitoring the Numbers and Grouping of Posts**

In order to perform a meaningful monitoring of the implementation of budget understandings on the movements of budgeted posts, necessary data in terms of number of posts and their groupings should be recorded in the budget documents on a programme/operations basis. Normally, the number of budgetary posts is equal to the number of occupied positions, increased by authorised positions. Unoccupied positions define the limit to recruitment, and line ministries are not allowed to recruit beyond this limit. In some countries, these data, along with appropriations, are approved by parliaments, which provide a legal significance to government manpower policies, and facilitate the finance ministries' control function. In transition economies, the budget documents are normally very brief and most of them lack this kind of information or are not classified on a programme/operational basis.

#### **3.2.2 Limiting Fund Transfers from Non-personnel to Personnel Expenditures in the Execution of Budgets**

In the course of budget implementation it may be necessary to transfer funds from some groups of expenditure to another. This process provides certain flexibility to managers. However, there are limits to these fund movements, and beyond certain amounts the changes should be referred to the finance ministries, cabinet, and, where the changes are substantial, to parliaments. In order to keep personnel policies and expenditures under control, transfers from appropriations for goods and services expenditures to appropriations for personnel expenditures, leading to creation of posts, are normally prohibited.

Transfers from personnel expenditure items to goods and services items may be authorised, after proving that the appropriated amounts after transfers remain at an adequate level for paying current employees.

In a related context, in some OECD countries, the ratio of goods and services expenditures to personnel expenditures is considered as one of the indicators of the efficiency of public expenditure management. However, this should be considered as a very general criteria and its application to all government programme is seriously debatable. This criterion has become even more vague in recent years with the introduction of technology advancements to many government services and the contracting out of many services by government institutions.

### *3.2.3 Centralising or Unifying Payroll Management Systems*

During the last two decades, information technology has dramatically increased data coverage and timeliness of personnel expenditure and improved government payroll management systems. The systems cover data on employee changes (retirement, death, recruitment, etc.) as well as data to calculate salaries and bonuses (class, grade, step, specific conditions, marital status, etc.). They record for every employee these data and code of his/her budgetary post. For a proper monitoring of personnel expenditure, it is crucial that these data are produced and reported in a standard format for every government agency and be linked to the central payroll system normally run by finance ministries.

**PERSONNEL COST BUDGETING AND EXPENDITURE CONTROL IN AUSTRIA**  
**BY HEINRICH TRAUMÜLLER<sup>8</sup>**

**1. Federal Structure**

The Republic of Austria is a decentralised federal state with over eight million inhabitants and approximately 84 000 km<sup>2</sup> in size. Under Austrian law, the concept of “state” includes not only the Federation (*Bund*) but also the nine provinces (*Länder*), more than 2 300 municipalities (*Gemeinden*), and a large number of quasi-governmental authorities (social security institutions, public funds and chambers).

Each province has its own constitution, parliament, government and administration. Each level of administration is autonomous and independent. The responsibilities of each level of government are defined in the Federal Constitution. All major taxes are joint taxes, ie they accrue jointly to the three levels of government. In addition to such tax revenues, a system of governmental transfers is used. Transfers are either for general purposes or for specific purposes, such as for housing or education. Where the provinces act as agents to the federation, the federation has to meet the resulting expenditures.

The social insurance funds are autonomous and fiscally independent. Their expenditures are financed by social security contributions and by transfers from the federal budget.

**2. The Federal Budgetary Process**

All government decisions concerning the budget are taken collectively in the Cabinet. The outline of medium-term budgetary policy is formulated in the coalition agreement. All members of the Cabinet have to accept the global budget policy programme. Further involvement of the Cabinet in budgetary decision process is more or less of a formal nature.

The Ministry of Finance takes a central role in all budgetary matters. The Minister of Finance is responsible for financial and tax policy and therefore also is responsible for the expenditure and revenue side of the budget in general. The responsibility for wage policy for civil servants and for personnel resources is shared with the Federal Chancellor.

The budget process (Annex 1) starts in May of the preceding year. The Minister of Finance issues guidelines to regulate the process and decides, against the background of the coalition agreement and available financial resources, on budgeting limits for the coming fiscal year. In this context, personnel costs are usually treated as lump sums. With regard to the staff plan (the number of personnel), the Federal Chancellor draws up separate guidelines with the consent of the Minister of Finance.

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8. Heinrich Traumüller works in Department II/16 of Austria’s Federal Ministry of Finance, Vienna.

The agencies' budget requests are presented to the competent ministry. The ministries' requests are submitted to the Ministry of Finance by mid-June.

The next step in the budget process lasts until September and consists of negotiations between the ministries responsible for the activities in question and the Ministry of Finance. The budget requests are examined and discussed at three levels:

- within the division responsible in the Budget Department;
- within the Minister of Finance; and
- if necessary, within the Cabinet Co-ordination Committee.

Budget negotiations at the ministerial level mainly focus on claims for increases to the budget limits. The Cabinet Co-ordination Committee, headed by the Federal Chancellor, takes the final decision where opinions diverge.

The draft Federal Budget is submitted for approval to the cabinet by the Minister of Finance at the end of October. The draft is approved by Parliament, which possesses the right to prepare its own budget — a right it has yet to exercise.

### **2.1 Structure of the Federal Budget**

The Appropriation Bill serves to establish, and make provision for, the financial needs of the Federation for the fulfilment of its duties during the fiscal year. It is brought into operation by the Budget Act and sets financial limits to government activities.

The Appropriation Bill consists of chapters (*Teilhefte*) and a hierarchy of main accounts within each individual estimates. The chapters delineate the receipts and expenditures of the separate branches of government, eg the Ministry of Interior and the Ministry for Foreign Affairs. The structure of main accounts mirrors the administrative structure, in most cases with separate accounts for each agency and institution. Each main account is subdivided into appropriation accounts (*Voranschlagsansatz*) on the basis of a modified financial classification. Each appropriation account contains a number of (sub)lines, which help to identify type and destination of all transactions. In addition, each subhead is allocated a functional code corresponding to the UN functional code system.

Whereas the Appropriation Bill treats the costs for active personnel as lump sums, the chapters divide them in basic wages, social costs, allowances and bonuses. The pensions for civil servants are budgeted in a separate chapter.

### **2.2 Implementation of the Budget**

Immediately after approval of the budget by Parliament, the spending ministers allocate the funds and established posts to their subordinate offices. Only a few units are authorised to handle revenues and expenditures. In Austria these units are called "instructing units" (*anweisende Stellen*). At present there are 130 instructing units; a budget management officer is appointed for each of these units.

A fundamental characteristic of the appropriation control system is that the Ministry of Finance has full control of the use of appropriated funds. Prior authorisation by the Ministry of Finance is required for each discretionary expenditure of any significance, for capital expenditure as well as for subsidies. Each construction project of any significance and all real estate transactions must be approved by the Ministry

of Finance, which also has full control over commitments, personnel costs and manpower. The spending ministries are required to submit their financing needs month-by-month to the Ministry of Finance for approval at the beginning of each month and to report on a monthly basis on funds already spent.

### **2.3      *The Central Financial Management System***

The backbone of the financial management system is the government-wide accounting and payroll system operated by the Federal Accounting Office. The system is based on a uniform and government-wide coding and classification of financial transactions. It automatically handles receipts and payment orders through the computerised Postal Giro System.

All departments, agencies and institutions are connected via 85 bookkeeping departments to the system and report their transactions from about 300 local computer terminals. The federal public enterprises are only associated to the system, reporting monthly aggregate flows.

According to the procedures of the New Method of Austrian Accounting (*Verfahren der Neuen Österreichischen Staatsverrechnung*) adopted in 1968, all accounting operations are entered simultaneously in the respective budget cost accounts and in the balance and the profit and loss accounts. This system is cash-oriented, and combined with obligation and accrual accounting. The New Method permits tracking of the state budget from the first step in the budgetary phase to the publication of the final public accounts.

Interaction with the payroll system takes place from the same local computer stations in the bookkeeping office. It calculates salaries and pensions for central government employees on the basis of a dozen of computerised salary schemes and provides input to the payment handled in the accounting system. The Personnel Management Information System contains statistical data and draws on data from the payroll system for analyses of personnel management.

The Budget Department of the Ministry of Finance and the Federal Chancellery have on-line access to all data of this system (the line ministries only to their own data). It provides top-management with information and includes facilities for ministerial reports. The adherence of line ministries to spending limits and the number of personnel employed are under permanent supervision. The accounting system also is used for the preparation and printing of the Appropriation Bill and supporting material.

## **3.            *Human Resources***

The number of personnel in the administration and staff development by administrative branches since 1960 is shown in the Annex 2 and Annex 3. The current weight of the whole government sector exceeds 21 per cent of total employment.

### **3.1        *Staff Plan***

The Appropriation Bill includes a staff plan regulating the number and characteristics of personnel for each ministry, agency and institution. In addition, it contains detailed regulations for staff management. Increases in the number of personnel require legal authorisation (supplementary budget).

