

# ***Reforming the Salary System in the Romanian Public Administration – Analysis and Comments***

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**Abstract:** *Romania`s integration process to the European structures after its` adhesion to the EU in 2007 requires a redefinition of the public sector salary system in the near future, so that public servants become more motivated and public money be used more efficiently. Creating and implementing a new salary system has been a high priority for decision-makers ever since 2004. Thus, the Strategy for public administration reform, adopted in 2004, set as an important task „Creating and implementing an unitary salary system for public servants”.*

*Our study is aimed at providing a critical analysis of the measures undertaken to develop and implement such a salary system, in order to formulate a set of proposals. The paper uses several scenarios regarding the average wage evolution in the public administration in the near future.*

**Keywords:** *public administration reform, salary system, scenarios regarding the evolution of public servants salary*

## **1. Principles and Rules for Defining the New Legislative Framework**

In order to elaborate a new piece of legislation reglementing the salary system, several elementary aspects must be taken into consideration: defining a strategy and a salary law for the PA staff based on variuos principles accepted by the whole system; correlation between the PA salary system legislation and a new salary system for all the public sectors` employees; reforming the civil service, by reducing bureacracy and increasing the quality of public services; correlating the new salary system law with other relevant PA processes, as the on going decentralisation process, the public policy elaboration process, the life-long learning process for public servants.

The start-up point for drawing up a new law on salarisation must be based on the critical analysis of the reforms undertaken in the field of the civil service between 2004-2008. Special focus should be placed on the critical analysis of

important documents that supported the civil service reform process lately. Thus, the following documents are very important:

- **The public administration reform Strategy.** This document explicitly sets as a goal the creation and implementation of an unitary system for public servants' salarisation. Precise steps are established in order to achieve this goal: elaborating a comparative study between different EU and EU candidate states salary systems for public servants; drawing up various options regarding the salary system and financial costs estimation; consulting the social dialogue partners; elaborating the legislative proposal for the unitary salary system; creating a methodology for job evaluation; job evaluation; implementing an unitary salary system for public servants.
- **World Bank PAL Program.**
- **Phare projects carried out in order to sustain the reform initiatives within the PA reform Strategy, civil service component.**

The basic principles for an unitary salary system and for the law on salarisation should take into consideration the following: developing a career structure for the civil service, raising personnel mobility and attracting young people; developing the competitiveness of this sector by comparison with other public sectors and with the private sector, in order to attract and maintain performant public servants in the CPA and LPA; wages should incorporate the quantification of the work and responsibility carried out and assumed by each person; respecting the transparency principle for giving the salary rights; fairness in the process of establishing the salary amount and the salary progression for public servants by offering equal salaries for equal amount of work and equal opportunities; assuring management and clarity of the salary system implementation for all the levels; unitary salary system: a general salary system should be used for the entire body of public servants e.g. state public service, territorial public service and local public service; maintaining the salary system for at least 4-7 years in order to assure PA sustainability; implementing the law on salarisation in accordance with the decentralisation principle of the current legislation; financial support for putting in practice the salary legislation on long term: the salary structure must be supported by sufficient salary expenses for the whole implementation period; developing an appropriate methodology for updating the NACS data basis containing information about the public servants salaries, in order to allow developing analysis and studies.

In order to obtain good results over time, the following aspects should be taken care of: developing a critical analysis of the current salary system, as well as an analysis of the current central and local public administration structures; elaboration and implementation of the public servants salarisation strategy by the political leaders.

The elaboration of a new salarisation strategy and legislation must also be accompanied by a new job evaluation. It is recommended that this is done before

the strategy and the law on salarisation are adopted. This approach will guarantee the sustainability of the new salary system from the recommended costs point of view. The evaluation must be objectively carried out by people outside the system. The evaluation process should also take into consideration the requirements of the decentralisation process; debating the analysis made, the strategy and the new law on salarisation with all the stakeholders involved in this process: government, professional organisations, syndicates, etc.; developing studies on the costs sustainability of the salarisation law implementation, from the state and local authorities point of view; developing several scenarios on various salary systems implementation and various CPA and LPA personnel amounts; open communication with all the entities involved in this process, as well as at the level of the whole society; giving real guarantees for human resources related to the fact that they will not be affected by drastic changes of wages for a given time and that job titulars will not be arbitrarily changed.