### **3.2        *Job Classification***

A job description is obligatory for every single post within the Federation. Whether or not the job-holder holds civil servant status is irrelevant. The valuation is done by the experts of the Chancellery, partly with



the help of private consulting companies. In 1994, a new and complex method (*Stellenwert-Profil-Methode*) was introduced for the valuation of posts within the general administration, the military and the security bodies. According to this method, every single post is analysed with the following criteria:

- demand of knowledge:

<ul style="list-style-type: none"><li>· specialised knowledge</li><li>· management skills</li><li>· social skills</li></ul>
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- performance of thought:

<ul style="list-style-type: none"><li>· frame of thought</li><li>· claim of thought</li></ul>
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- responsibility:

<ul style="list-style-type: none"><li>· freedom of acting</li><li>· monetary dimension</li><li>· influence on results</li></ul>
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The results are laid down in the staff plan.

### **3.3 Organisation**

The Austrian Constitution stipulates that the number of federal ministries, their sphere of activity and their establishment must be determined by federal law (*Bundesministeriengesetz* or *BMG*). According to this law, these include the federal:

1. Chancellery
2. Ministry for Foreign Affairs
3. Ministry of the Interior
4. Ministry for Education and Cultural Affairs
5. Ministry for Science, Research and Art
6. Ministry for Labour and Social Affairs
7. Ministry for Health and Consumer Protection
8. Ministry of the Environment
9. Ministry for Youth and Family Affairs
10. Ministry of Justice
11. Ministry of Defence
12. Ministry of Finance
13. Ministry of Agriculture and Forestry
14. Ministry for Economic Affairs
15. Ministry for the Public Sector of the Economy and Transport.

The creation of subordinate authorities and other administrative offices of the federal administration also requires legal authorisation.

The internal set-up of the federal ministries is regulated by Chapter II, *BMG*. Every ministry consists of several departments (*Sektionen*). Their divisions (*Abteilungen*) may be grouped together (*Gruppen*), but divisions may also be subdivided into subject divisions (*Referate*). Other organisational institutions may be created in all federal ministries in order to:

- deal summarily with all business which is part of the sphere of activity of the specific ministry, as well as to advise and support the federal minister in the field of general government policy (ministerial secretariats), and
- provide more expedient, efficient and economic handling of matters of the private sector administration (*Privatwirtschaftsverwaltung*).

Every ministry must establish internal control mechanisms and maintains a special unit to fulfil this task, the *interne revision*.

Within the legal framework of the staff plan and the *BMG*, the ministers are free and responsible for the efficient internal organisation of their authorities and other administrative offices. They can change the organisational structure by creating or abolishing new units, grades and posts. Neither the Chancellery nor the Ministry of Finance can directly interfere in the organisational structure or the allocation of business in other ministries, and may not veto structural changes. Nevertheless, a new valuation of all posts affected by any alteration is obligatory. This may have far-reaching consequences for salary arrangements.

### **3.4.      *Structure of the Ministry of Finance***

The Ministry of Finance consists of six departments (Annex 4). Budgetary activities are co-ordinated by the Budget Department. It is responsible for general expenditure planning, general budgeting and expenditure control. The Budget Department employs about 100 professionals and comprises 17 divisions (Annex 5).

The Financial Management Division co-ordinates the preparation and implementation of the budget as well as accounting. The Budgetary Policy Division is responsible for policy-oriented analysis, expenditure planning and forecasting. The Tax Equalisation Division is responsible for the financial relationships between the federation, provinces and municipalities. Ten divisions engage in the preparation of the spending ministries' budgets and in monitoring budget implementation. Three divisions are responsible for manpower policy, staff budgeting and controlling personnel costs. Tax legislation and tax revenue estimates take place in another department.

### **3.5      *Financial Control and Audit***

The external control of the ministries and agencies is mainly exercised by the Court of Auditors. This is an independent agency of the Parliament with comprehensive auditing competence guaranteed by the Constitution. Its members enjoy the independence of the judiciary. Its task is to audit the accounting records of the government as well as the efficiency and effectiveness of the administrative structures. That means that the ministries have to justify the number of their staff and the staffing levels. The Court of Auditors has to report annually on its activities to Parliament. Matters of particular interest may be reported on at any time. Parliament has the possibility to initiate special audits (mandated audit following a resolution passed by majority vote or requested audit following a request by a qualified minority).

The five types of audits generally conducted are:

- *general audits*, which aim to obtain a cogent overview of the entire financial management of the audited entity;
- *project audits*, which focus on temporally, financially, or otherwise limited projects;
- *selective audits*, in which only one aspect of financial management is dealt with;
- *cross-sectional audits*, which examine comparable sections of different entities at the same time; and
- *system or programme audits*, which determine whether criticisms levelled in earlier audits have been remedied or suggestions implemented.

Though the basic quality of audit standards is fully recognised, the focus is now shifting — as it is world-wide in the field of public budgetary control — from regularity audits to performance audits.

### **3.6      *Service and Salary Regulations***

The centre of the federal public service regulations is the Public Service Regulations Law of 1979. Its general section applies to all federal employees with civil service status with the exception of the judges. Civil servant status is legally based on nomination, ie "the conferment by decree of an established position". The appointment is at first provisional. It becomes permanent at the employee's request, providing he or she fulfils, in addition to the appointment requirements, the requirements for the established position which he or she is to take up, and that he or she has completed six years in a provisional position. The civil servant then enjoys protection against unlawful dismissal.

The Salary Law of 1956 is the main statutory source for the remuneration of federal officials. It is extremely finely structured and contains an elaborate system of "supplementary payments". The system of allowances and bonuses is almost the same for personnel with civil service status and without it; but there are considerable differences in the basic wages. Participatory rights of the Chancellery and the Ministry of Finance in individual matters still exist, but they are continually reduced. For example, line ministries are now free in paying bonuses within the financial limits set to their personal costs in the specific chapter of the yearly Appropriation Bill and responsible for linking it with productivity/efficiency/quality indicators. Where they still participate in staff matters, it is the job of the Chancellery to ensure uniformity in the application of the service regulations and an equal treatment of employees, while the Ministry of Finance is responsible for the financial aspects; these responsibilities will overlap in some cases.

As mentioned above, the provinces and municipalities have their own administration, their own legislation and their own staff plans. Nevertheless, the Federal Constitution contains a "principle of homogeneity of service", ie federal and provincial service regulations may not be different from each other in any way that makes the change from one to the other formally or materially difficult. In practice, there are not too many differences in the service regulations, but the provinces and municipalities can pay considerable higher wages in accordance with their better financial situation.

### **3.7      *Pay Settlements***

The constitutional "principle of legality" means that regulations concerning the public service are determined as a matter of principle on the level of formal federal or provincial laws. In practice, the public service, as part of the labour world, is also ruled by the "social partnership" principle that is dominant in Austria. From a factual point of view, the relevant regulations laid down for the public service are mostly the result of negotiations between experts of the public authorities in their function as employer representatives on the one hand, and the public service trade unions representing all employees on the other.

In the case of many legislative acts, and especially in the case of the official annual "salary negotiations", the formal federal and provincial legislature has a purely "notarial function". The calculating of the costs, including those by changes in the personnel structure and the examination of the economic and budgetary background data, is performed by Ministry of Finance experts. Both the Chancellor and the Minister of Finance participate in the negotiations. The determinant factors of pay settlements are the macroeconomic data (economic growth, unemployment, inflation etc.) and the budgetary situation, but not productivity/efficiency- or quality-indicators.

Although the provinces and municipalities are free to negotiate separately, it is political tradition in Austria that there is a common wage settlement in the public sector. The higher salary level among the states and municipalities results from faster promotions and higher allowances.

### **3.8 Main Issues of Reform in the Public Service**

Like many other EU Member States, Austria confronts the need to reduce its budget deficit (Annex 6). Among other reforms, also is necessary to reduce the number of employees. Indeed, 12 000 posts are to be eliminated within a period of four years; a first step with a reduction of 3 600 posts was decided for the staff plan of 1996. The payroll and pension costs of the Federation must be capped at the level of 1995 for the next two years.

Furthermore, performance criteria must be introduced into the salary regulations. Since the beginning of 1995, the new salary legislation for public officials (*Besoldungsreform*) rests on three pillars:

1. The system of promotion into service classes is replaced by continuous advancement careers. These guarantee a transparent basic career and thus material security to every public employee. The character of life employment is preserved.
2. Specialist or management functions are made attractive by fixed salary or additional allowances depending on the valuation of the post.
3. Superior management functions are awarded for just five years.

Staff training must be accorded a higher status than is at present the case, in the interest of the principle of "life learning". The training system must be linked to an effective method of assessment.

## ANNEX 1 CALENDAR OF MAIN POINTS OF DECISION-MAKING AND ACTIVITIES

<b>Months Before Start of FY (t)</b>	<b>Main Events and Activities</b>
<i>Year (t - 1)</i>	
10 - 9 (March-April)	Ministries submit mid-term expenditure projection to the Ministry of Finance (MF)
9 (End April)	MF formulates budgeting guidelines
7 (June)	Government agencies present request for next fiscal year to the competent ministry and MF
6 - 4 (July-September)	Negotiations between the responsible ministries and MF
4 (Mid-September)	Cabinet finalises the drafted budget in the cabinet-co-ordination-committee
3 (End October)	Budget proposal is submitted to Parliament; Finance Minister's "Budget Speech"
2 - 0 (Mid-November, December)	Parliament debates and decides the budget
0 (1 January)	Start of fiscal year (t)
<i>Year (t + 1)</i>	
(End February)	Publication of preliminary outcome of the budget
(March-May)	National Audit Bureau checks the accounts of the budget
(September)	Publication of the out-turn of the budget

**Note:** The fiscal year is the calendar year, year "t".

## ANNEX 2 PERSONNEL IN THE ADMINISTRATION

(Number and Category of Public Employees)

Federal employees	Active (1995)	248 871	248 871
Provincial teachers	Active (1995)	77 607	77 607
Provincial employees (with Vienna, without Vienna Municipal Enterprises)	Active (1993)	142 926	
Municipal employees (without Vienna)	Active (1993)	78 221	
Employees in municipal institutions exempt from value-added tax	Active	19 342	
<b>Active</b>		<b>566 967</b>	
Retired federal officers	(1995)	196 081	196 081
Retired provincial teachers	(1995)	26 209	26 209
Retired provincial employees (with Vienna, without Vienna Municipal Enterprises)	(1993)	45 753	
Retired municipal employees (without Vienna)	(1993)	11 896	
Retired employees of Vienna Municipal Enterprises	(1993)	12 765	
<b>Retired employees</b>		<b>292 704</b>	
<b>Active and retired employees</b>		<b>859 671</b>	
<b>Federally paid employees</b>			<b>548 768</b>

### ANNEX 3 STAFF DEVELOPMENT BY ADMINISTRATIVE BRANCHES

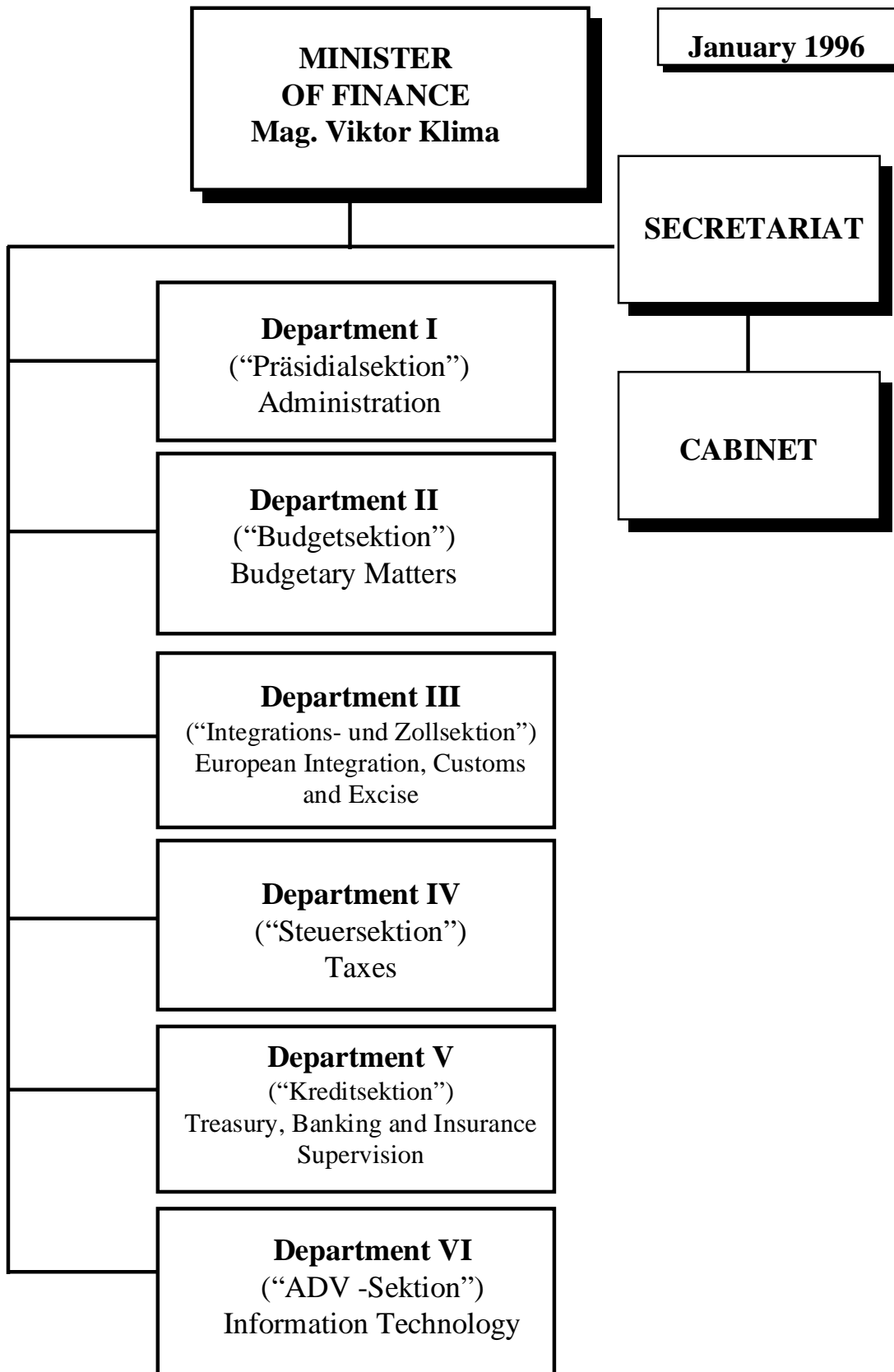
	1960	1970	1980	1985	1990	1995
General administration	38 130	39 585	40 047	37 711	38 406	35 192
Security	27 864	27 578	28 404	33 163	34 214	35 176
Jurisdiction and judicial execution	7 934	9 147	10 214	11 136	11 077	11 599
Teaching, culture and research	20 671	33 391	47 969	52 346	63 450	* 63 092
Armed forces	20 173	21 311	22 000	22 893	22 096	** 29 211
Foreign affairs	899	1 184	1 399	1 421	1 588	1 634
Federal enterprises and monopolies	142 408	141 022	134 557	132 283	129 357	*** 65 832
<b>Total</b>						
	258 079	273 218	284 590	290 953	300 188	245 736
Young people	--	--	4 650	6 332	5 554	3 135
<b>Grand total</b>						
	258 079	273 218	289 240	297 285	305 742	248 871

\* Excluding provincial teachers (77 607 employees).

\*\* Including 8 100 former soldiers, who were granted limited contracts of employment in 1995.

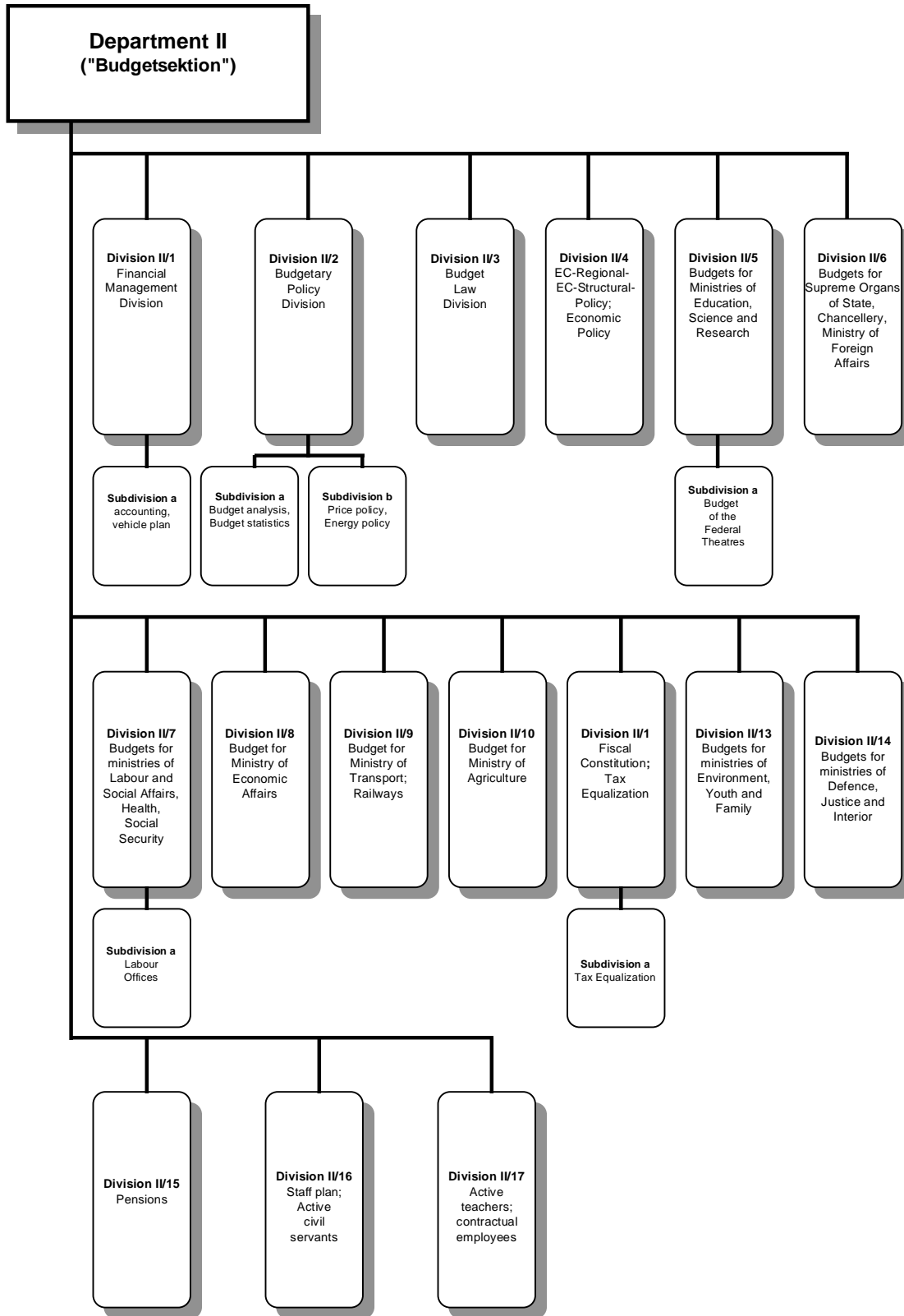
\*\*\* In 1994 the Federal Railways, with 66 646 employees, became its own legal entity.