## **2. Results of the Study carried out by Nacs**

According to the Action Plan for the Public administration reform Strategy, the most complex study on the current PA system and comparisons with the private sector has been carried out in 2006. This study is part of the salary system reform initiative, which included: drawing up a diagnosis analysis in order to point out the weak points of the salarisation system and a comparative analysis with the private salary system and with other European countries; elaborating a salarisation strategy shared by all important stakeholders; elaborating and adopting a new civil service salarisation law, correlated with other sectors` evolution; monitoring the implementation of the law and performing regular analysis of the civil service salary system.

In order to elaborate the diagnosis analysis, the project called „*Consultancy services for a comparative study between the public and the private sector*” was carried out by Hay Group company. We will therefore present some of the most relevant aspects of this project.

**Phase (1).** Developing analysis instruments for the current salary system and for the comparison with the private sector.

**Phase (2).** Testing the instruments for collecting information for a sample of 13 public institutions. Several procedures linked to collecting data about the salarisation system, centralising and processing it using specific instruments were validated.

**Phase (3).** Using the specific instruments within 17 central and local public institutions (ministries, agencies and other subordinated authorities, as well as deconcentrated services, national and county authorities, including the cities, towns and villages from their compentence).

For the selection of these institutions several sampling criteria was used: institution type, number of employees and civil service category (civil service corresponding to the category of high public servants, civil servants with leading and civil servants with execution positions).

In order to assure representativeness a statistical sample of 38383 positions was used. These were distributed using the last criteria, according to the data in the table below.

**Distribution of the sample according to the category of civil servants**

**Table 1**

<b>Personnel category</b>	<b>High civil servants</b>	<b>Leading positions</b>	<b>Execution positions</b>
Weigh	0,08%	10,05%	89,87%

**Phase (4).** The statistical data processing was done using the Hay indicator graphic, which is based on points and combines three fundamental elements of the content, common for all job categories: know-how, problem solving and responsibility. Using the job specifications and other information collected within the selected institutions and also the profile methodology and the Hay indicator graphic, the contractor made an estimation for each level of the job title structure, for all types of institutions within the Romanian public administration.

We will present some of the conclusions reached after the analysis carried out by Hay Group:

- The current salary practice does not have a high degree of universality.
- The salary variation between certain extreme limits is a common practice.
- For the basic salary and total wage, the progression from the execution positions to the leading position is quite slow, which generates a quite horizontal salary practice line.
- The public sector salary system is very far away from the reality of the market, especially for high civil servants.

### **3. General Fram for the Developed Scenarios**

In the economics theory, the scenario method is often used for analysing and forecasting the evolution of an economic phenomenon. In order to define the scenarios we have formulated several working hypotesis, which we used for anticipating future evolutions. There are three variables used for building the scenarios: public administration average salary, PA number of employees, report between the number of PA employees and other sectors` employees and the report between the average PA salary and other sectors` average salary. Consequently, three scenarios regarding the salary evolution within the public administration sector were shaped. For each case several risks have been identified.

## **I. Scenarios hypotesis**

### **Variant 1**

- The number of PA employees annually grows with the last four years average percentage growth.
- The average PA salary will grow with the same annual average rate of the last four years.
- The forecasted values are expressed in last year`s prices.
- The calculations made are based on the average salary and number of employees working in the PA and defence sector, as indicated by the Monthly Statistical Review no. 9/2008.

### **Variant 2**

- The number of employees working in PA remains constant for the time horizon analysed, at the level of September 2008.
- The average wage in PA will increase with 50% at the beginning of the first year of the time period considered for our scenario.
- The forecasted values are expressed in the prices of year 2008.
- The calculations made are based on the average salary and number of employees working in PA and defence sector, as indicated by the Montly Statistical Review no. 9/2008.

### **Variant 3**

- The number of employees working in PA will go back to the level of year 2004, as a consequence of optimising central and local administrative structures.
- The average wage within PA will annually grow with 10%.
- The forecasted values are expressed in the prices of the year before.
- The calculations made are based on the average salary and number of employees working in PA and defence sector, as indicated by the Montly Statistical Review no. 9/2008.

## **II. Estimated variables within the scenarios**

- Average salary at the level of public administration.
- Number of PA employees.
- Report between the number of PA employees and other sectors of activity.
- Report between the PA average salary and other sectors of activity.