**Annex 4      STRUCTURE OF THE MINISTRY OF FINANCE**





January 1996



## ANNEX 6 PUBLIC DEFICIT

	1986	1990	1991	1992	1993	1994	1995
Central government	-64.4	-55.1	-71.9	-56.7	-100.4	-101.4	-116.0
Regional authorities	12.9	14.0	16.8	15.3	12.7	8.9	-2.5
Local authorities (incl. Vienna)	3.1	5.6	2.2	4.5	-2.7	-5.7	-11.8
Social insurance funds	-5.4	-3.4	0.1	-3.4	0.5	-0.8	-1.3
Statistical difference	1.3	0.2	2.4	-2.2	-2.0	-1.2	1.6
General government	-52.6	-38.7	-50.4	-42.6	-91.9	-100.2	-130.0
as % of GDP	-3.7	-2.2	-2.6	-2.1	-4.3	-4.4	-5.5
GDP	1 422.5	1 801.3	1 926.5	2 047.3	2 124.1	2 262.9	2 360.1

**Note:** – : deficit; + : surplus.

According to Maastricht criteria, in billions of Austrian Schillings.

**BUDGETING AND MONITORING OF PERSONNEL COSTS  
IN THE PUBLIC SECTOR IN FRANCE  
BY BERNARD PÊCHEUR<sup>9</sup>**

**1. Introduction**

In France, the public sector is not governed by a uniform framework of rules and practices. In reality there exist four types of situation:

1) **Public enterprises in the competitive sector (banks, insurance companies, industrial firms) benefit from the greatest autonomy.** They are under the obligation to provide results (show a profit) but in return are free to define their commercial strategies and policies for prices, investment, remuneration and employment, depending on their own constraints. Their employees are moreover subject to private law, and the regulations which apply to them stem directly from the labour legislation (labour code, collective agreements, enterprise agreements, trade practice). The State of course has the right of inspection into the management of these enterprises, but exclusively from the standpoint of a shareholder.

2) **Public enterprises endowed with a monopoly and managing a marketable public service (electricity, railroad, etc.) enjoy a rather wide autonomy,** but the State has supervision over the general framework of their activity (nature of public service obligations, evolution of tariffs, global control of the wage bill). Their situation is therefore composite. The staff are for the most part subject to private law and each enterprise develops its own personnel policy (recruitment, remuneration, promotion, etc.). Nevertheless, the State intervenes globally (approval of annual budgets and investment plans), with the intervention of the Ministry of Finance stronger in the case of enterprises receiving operating subsidies from the state budget (for example, the railroads) than of those showing a profit (for example, electricity).

3) **Local authorities (regions, departments, communes) are self-governing:** they fix their own budgets, determine their tax rates and define their staffing policies. This freedom is nevertheless regulated within the framework of laws voted by Parliament. The room for negotiation of local authorities is limited with regard to personnel management. The vast majority of staff are civil servants whose statutes are, by law, aligned with those of State civil servants, with the exception of certain specific conditions. In other words, the career structure, the levels of remuneration and the pace of promotion are largely determined by the decisions taken by the State concerning its own personnel. Within such a defined framework, each local authority of course holds discretionary power with regard to the individual management of its staff.

4) **State services (central administration, central services located outside the capital and subordinate bodies) are financed by the state's general budget.** Their staff are to a large majority civil servants. The management of ministries and public bodies attached to them are part of a complex system,

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combining on the one hand the intervention of the Ministry of Finance and the Ministry of Civil Service, which manage the overall coherence, and on the other hand the action of each line ministry (referred to rather as the technical ministry or even the spending ministry) responsible for its own budget and its own staff. It is this complex system which this paper will attempt to describe.

## **2. The Rules of the Game**

The system depends on three partners: the line ministries, the Ministry of Civil Service, and the Ministry of Finance. The respective role of each partner varies, however, depending on the decisions to be taken.

### **2.1 *Civil Servants are Governed by Statutes***

The general principles, common to all *corps* (professional bodies within the civil service), are defined by law. The salary scales, which generally apply to all *corps* of civil servants, as well as the rules for classifying the *corps* and specific posts on these scales, are fixed by government decree. This also applies to the determination of careers, grades and levels of recruitment as well as to the fixing of systems of bonuses and allowances. Drawing up these rules and statutes necessarily implies co-operation between line ministries to which the concerned *corps* are attached in the hierarchy, with the Ministry of Civil Service having the responsibility for ensuring coherence between the personnel policies of the various ministries and the Ministry of Finance for seeing that budgetary constraints are taken into consideration.

### **2.2 *The Staffing Levels of Each Ministry are Set by the Annual Budget***

These levels are the result of budgetary negotiations between the concerned ministry and the Ministry of Finance.

### **2.3 *The General Salary Increases Occur Once or Twice a Year***

These increases are the responsibility of the Ministry of Civil Service, in charge of leading interministerial negotiations with the unions. The Ministry of Finance is of course closely associated with this process. On the other hand, the line ministries, the budgets of which are automatically inflated to cover agreed wage increases, do not participate in arbitrations or negotiations.

### **2.4 *The Individual Management of Civil Servants (recruitment, assignment, promotion, fixing of individual bonuses, etc.) Falls Within the Almost Exclusive Competence of Line Ministries***

The Ministry of Civil Service however sees that competitive recruitment procedures are respected, and the financial controllers attached to the Ministry of Finance make sure, through *a priori* control, that posts and credits are available.

## **3. The Budget Structure**

### **3.1 *Each Ministry is Granted a Budget***

In the ministry budget are grouped the posts and credits which have been assigned to it by the general state budget. The ministries' budgets, which are incorporated into the general budget of which they are an integral part, are voted by the Parliament at the same time as the general budget.

Budgetary authorisations are formulated in a detailed nomenclature established by type and by function:

- *Staffing*: posts are listed individually and staff numbers are strictly limited, whatever the type of job. The breakdown of staff between the different services of the ministry is described in a precise way but the ministry retains the possibility of assigning its staff to other jobs during the year.
- *Budgeting of Posts*: the type of posts authorised is described in the budget, which mentions grades and indexed ranges (that is, corresponding wage bands). Appropriations are calculated by multiplying staff numbers by the average index per grade. However, adjustments may be made (up or down) to take account of the real staffing situation in the various budget chapters (which in practice is influenced by the average length of service of the staff members and the pace of career advancement specific to the *corps* and grades under consideration).
- *Appropriations for Bonuses and Allowances*: these are granted in the form of global appropriations established on the basis of real staff numbers and average rates of bonuses and allowances resulting from decrees applicable to the *corps* and grades under consideration.
- *Appropriations for Temporary Staff*: in addition to the permanent posts ministries also have at their disposal the possibility of resorting to short-term assignments in order to cope with seasonal or temporary activities. The remuneration appropriations corresponding to these short-term contracts are budgeted globally.
- *Social Charges*: these are entered in the corresponding budget chapters of the different ministries.

### **3.2 *Public Bodies or Government Agencies Answerable to the Various Ministries Are Legal Entities and Are Financially Autonomous***

Each of these legal entities therefore has its own budget, consisting of its own resources (from tariffs and fees), backed, where necessary, by a state subsidy. Such budgets are adopted by the agency's board of directors rather than by Parliament. However, the Ministry of Finance has supervisory powers, in particular to ensure that maximum staffing levels are respected.

## **4. Preparation of the Budget**

### **4.1 *The Formal Procedure***

In the spring of each year, the ministries present to the Ministry of Finance their budget proposals for the following year. These requests are examined in the framework of budgetary meetings organised under the responsibility of the Ministry of Finance and are submitted, in the event of disagreement, to the arbitration of the Prime Minister during the summer.

Once approved by the Council of Ministers in mid-September, the general budget is presented for Parliamentary debate during the last quarter. In this framework each minister is called upon to defend the budget proposal of his/her ministry. As soon as the budget has been adopted by Parliament, it becomes legally binding on 1 January, and appropriations are put at the disposal of the various ministries by decrees signed the same day by the Prime Minister and the Minister of Finance.

### **4.2 *Actual Conditions Affecting the Attribution of Personnel Resources***

The procedure described above results from a series of decisions taken during or prior to budgetary meetings which determine the attributions made to each ministry.

*Organisational reforms* are submitted for approval to the Ministry of Civil Service which has interministerial competence with regard to the organisation and modernisation of the administration.

*Reform of staff statutes*, and in particular measures affecting the career development of the civil service *corps* and grades, are decided following interministerial discussions between the concerned line ministry, the Ministry of Finance and the Ministry of Civil Service.