### **Developing the scenario in Variant 1**

In order to develop this scenario the following context is considered:

- The number of employees working in PA and defence sector in September 2008 was 214.1 thousand persons;

- The average annual growth rhythm of the number of employees in the above mentioned sector, in the last four years was 9%.
- If this rhythm is maintained in the next period of time also, then the number of employees in this sector for 2009-2012 will be:

**Estimated amount of employees in PA (thousands persons)**

**Table 2**

<b>Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Estimated amount	233.4	254.4	277.3	302.2

This situation is totally inefficient for the PA reform process from various points of view: It might produce an excessive growth of bureaucracy within CPA and LPA; Expenses with employees salaries might put too much pressure on the state budget; The increase of the number of employees would create more obstacles for the new civil servants salary legislation; The current administrative capacity of NACS and NIA does not allow neither proper organisation of the hiring and promotion process for the civil service, nor a proper support for long-life learning for public servants; The nominal wage will annually increase with the last four years average rate, which is 15%. In these conditions, the values above result for both the average nominal wage and the total salary expenses within APA. The values are expressed in euros, for an average exchange rate of 3.8 lei/euro.

**Characteristics of the APA wages for scenario I**

**Table 3**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
	1662	1911.3	2198.0	2528.0	2907.0
Average salary (euros/person)	437.4	503.0	578.4	665.2	765.0
Salary expenses thousands lei	4270010	5353169	6710039	8411155	10541395
Salary expenses thousands euros	1123687	1408729	1765800	2213462	2774051

*Source:* Calculations on the basis of the hypothesis made

Data from the above table highlight the following:

- The nominal average salary will increase with 328 Euros/person for the whole period of time;
- The total annual expenses supported by APA as nominal wages will increase with 1650364 euros in 2012, compared to 2008. The relative growth is 146.9%.

**The major risks** which might arise in this scenario are the following: Excessive increase of bureaucracy in the central and local public administration;

Pressure from the trade unions` in order to increase salaries; Rising insatisfaction of employees from this sector, as the current legislative framework does not encourage competition and generates several gaps between various categories of employees; Quality decrease of the services offered to citizens by the central and local public administration; Major difficulties in implementiong reform initiatives within PA.

**Developing the scenario in variant 2**

In this scenario, the starting point is the following context:

- The number of employees working in public administration does not decrease, unless civil servants resign or retire for age limit.
- The salaries in this sector will grow with 50% at the begining of the first year, while for the following three years no other salary increase will be granted. In these conditions, the values average nominal wage and the total salary expenses within APA are estimated in the table below. In order to express the values in euros an exchange rate of 3.8 lei/euros was used.

**Characteristics of the APA wages for scenario II**

**Table 4**

	2008	2009	2010	2011	2012
Average salary (lei-person)	1662	2493	2493	2493	2493
Average salary (euros/person)	437.4	656.1	656.1	656.1	656.1
Salary expenses thousands lei	4270010.4	6405015.6	6405015.6	6405015.6	6405015.6
Salary expenses thousands euros	1123686.9	1685530.4	1685530.4	1685530.4	1685530.4

*Data source:* Calculations on the basis of the hypotesis made

The results from the above table highlight the following:

- The average nominal wage will register an increase of 218.7 euros/person for the whole period;
- Total annual expenses supported by APA as nominal wages will reach 561843 thousand euros starting with the following year. For the whole analysed period additional cost supported by APA will reach 2247373895 thousand euros.

**The major risks** of this scenario are related to: Increased preasure on the state budget caused by the money allocated to support the salary increase; Salary claims from human resources working in the education sector. Within this scenario, if people working in the education and health sector will have much less salary

benefits, than the salary gap between PA average wages and other public sectors wages will increase; Increase of the gap between big and small PA salaries, expressed in absolute values; Maintaining an excessive bureaucracy within public administration and decrease of the quality of the services offered by the public administration.

### **Developing the scenario in variant 3**

In order to develop this scenario, the following frame is considered:

- The number of employees working in PA and defence in September 2008 was 214.1 thousand persons;
- Reduction of the number of civil servants in the next four years, so that the amount of PA employees reaches in 2012 the level from 2004. In this conditions an annual decrease of 9% of the number of employees will take place.
- Starting from the above mentioned hypothesis, the amount of PA employees during 2009-2012 will be the following:

#### **Estimated amount of PA employees (thousand persons)**

**Table 5**

<b>Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Estimated amount	194.8	177.3	161.3	146.8

- Pentru determinarea valorilor celorlalte două ipoteze se consideră o creștere în fiecare an cu 10%. În aceste condiții se obțin rezultatele din tabelul de mai jos cu privire la evoluția salariului mediu și a costurilor salariale totale pentru perioada analizată.