*Creations and suppressions of posts and staff restructuring* between different grades (in the framework of guidelines defined by specific statutes of the *corps*) are subject to negotiations between the line ministry and the Budget Ministry, with each attempting to justify and quantify its position by referring to the evolution of missions, organisation and productivity of the services.

A certain number of ministries are involved in multi-year programmes of staff reductions, set up in co-ordination with the Ministry of Finance and accompanied by incentive measures (granting of bonuses and supplementary operating resources).

## **5. Implementation of the Budget**

### ***5.1 The Implementation of Resources (funds and posts) Comes under the Responsibility of Each Line Ministry (or of each public body) in Accordance with the Budget Appropriations and with the Statutory Rules Governing the Management of Staff***

The discretionary power of the line ministries is exercised in particular with regard to the determination of advancements and individual bonuses within the framework of limitations defined by the annual budget and quotas fixed by the statutes.

The commitment of corresponding funds is nevertheless submitted for prior approval to the financial controller, who is a member of the staff of the Ministry of Finance placed within each ministry and responsible for ensuring the availability of funds and the correctness of the expenditure.

### ***5.2 Various Procedures Allow Ministries to Adjust, During the Year, their Detailed Allocations to Respond to the Evolution of their Needs***

These procedures (decrees for the transformation of posts, orders for transfer of posts and appropriations, decrees for transfer of funds) are submitted to strict constitutional rules aimed at preventing any misuse or overrun of the budget adopted by Parliament. They are under the direct responsibility of the Ministry of Finance, which in this capacity determines whether the arguments provided by the requesting ministry are justified.

### ***5.3 The Ministry of Finance Retains at All Times Control Over the Implementation of the Budget***

It may, in fact, within the framework of the government's economic policy and the economic situation, submit ministerial funds to regulations aimed at reducing the pace of commitment of expenditure. In the area of personnel, these regulations concern mainly vacant posts and may, in certain cases, result in a pure and simple blocking of recruitment.

The Ministry of Finance, as well as line ministries, cannot put into effect economic measures which would result in blocking the rights to advancement guaranteed to civil servants by statutes.

**CONTROLLING PERSONNEL COSTS IN PORTUGAL**  
*BY ORLANDO CALIÇO<sup>10</sup>*

**1. Background**

In 1995, Portuguese government expenditure for personnel costs accounted for one-third of total public expenditure (excluding interest payments on government debt). Given the government's budgetary reduction objectives, the control of personnel expenditure is of utmost importance to Portugal's overall plan for reform in public expenditures.

As in other OECD Member countries, the increase in personnel expenditure in Portugal over the past thirty years has primarily been due to the expansion of the welfare state, particularly in social, health and education programmes. In addition, following the independence of the former Portuguese colonies in Africa, a large number of public employees returned to Portugal and were admitted into the public administration. This influx of employees led to a general freeze in recruitment that continues today, and to overstaffing in some government offices.

**2. Centralised System**

In Portugal, public administration has remained heavily centralised, and its personnel costs reveal this fact. In 1995, the personnel costs of central government (which in Portugal includes the education and health sectors) and those of the social security administration reached 87.1 per cent of overall government personnel expenditure.

In fact, more than 42 per cent of total personnel expenditure in central government is accounted for by the National Health Service (NHS) (14.2 per cent) and the education sector (27.8 per cent) — areas in which demand for services has increased significantly and where the wage bill represents a significant part of overall expenditure. As an example, in the ministry of education alone, the personnel budget in 1995 represented more than three-quarters of its total budget.

As is the case for many countries aiming to reduce government deficits and efficiently use public resources, it will not be possible to decrease the general government wage bill unless significant changes are brought about in the administration of the state.

Currently, the main instruments of personnel expenditure control in Portugal are binding ceilings for the number of staff in each department and at the directorate general level, and general uniformity in the conditions of payment and organisation of public bodies in all general government sectors.

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10. Orlando Caliço is Deputy Director of Banco de Portugal.

### 3. Preparation of the State Personnel Budget

#### 3.1 Time Frame

In general, the time frame and procedures followed for the preparation of the state budget in year  $t$ , are those listed below carried out in the preceding year ( $t$  minus 1):

<b>May and June</b>	Preparation of the macroeconomic scenario.
<b>June through September</b>	Drafting of the budget report.
<b>July</b>	Approval of expenditure ceilings for each ministry by the council of ministers. Issue of specific rules by the directorate general for public accounting (a department of the secretary of state for the budget) which is responsible for the control of budget preparation and execution, and the definition of the conditions to be observed by each government department in the drawing up of its own budget.
<b>July through August</b>	Preparation of the draft budgets by the individual sectors.
<b>August</b>	Analysis by the directorate general for public accounting of the draft budgets presented by the sector services in order to verify if they comply with directives.
<b>15 October</b>	Submission of the budget proposal by the government to the parliament.

#### 3.2 Principal Guidelines

In recent years, the principal guidelines for the preparation of the estimated personnel budget have been the following:

- i) The total budget for wages and salaries in year  $t$  is estimated by taking into account the wages and salaries allotted in each category in the preceding year ( $t$  minus 1) and the number of employees by category on the payroll at the end of July in year ( $t$  minus 1). In addition, departments are required to send to the finance ministry a projection of the personnel situation for 31 December in year  $t$ .
- ii) The total amount needed to pay the salary and wage increase for year  $t$  is included as a provisional item in the budget of the finance ministry and is allocated over the course of the year, according to the effective needs.
- iii) The salary and wage treatment above applies to all groups of personnel. There are some distinctions that apply in the execution stage, but not in the budgeting one.
- iv) In addition to staff members who have civil servant status, all the other department employees must be included in the budget, though in a separate form.

The guidelines for the preparation of the state budget are also applicable to the autonomous services and funds. For example, the NHS personnel budget may be presented to the finance ministry as part of its entire budget proposal. If the finance ministry asks for clarification of the budget proposal, the NHS administration, which is responsible for the budget consolidation of all NHS entities, must be able to explain all budget line items.



## **4. Treatment of Personnel Costs in the State Budget**

### **4.1 *Types of Expenditure***

The treatment of personnel expenditures in the budget is strictly related to the different legal status of each kind of expenditure.

While the control of total expenditure on wages and salary increases based on seniority depends largely on the approved annual rate of increase, some discretionary measures are available for other expenditure increases, such as overtime and internal promotions. For example, the government can, and sometimes does, decide that the annual increase in overtime shall be zero, thus imposing a reduction in real terms. Internal promotions by definition depend both on a minimum time period at one grade level and on the availability of a job vacancy — thus, there is a certain inherent control mechanism in the very nature of promotions.

### **4.2 *Pensions***

Pensions are another significant element in the personnel budget. In 1995, pensions represented about 3.3 per cent of GDP, and the state transfer to the autonomous body in charge of pension payments accounted for 11.7 per cent of total personnel expenditure. In 1986, the corresponding figures were nearly half that at 1.5 per cent and 7.6 per cent, respectively.

As with the Portuguese budget as a whole, public employees pensions are organised on a cash basis. In the preparation of public accounts using the national accounting methodology, however, some elements of accrual accounting, namely “contributions due”, are included.

Public employees pensions are administered by an autonomous entity and held by a public bank, but nevertheless dependent on the finance ministry. Administrators of this autonomous fund are not permitted to borrow against its assets, except on a very short-term basis to face immediate pension liquidity problems; and, legally, the state budget must furnish the difference between employees contributions and pensions paid out.

Pension expenditure depends largely on three variables: i) the net increase in the number of pensioners; ii) the annual rate of increase in the pensions; and iii) the growth of the average pension.

In order to control total pension-related expenditure, the budget proposal must include sufficient detail on the points. This information is important, for example, in case measures are taken to reduce early retirements, or to adjust the rate of increase of lower pensions (which usually are increased at a higher rate).

## **5. Responsibility for Staffing and Staffing Levels**

The composition of the government, in terms of the number of ministries, is fixed by a “decree-law,” which usually is endorsed after the approval of the government’s programme by the parliament. Each ministry has a number of departments or agencies under its supervision. The tasks that each department or agency carries out are determined in its descriptive “decree-law”. Thus, the scope of each ministry’s activity depends on the functions attributed to its departments and agencies.

### **5.1 Evaluation of Staffing Proposals**

If a department projects increasing or upgrading its staff, it must first draw up a proposal explaining the reasons for the proposed change. Next, the department in charge of the “organisation area,” which is usually a department of the general secretary inside each ministry, evaluates the proposal. After incorporating any recommendations, the proposal is finally sent to the line minister for initial approval.

Following the line minister’s agreement, the proposal is sent both to the finance ministry and to the presidency of the council of ministers, where it is subject to a two-fold evaluation from the budgetary perspective, as well as from the organisational and personnel perspectives.

A thorough evaluation of the proposal focuses on the following points:

- i) possible duplication of functions;
- ii) adequacy of the number and professional qualifications of potential recruits or internal promotions to carry out the envisaged tasks;
- iii) comparison with the structure of other units carrying out similar functions; and
- iv) availability of funds in the department budget for payment through the end of the year and projected impact of proposal on the budgets of coming years.

If the proposal involves hiring new staff outside the public sector, the proposal must be made before the first stage of the budget preparation. This is in order that the proposal may be authorised by the finance minister in the document that fixes the total number of new civil servants to be hired from the labour market each year.

### **5.2 Personnel Reductions**

Personnel reductions may occur when technological changes are introduced or simply when some tasks are abolished. If an entire agency or department is abolished, its staff is made redundant. In the first situation, the decision to reduce staff is the responsibility of the line ministry. In the second case, when an agency is closed, a “decree-law” is required, demanding the intervention of the council of ministers and the formal agreement of the finance minister and the line minister.

In practice, line ministries are accountable to the finance ministry. Without the agreement of the finance minister, they are not able to hire new employees nor change their departments’ staffing levels. In theory, line ministers may propose a “decree-law”, but, according to the procedure explained above, if the finance minister does not agree with it, the “decree-law” cannot be adopted. All “decree-laws” that imply additional public expenditure must be signed by the finance minister.

## **6. Discretionary Powers of Line Ministers for Personnel Cost Decisions**

As described above, every department is created by a “decree-law”. This also applies to changes in the organisation, which require the finance minister’s approval, thus limiting line ministries’ discretionary powers.

As a general rule, the recruitment of new staff for the public administration is frozen. Each year, however, the finance minister approves a list of categories that are unfrozen and their distribution per ministry. Every hiring decision proposed under these circumstances is only possible after confirmation by the

directorates general for public administration that the position cannot indeed be filled by internal transfer of a current employee through staff mobility procedures.

The procedure followed for hiring professors and teaching assistants at the universities is different than that for other sectors. Universities are allowed to hire new professors and teaching assistants according to parameters taking into account: the number of students, the nature of the course, and the ratio between the wage and salary budget for professors/teaching assistants and the total budget. Even if the parameters defined by the ministry of education are satisfied, the hiring of new teachers is only possible if: i) the budget for personnel is adequate; and ii) it is not possible to fill vacancies using public administration mobility instruments.

The law clearly states that people hired for specific projects (eg a special road repair programme) may only be hired for a predetermined period and that these contracts cannot be renewed, whether or not for a similar project. For such special projects, the finance minister approves the total number of people to be hired.

## **7. Monitoring Function of Directorates and the Finance Ministry**

Within the structure of the Portuguese public administration, two directorates have a key role in the control of personnel public expenditure: the directorate general for public accounting, which handles financial control, and the directorate general for public administration, which oversees the definition of the organisational structures of government services (including career paths, grade steps, and the number of civil servants).

The activity of these two directorates is very much interrelated. For example, the directorate general for public administration is in charge of organisational structure, working conditions, and, in general, civil service laws. However, the approval of any measure with financial impact — and most of them do have this — needs the opinion of the directorate general for public accounting.

Over the last ten years, these two directorates have been part of the finance ministry, making their joint work smoother. More recently, however, a secretary of state for public administration has been created in the presidency of the council of ministers. The directorate general for public administration is now located in this new department.

Previous experience with a similar administrative structure showed that financial control over personnel expenditure became more difficult. On the other hand, when the finance ministry solely controlled the most important decisions related to administrative organisation, it was often criticised by the line ministries for hampering innovation.

### **7.1 Management Indicators**

Within a perspective of analysing efficiency and effectiveness, the drafting of the state budget focuses on budgeting by activities. The analysis calls for the setting up of management indicators, namely:

<b>Input</b>	financial, staff, equipment
<b>Output</b>	some measure of production in the period
<b>Outcome</b>	effects or consequences of the execution of the activity

These instruments enable information to be obtained as to the best combination of available resources vis-à-vis targeted objectives, and, subsequently, their comparison with the results achieved.

With this information about each activity, the finance ministry divisions charged with expenditure analysis are able to make comprehensive reports for each proposal, identifying activities that may be reduced or eliminated in order to free up additional resources for other activities.

Experience with this analytical procedure, however, has shown that significant results have not yet been achieved. Among the reasons for this are insufficient technical development of the method (specifically, the lack of a strong link among outcome/output/input for each activity), and, more importantly, an unclear definition of quantitative objectives for government services.

In addition, some tasks attributed to government bodies derive from political commitments. Thus, implementation of these activities will be more or less independent of the analysis developed at the finance ministry.

### **7.2      *Staff Ceilings as a Control Measure***

As part of the budgetary exercise, the finance minister approves ceilings for newly recruited staff. These numbers allow the line ministries to request funds in the budget and make it possible to recruit new staff. This process also is under the control of the court of auditors. Indeed, to be certain that the rules for admission of new civil servants are respected, a previous visa by the court of auditors is needed in addition to the approval of the directors of each department.

To control the personnel budget at the secondary level of education, the ministers of finance and education must jointly authorise the opening of new schools.

### **7.3      *Transfer of Funds***

The flexibility that exists in the execution of the budget, which allows each ministry to transfer funds between different items, reinforcing those where the actual expenditure is higher or using funds for other activities, is not permissible where expenditures budgeted for wages are concerned. In this case, if some excess funds for wages exist, they cannot be used without previous authorisation from the finance minister.

### **7.4      *Control of Agency Expenditures***

The control of agency expenditures is two-fold:

- i) the control of personnel expenditure based organisational limitations, such as staff ceilings in different categories; and
- ii) the control of net contribution by the state budget through the definition by the line minister and the minister for finance.

The most important items of public expenditure are subject to centralised control. The council of ministers through “decree-law” or the finance ministry define the following:

- i) basic wage for each category of public administration personnel, including those in agencies (controlled by the council of ministers);
- ii) salary or wage supplements, eg promotions, allowances, or bonuses;
- ii) evaluation and authorisation of new buildings to be bought or rented (finance ministry or council of ministers, depending on the amount); and
- iv) evaluation of new computer systems, above a certain amount (finance ministry).

After approval by its own management and by the line minister, agencies expenditure budgets are also subject to the approval of the finance minister. To control agency costs (primarily current expenditures), the Finance Ministry requests, in addition to the budget proposal for the year  $t$ , the following items:

- i) balance sheet of year ( $t$  minus 2);
- ii) profit and loss accounts of year ( $t$  minus 2);
- iii) annual programme of activities;
- iv) projected balance sheet for year  $t$ ; and
- v) projected profit and loss accounts of year  $t$ .

This centralised process is an important instrument of macroeconomic policy, contributing to coherent fiscal and income policy.

Pay settlements in public administration are crucial for the implementation of an income policy. This fact, coupled with the urgent need for fiscal consolidation, has dramatically reduced government’s room for manoeuvre.

### **7.5 Information for the Management of Personnel**

In the framework of the budgetary process, the finance ministry requests from all departments the following personnel management information: personnel by grade, number of employees, civil servant or other status, level of education, age, and seniority.

It is also considered that due to the difficulties of measuring efficiency in some public activities, the best way to obtain efficiency improvements is sometimes to reduce staff inputs.

## **8. Final Remarks**

In Portugal, the method for controlling public expenditure is through fixing total ceilings for each line ministry in addition to specific ceilings for staff numbers. This process allows the finance minister, based on the policies pursued by the line minister, to impose stringent limits on further current expenditure.

Inside each ministry, the division of the budget among several organisational units is the responsibility of the minister, with due respect to the guidelines fixed by the finance minister. These guidelines, as mentioned above, require that the budget cover the total wage bill, forcing any cuts needed to be applied to other current expenditure items.

### **8.1      *Annual Increase in Government Wage Bill***

The primary concern of the finance minister is the annual increase in basic wages and other supplements, taking into account the automatic increase in the wage bill due to seniority increments and promotions. After the approval of certain supplements for particular categories of public employees, the finance minister can only control the annual increase in basic value. Promotions are controlled by the pyramidal structure imposed for each category and by the imposition of minimum periods of time in each category. Hence, the importance of pay structure revisions and annual wage negotiations for the work of the finance ministry.

In Portugal, the main factors for wage determination in the administrative public sector have been the fiscal situation and a reference for global wage negotiation in the framework of a coherent incomes policy.

### **8.2      *Public Employees Social Security System***

Portuguese public employees have their own social security system. In this system, an employee's standard contribution is 10 per cent of salary, plus one per cent specifically attributed to health insurance coverage. Thus, public employees' contribution for their social security system is 11 per cent of wages and salaries — the same percentage applicable in the general security system for private sector workers.

Private employers pay only 23.75 per cent of the nation's overall wage bill, so in Portugal, the State really makes the difference when it comes to pensions.

**CONTROLLING PERSONNEL COSTS IN CENTRAL GOVERNMENT  
IN THE UNITED KINGDOM  
BY R. F. ELLIOTT<sup>11</sup>**

**1. Introduction**

In the early 1980s, personnel costs in the United Kingdom's civil service were controlled by a combination of manpower ceilings and restrictions on size of pay settlements. These proved less effective than intended, and the emphasis has therefore changed to direct controls on the running costs of departments and agencies. Most recently this change has been accompanied by the assumption of delegated responsibility for pay and grading by organisations within the civil service.

In theory, subject to the overall control of their running costs by HM Treasury, departments and agencies are now free to determine the size of their expenditures on personnel. But the system is still in its infancy and ministers are sensitive to the size of pay settlements awarded to public servants. Thus, a variety of supporting mechanisms to monitor and control pay bill growth exist. Departments and agencies are required to consult HM Treasury on their opening pay offer at the time of their annual pay negotiations. They must seek HM Treasury agreement that any proposed restructuring of the reward system, such as a regrading exercise, will improve value for money from pay bill. However, the most intense scrutiny of both recent and forecast pay bill growth is at the time of the annual expenditure survey (prior to the November budget), when the spending teams examine the expenditure plans of departments.