#### **Characteristics of the APA wages for scenario III**

**Table 6**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Average salary (lei-person)	1662	1828	2011	2212	2433
Average salary (EU/persoană)	437.4	481.1	529.2	582.1	640.4
Salary expenses thousand lei	4270010	4273600	4278646	4281783	4286562
Salary expenses thousand euros	1123686.9	1124631.7	1125959.5	1126785.1	1128042.5

*Data source: Calculations made on the basis of the hypothesis made*



The results in the above table highlight the following:

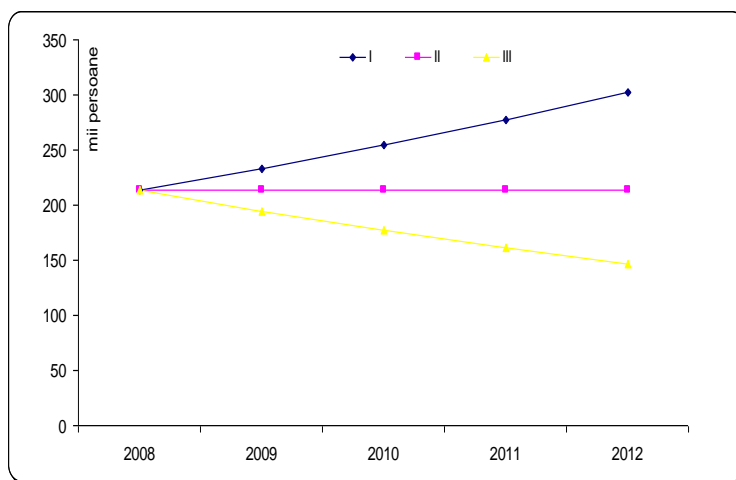
- The average nominal salary will register a 203 euros/person increase for the entire analysed period;
- For the entire analysed period of time, the additional expenses supported by APA for salary increases will reach 17422.240 thousand euros.

This situation might be efficient this the following aspects are taken into consideration: (1) The increase of EU funds absorption capacity asks for flexible structures within the CPA and LPA and high skilled and trained and financial motivated human resources. (2) Performing a quick diagnosis analysis at the CPA and LPA level in order to assess the efficiency of the current PA structures.(3) Raising salaries for PA workers, simultaneously with assuming responsibility for the tasks carried out. (4) Analysing the possibility for contracting out several PA activities to the private sector. (5) A better coordination between the civil service reform process and the decentralisation process.

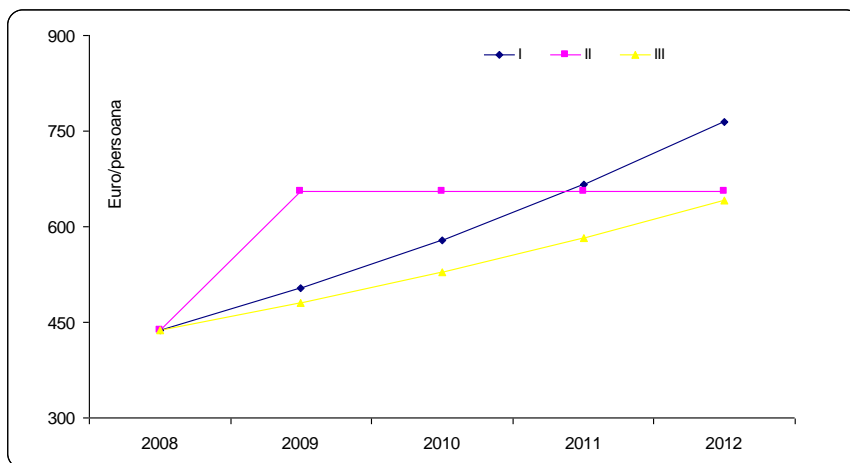
**The major risks** which might arise in this scenario are: Trade-unions` resistance for maintaining the number of employees; Increase of the number of unemployed people in Romania and consequently increase of the unemployment compensation and other collateral expenses.