**2. The Structure of Public Sector Employment**

In mid-1994, 5 290 000 staff were employed in the British public sector, and accounted for 21 per cent of the country's total workforce in employment. Local authorities were the biggest employers with over one million in education, a further 400 000 in social services, 200 000 in the police and almost 800 000 in administration.

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11. R.F. Elliott is Professor of Economics in the University of Aberdeen's Department of Economics, Aberdeen, Scotland, United Kingdom. The author extends his gratitude to several members of HM Treasury who commented on an earlier draft of this chapter, and to Miss A. Shipley for typing the paper.

**Table 1. Employment by Sector : 1994**

(mid year estimates) (000's)

HM Forces	250
Central government civilians	965
Local authorities	2 642
Public corporations	1 433
Private sector	19 812
<b>Total Workforce in Employment</b>	<b>25 102</b>

**Note:** this table excludes those in work-related government training programmes  
Source: *United Kingdom National Accounts 1995* (Table 17.1).

Over two-thirds of employment in public corporations is now accounted for by the National Health Service with the balance largely accounted for by the Post Office, the British Railway Board and the BBC.

In 1994 a small part of central government employment was still accounted for by the NHS but the majority, 540 000, comprised the civil service. By April 1995, this number had reduced by 4.3 per cent to 517 000. It is the civil service on which this paper focuses.

### **3. The Organisational Structure of the United Kingdom Civil Service**

A 1987 report — *Improving Management in Government: The Next Steps* — recommended the establishment of executive agencies to carry out the executive functions of government within a policy and resources framework set by a department. It recommended the creation of discrete management units as a means to improving management, recognising that changes in management could be more readily achieved within clearly identified discrete units, headed by a manager with clear responsibilities and lines of reporting. A distinction was to be made between core activities, undertaken by the policy making departments, and the execution of these policies by agencies. The “Next Steps Initiative” and the creation of “Next Steps Agencies” and “Organisations on Next Steps Lines” was the result.

A key feature of Next Step Agencies and organisations along the same lines is that management responsibility has been delegated to the chief executives of agencies. This has enabled management to design organisational structures and organisational processes which match the tasks set for their agencies. The distinction between core activities, policy making, and the execution of policy has produced a clearer focus on outputs and outcomes, and on how best these can be achieved, in organisations with delegated responsibility.

The organisational structure may be illustrated by the example of Social Security. Six separate agencies report to the policy-making Department for Social Security.



**Diagram 1. Agencies Reporting to the Department for Social Security**

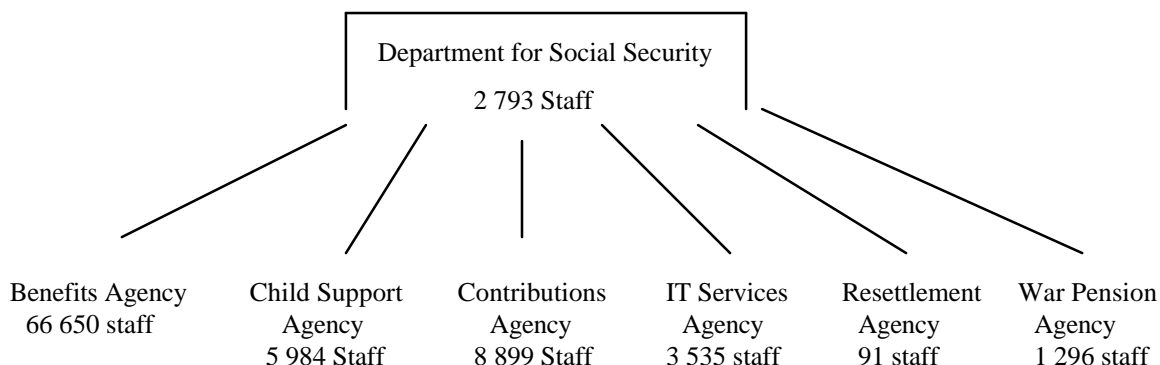


Diagram 1 shows that the majority of staff working in social services in central government are employed in agencies. This is also true in other areas. Table 2 reports the number of staff in the policy-making government departments while Table 3 reports the number in the biggest agencies and organisations on Next Steps lines. With the exception of the ministry of defence, the largest agencies dwarf departments in terms of the number of staff they employ.

By April 1995, 345 342 civil servants, 67 per cent of the total, were employed in agencies or in Customs and Excise and the Inland Revenue which are organisations run along Next Steps lines.

Starting in April 1996, the principles of Next Step Agencies are to be extended to all remaining government departments. The essential principles on which agencies and departments will be constructed may be summed up as delegated budgeting and delegated responsibility.

**Table 2. Number of Staff in Government Departments at 1 April 1995**

<b>Government Department</b>	<b>Total Staff in Post</b>
Ministry of Agriculture, Fisheries and Food	6 403
Cabinet Office (excluding Office of Public Service and Science — OPSS)	640
OPSS	890
Treasury	1 127
Ministry of Defence	83 736
Department for Education) Now amalgamated Employment Department)	1 635
Department of the Environment	4 513
Foreign and Commonwealth Office	5 948
Department of Health	3 437
Home Office	9 566
Lord Chancellors	1 222
National Heritage	369
Northern Ireland Office	210
Scottish Office	4 268
Department of Social Security	2 793
Department of Trade and Industry	5 144
Department of Transport (DTP)	2 300
Welsh Office	1 997

**Notes:**

1. Excluding staff in associated agencies
2. Full-time equivalents

**Table 3. Number of Staff in the Largest Agencies at 1 April 1995**

<b>Executive Agency*</b>	<b>Total Staff in Post</b>
Customs and Excise	24 132
Inland Revenue	54 562
Defence Evaluation and Research Agency	11 248
Employment Service Agency	39 852
HM Prisons Service	38 936
Court Service	9 845
HM Land Registry	8 508
Benefits Agency	66 650
Child Support Agency	5 984
Contributions Agency	8 899

\* Or agency along Next Step lines.

#### **4. Specifying Service Provision**

Clear standards of service and performance targets are established for each agency. These targets incorporate the following:

- targets that ministers have set for the agency. These take the form of a set of key performance indicators agreed between the ministers and the chief executive of the agency;
- where users buy the service, the agency can be established as a trading fund (there are twelve of these) and then set targets for financial performance, including a rate of return on capital similar to those observed in the private sector;
- quality of service standards which embody a clear statement about:
  - the standards users of the service are entitled to expect;
  - swift and effective remedies, and, if appropriate, compensation if things go wrong;
  - reporting results;
  - treating the public with courtesy and helpfulness;
  - offering value for money;
- the efficiency with which the service is provided; and
- the financial performance of the agency.

## 5. Efficiency

Sustained pressure for improvements in efficiency is exerted through a number of mechanisms:

- Public spending plans published at the time of the November budget are constructed on the basis that increases in pay and prices will be offset by efficiency improvements. These are cash limits which are not intended to be changed and would require parliamentary approval if they were.
- Departments are required to prepare three-year management plans which deliver cumulative efficiency gains. Initially, these savings were specified as equal to 1.5 per cent of running costs with agencies expected to show larger cumulative gains, but this specific target has now been dropped, in favour of a more general approach.
- The promotion of competition in the provision of inputs to departments and agencies by means of privatisation, contracting out and market testing.

Departments and agencies are also encouraged to make use of a range of management techniques in order to improve efficiency, among which are:

- *Priority-based cost management*: identifying the costs of each of the activities essential to achieving the organisation's objectives and assigning a priority to each activity which reflects customers requirements.
- *Benchmarking*: comparing performance between different organisations and within separate units within an organisation to identify best practice.
- *Process re-engineering*: ignoring existing organisational and functional boundaries to fundamentally re-think the best method of delivery of the final service or output.
- The review and redesign of *pay and grading* systems.

## 6. Cost Control

Agencies operate within a financial framework in which running costs are tightly controlled. Running cost controls are designed to promote economic and efficient administration by containing gross costs which exerts downward pressure on the size of the civil service.

Separate manpower ceilings were discontinued in April 1988. Until 1985, control was exercised by manpower ceilings and by restricting the size of basic pay settlements, but this failed to control pay bill growth because incremental and grade drift resulted in a faster rate of growth of average earnings settlements. Accordingly, staff numbers are no longer the primary focus of attention. Controlling numbers will not anyway be an effective way of reducing costs if it results in the use of more expensive substitutes.

Until 1996, running cost controls have been underpinned by separate controls on pay bill growth for those agencies operating delegated pay. These took the form of either unit cost controls or a simple cap on the pay bill. However, once again such controls were found to be inefficient because where departments or agencies produce a measurable output then unit costs can be computed, but where output cannot be measured it will always be open to departments to respond to any constraint on the size of their pay bill by producing less or by slowing the rate of growth of their output.

Again, simply capping the pay bill leaves open the opportunity for departments and agencies to circumvent such controls by contracting out some of their activities. For these reasons, control of

single-line running costs have come to be viewed as the most appropriate method for improving efficiency.