#### **Scenarios comparative analysis**

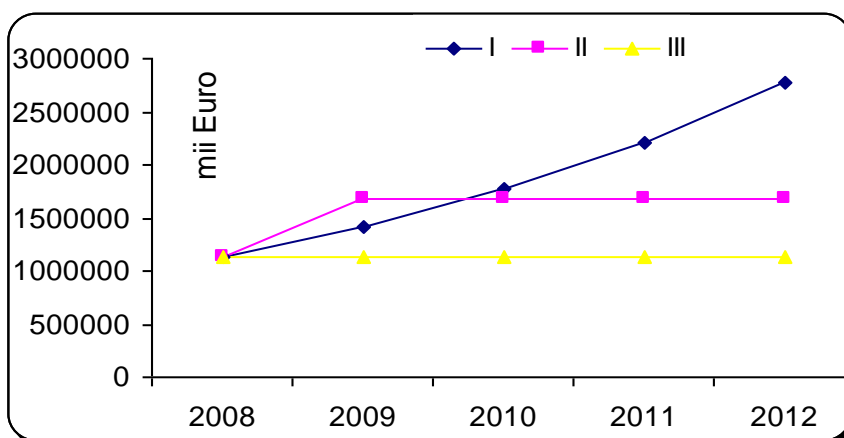
In the following figures we present the evolution of the three most important variables of the scenarios: number of employees, average monthly salary and annual expenses with nominal salary at APA.



**Figure 1. Evolution of the APA employees` number during 2008-2012**



**Figure 2. Evolution of average wage per person during 2008-2012**



**Figure 3. Evolution of the annual total nominal salary during 2008-2012**

The above shown results allow us formulate the following preliminary comments:

- The current economic context, but also the high level of bureaucracy in the public administration do not allow increasing the number of employees, as the hypothesis of the first scenario state.
- However, a salary raise for public servants according to the first scenario assures the highest salary by 2012, with 17% more compared to scenario 2 and with 19% more compared to the third scenario.
- Salary costs for 2012 are the reach the highest level in the first scenario. They are with 65% bigger than in the second scenario and with 145%

more than in the third scenario. From this perspective, the first scenario cannot be accepted.

Starting from the above mentioned results, we will state hypothesis for developing a new scenario: The average salary will annually grow with 15%; The number of employees will annually decrease with 9%. This decrease includes the retirements and eventual personnel dismissal.

#### **4. Final Comments and Recommendations**

Taking into consideration the results of the studies carried out by various public administration institutions, but also our own research approach, we were able to indicate several final conclusions and recommendations for elaborating a new legislative framework for the civil servants salary system in the immediate period of time.

**1.** The public administration salary system reform should be based on a macroeconomic approach. In order to define a new salary system law the following aspects should be taken into consideration: a macroeconomic analysis should be carried out in order to assess the public servants salary costs currently supported by the state; comparing public servants` wages with the wages of employees working in other sectors of activity. It is also important to remember that big discrepancies between employees` salaries in various fields of activity can generate social problems; a critical analysis of the current central and local administrative structures in order to identify possible ways of reducing the number of personnel; analysing the efficiency of the public administration reform strategy and Phare projects between 2004-2008.

**2.** A new approach of the rapport between the fix and the variable share of the PA wages.

**3.** All sorts of salary benefits should be redefined, in order to stimulate more attracting young people in the civil service. For example, one recommendation would be eliminate in the next years the long service allowance. This would help creating financial resources for stimulating certain skills at the level of the civil service.

**4.** The proposed salary system should be as simple as possible and should guarantee increased transparency for public administration wages.

**5.** The salary system in the public administration should be corellated with other other public sector salary systems, such as education and health.

**6.** The debate around the legislative project regarding the salary system for the civil service should be made in a very broad environment, including all important stakeholders.

7. Concomitently issuing the new salary legislation and methodological norms, in order to assure transparency and allow the assessment of the economic and social consequences of putting in practice this law.

8. NACS and NSI should create an appropriate statistical instrument, in order to allow collecting the necessary statistical data for making periodical studies about the civil service salary system features.

LEGEND

CPA- Central Public Administration

LPA- Local Public Administration

NACS- National Agency of Civil Servants

NIA- National Institution for Administration

NSI- National Statistical Institute

PA- Public Administration

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