A regime of running cost controls will only be possible where there are developed management information systems and an appropriate method of resource accounting. Management information systems must provide these agencies and departments with delegated budgeting and management responsibility with accurate, timely and comprehensive information to enable them effectively and efficiently to allocate resources to different parts of the organisation. Government departments are therefore introducing resource accounting systems, based on commercial accounting principles. These are already in place in Next Step Agencies.

## **7. Running Costs**

Control of running costs is the method by which administration and pay bill costs have been contained in the United Kingdom since 1985. Prior to 1985, control was exercised through controls on manpower numbers and pay and the scrutiny of running costs was backward looking. From the 1986 financial year onwards, a single annual gross running cost limit has been introduced for each department. Running cost controls apply to both government departments and some agencies. Those agencies not directly subject to running cost controls are included in the appropriate department's running cost limit and the department then engages in a similar procedure to allocate expenditure totals between its agencies.

Running costs may be broadly defined as the costs of running a department or agency. The main elements are:

- pay, typically around 60 per cent of the total;
- travel and subsistence and training expenditure;
- current expenditure on accommodation, including rent and maintenance, typically around 15 per cent of the total;
- office services, including stationery, postage, telecommunications, reproduction, computer maintenance, etc.; and
- contracted out services, comparable to any of the above.

Running costs exclude capital expenditure and receipts.

Where departments or agencies undertake self-financing activities that make a significant contribution to income, these organisations may be subject to net control; that is to control of any part of the expenditure not covered by receipts. Overall control is then exercised through unit cost targets agreed in the annual expenditure survey.

The scrutiny of running costs and the fixing of new limits is carried out in an annual survey conducted by the expenditure divisions of HM Treasury. They employ disaggregated running cost data taken from the Treasury database in their annual negotiations with each spending department. This data shows, with reference to the previously agreed totals:

- outturn for the previous two years;
- forecast outturn for the latest year;

- current year's financial provision; and
- an agreed, baseline, provision for the forward three years.

Departments also submit notes of their forecast requirements for the next three years.

The annual survey is a critical element of the overall control process as the outcome of the survey is an agreed level of expenditure for the next three years. Scrutiny of the manpower and pay assumptions underpinning the totals are a critical part of this process.

The pay bill typically accounts for almost two-thirds of running costs. Prior to delegation, departments were also required to identify the number of man-years required in addition to providing details of staff in post and manpower plans. This later total included both casual employees and overtime and therefore provided an indication of the quantity of labour input that each department required. After delegation, the checks on pay bill growth take a different form. Up to 1995, they included either a cap on the pay bill or a ceiling on unit costs, but for the reasons described above this has now been discontinued. Now the controls operate at the time when the department or agency present their business plan. Where this includes proposals to restructure pay, that is to introduce new pay and grading systems, these must be shown to improve value for money from the pay bill. In addition, departments and agencies must still seek the approval of Treasury for their negotiating remit.

Any breach of running costs by the year end is treated as a serious matter. The running cost limit for the year following the breach is normally reduced by the amount of the overspend and a report to the appropriate departmental minister will identify the way in which forecasting, monitoring and control procedures are to be improved. Within-year totals can be increased where there are unforeseen changes in workload or demand for services, and although these are generally expected to be met by carryovers from previous years, an addition to the total — a supplementary estimate — may be voted by the Parliament.

## **8. Delegated Pay and Grading**

Until the early 1990s, pay and grading systems in the United Kingdom Civil Service were highly centralised. The vast majority of staff were in grades which were common across the service and centralised pay systems, with settlements negotiated nationally, covered grades of staff in all departments. The government took the view that these centralised arrangements were no longer best suited to the variety of different tasks undertaken and services delivered by the civil service. Accordingly, the government embarked on a programme of delegating responsibility for pay and grading in line with the delegation of managerial responsibilities under the Next Steps Initiative.

By April 1995, 300 000 of the 345 000 staff in agencies and organisations along Next Steps lines had responsibility for conducting their own pay negotiations, while fifteen of these reported in Table 4 below covering over 130 000 staff had introduced new pay and grading arrangements by March 1995.

**Table 4. Agencies Which Had Introduced New Pay and Grading Arrangements by March 1995**

Agency	No. of Employees
Inland Revenue	54 562
Employment Service	39 852
Customs and Excise	24 132
HMSO (Postal Service)	2 913
ADAS	1 851
Royal Mint	972
HM Land Registry	8 508
Meteorological Office	2 194
Information Technology Services Agency	3 535
Ordnance Survey	1 989
Health and Safety Executive	4 233
Driver and Vehicle Licensing Agency	3 779
QEII Conference Centre	60
Forensic Science Service	665
Scottish Prison Service	4 233

## 9. Controlling Pay Bill Growth

The pay bill will increase where either the number of staff increases without offsetting decreases in average salaries, or where average salaries increase without decreasing the number of staff. In the United Kingdom Civil Service, steps have been taken to control staff numbers and to control the growth of average salaries. The sources of growth in average salaries are:

- *pay settlements*: across the board increases which in whole or part compensate for inflation;
- *incremental drift*: salary increases resulting from the movement of staff up pay scales;
- *grade drift*: an increasing share of staff employed in the higher paid grades;
- *special allowances and bonuses*: additions to pay designed to meet specific recruitment or specialist needs which may be generalised to all staff;
- *restructuring*: where new grading arrangements are introduced these are likely to result in at least a one-off increase in average salaries as employees are moved across, assimilated into, the new structure.

The mechanisms which will be in place in the United Kingdom after full delegation in April 1996, and which are designed to contain pay growth arising from each of the above will be as follows:

- *pay settlements* prior notification of opening offer to HM Treasury, and award of any agreed increase only to satisfactory performers;
- *incremental drift* pay bands within longer pay spines have replaced incremental scales, and access to spine points has been made conditional on above average performance;
- *grade drift* introduction of new flatter grading structures, and pay bill modelling to ensure costs contained;
- *allowances* replacement of all allowances by a single recruitment and retention allowance; and
- *restructuring* pay bill modelling is designed to compare the costs of new and existing structures.

These must, however, be seen within the context of a regime in which for the last three years running cost totals have not been increased to meet either pay or price increases. Pay and price increases have had to be offset by efficiency improvements and thus increases in wages and employment have had to be met by a reduction in employment.

In more detail each of these involves the following:

### **9.1 Pay Settlements**

The pay settlements of British civil servants used to be linked to pay settlements in the private sector of the United Kingdom economy. An annual survey identified the distribution of private sector non-manual pay settlements. HM Treasury and the civil service unions then negotiated a settlement for civil servants that fell within the inter-quartile range of the private sector settlements. Upon the assumption of delegated responsibility for pay and grading, departments and agencies are permitted to make their own arrangements. Some have continued to use the survey data as the basis for negotiation, but they are no longer constrained to arrive at a settlement in the inter-quartile range. Most have also adopted the procedure embodied in the last of the central pay agreements negotiated by HM Treasury, which made the receipt of the annual settlement conditional on satisfactory performance, thus removing the entitlement to an annual salary adjustment. In addition, HM Treasury requires notification of the proposed opening offer, the negotiating remit, by agencies and departments at the outset of negotiations, and it is to be anticipated that if this is regarded as excessive some downward adjustment will be required.

### **9.2 Incremental Drift**

Service or age-related incremental scales are steadily being replaced by a single pay spine covering all staff, with staff in any single grade gaining access to a limited number of points within that spine — a pay-band. Access to these points is on performance as judged in an annual appraisal interview. Only staff delivering above average or outstanding performance will receive any salary increase from this course.

An alternative scheme that has been adopted by some departments and agencies, is an equity share scheme. Under this scheme, a sum of money is set aside to reward above average performers, and this is then divided among those judged eligible to receive a share as a result of their annual performance appraisal.

### **9.3 Grade Drift and Restructuring**

As agencies and departments assume delegated responsibility for pay and grading, many of them are either proposing to or are in the process of introducing new grading structures. The new structures are often much flatter, i.e. have fewer grades, than those they replaced. Organisations will encounter assimilation



costs as staff are moved across from the old to the new structure. And in order to obtain approval for the new pay structure, agencies and departments must, working within the structure of an approved pay bill model, model pay bill growth under the new arrangements. They must show that growth does not exceed the growth forecast under previous arrangements, or within any narrower constraints that may have been established.

#### **9.4**      *Allowances and Bonuses*

Allowances ranging from London weighting (a special payment for those working in London) to typing allowances have been replaced by a single recruitment and retention allowance. This is payable anywhere in the country and can be withdrawn if conditions change. Delegated authorities determine the award of this allowance.

### **10.      Conclusions**

Personnel costs in the United Kingdom Civil Service are contained by the system of running costs which caps departments' and agencies' expenditures. In the two years up to October 1995, running cost totals have been set on the basis that both pay and price increases had to be offset or more than offset by efficiency gains; there has been no adjustment to the total to meet these contingencies. This restraint is to be continued for at least a further year. Accompanying this, the flexibility with which agencies and departments can deploy their resources within the running cost total has been increased by the assumption of delegated authority for pay and grading.

However, these same flexibilities permit departments and agencies to set their own pay levels and it may transpire that some will choose a high wage strategy. The full consequences of these new flexibilities have yet to be revealed, but containing public sector personnel costs in the United Kingdom depends critically on the level at which running costs are set.