OECD Public Governance Reviews

The Public Sector Salary System in Slovenia



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Foreword

In undertaking a *Public Governance Review of Slovenia*, the OECD analysed the operation of the Slovenian central public administration, with a particular focus on its structure, the relationship between strategic planning and budgeting frameworks, and the public sector salary system.

As part of this, it was decided to undertake and publish a separate, more detailed assessment of Slovenia's public sector salary system to accompany the broader *Public Governance Review*.

Finalised in September 2011, this report was financed by the Slovenian Government with the financial assistance of the European Social Fund of the European Union.

Within the overall context of the OECD's Public Governance and Partnerships Programme under the direction of Caroline Varley and Martin Forst, this review was led and the report was written by Lisa Arnold. Statistical analysis and written contributions were provided by Jean-François Leruste. The report benefited from consultant contributions by Knut Rexed (Sweden).

Administrative and production assistance was provided by Katarzyna Weil, Melissa Peerless and Jennifer Allain.

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Introduction

This review of the Slovenian public sector salary system was requested by the Government of Slovenia as part of a broader OECD *Public Governance Review of Slovenia*. To increase its efficiency and effectiveness, the public administration needs to have staff in the right place at the right time and with the right skills, motivated to perform. The public sector salary system provides the backbone for helping to achieve this. This review analyses the current system and makes recommendations for further reform.

The scope of this review is confined to the Slovenian public sector salary system.[1] (The salary system is just one component of human resource management.) The issues raised, however, link very closely with those discussed in the *Public Governance Review*. The objective of the OECD's *Public Governance Review of Slovenia* was to determine means to increase the efficiency and effectiveness of the public administration through appropriate governance arrangements, particularly given the tight fiscal context. The *Public Governance Review* addresses other aspects of human resource management including: workforce planning and capacity and capability reviews; leadership and the structure of the senior civil service; use of strategic HRM and linkages between HRM, strategic planning and budgeting frameworks; and linkages between performance management and accountability for results, and the use of incentives. The *Public Governance Review* also addresses budget management issues, which are generally outside the scope of this review, unless they are of direct relevance to the public sector salary system.

This review is based on information provided by the Slovenian public administration as well as data and analysis which was collected in the course of several missions to Slovenia in Spring 2011, and which provided the opportunity for the OECD team – made up of OECD Secretariat staff and peer reviewers from other OECD member countries – to interview a wide range of stakeholders both within and outside the Slovenian administration. The review also makes use of data and analysis contained in a range of OECD publications, including the recently published *Government at a Glance 2011*, and data from the OECD's publications on economic performance.

The first chapter of the review sets the macro fiscal context, which is important to provide context for the salary system reform, and its contribution to fiscal consolidation. Chapter 2 explains the current public sector salary system and its evolution. The final chapter sets out the specific findings of the review regarding the public sector salary system, and makes proposals for the way forward.

Note

1. It should be noted that while pension and health systems form part of government compensation costs, they are not within the scope of this review.

Key messages and recommendations

Key messages

- The public sector salary system is in need of significant further reforms, in order to strengthen forward-looking human resource management, support a performance-oriented public administration, and strengthen capacities for effective public governance.
- These reforms should be a priority for the Slovenian Government, which requires sufficient powers to manage (and if necessary reduce) the public wage bill, as part of active policies in support of fiscal sustainability.
- Further reforms should not weaken the central control necessary for coherence and transparency, or re-introduce the weaknesses that characterised the previous system.
- For the reforms to be effective, broader aspects of public governance need urgent attention: reform of the referendum system, the removal of remaining corporatist elements in legislation, and the development of a more effective relationship with the labour unions.
- The reforms need to be set in the framework of an agreed, coherent and complete HR strategy – linked to budget management processes – in order to avoid a series of disconnected and sub-optimal processes.

Recommendations

1. Aim further reforms at the development of a more versatile public sector salary system with greater scope for managers at the budget-user level to adapt salary structures to business needs and workforce planning. At the same time, maintain coherence in salary setting across the public sector and increase the scope for active fiscal policies.

2. Establish and empower a professional central public employer's office, responsible for strategic management and oversight of the overall human resource system. This is an essential pre-requisite for a coherent and efficient management of the public sector salary system.
3. Opt for an incremental reform strategy, abstain from a "big bang" comprehensive reform, and ensure forward momentum. This will facilitate both political and social dialogues, enable feedback from previous reform steps, and provide for a gradual build-up of the competences and capacity for decentralised human resource management.
4. Revise the present budgetary system and practices, setting the framework for a systematic use of top-down budgeting and the establishment of a coherent affordability restriction for decentralised salary setting. This will support and facilitate effective future evolution of the public sector salary system.
5. Avoid using any form of automatic indexed salary adjustments. Annual adjustments should instead be based on assessments that account for the competitiveness of the Slovenian economy, other aspects of the macroeconomic situation, and remuneration changes in the private sector.
6. De-link personnel plans from budgeting by introducing affordability restrictions for decentralised human resource management. This will enable budget users to use active workforce planning and systematic competence management as managerial tools.
7. Revise the legislation on salaries and other employment conditions in order to increase the scope for the government and managers of budget users to pursue active human resource management.
8. Renew a constructive social dialogue with the objective of restoring a mutually respected balance between democratically elected government institutions and social partners; and ensure the place of freely agreed collective agreements. As appropriate, promote and facilitate co-operation among trade unions.
9. Opt for a two-tiered bargaining model.

Executive summary

Early reforms of the public sector salary system established order in a disorganised system

Slovenia recently implemented a new coherent public sector salary system, after drawn out negotiations with representative trade unions for public employees. The government was innovative and resourceful in the way it managed both the reform process and the required bargaining. The new system is an improvement and an achievement.

The previous public sector salary system had evolved into a complex, opaque structure characterised by significant incoherencies. Creating the new system entailed substantial changes in relative salaries for most public employees and the abolition of many supplementary cash benefits. It enables an adequate cost control and has established a coherent salary structure. It covers the entire public sector, a rarity among OECD member countries.

The reform process was complex. The new Public Sector Salary System Act stipulated that the implementation had to occur through collective agreements with representative trade unions. The rules that this placed on trade unions led to a marked and continued fragmentation of the trade union structure. The freezing of salary increases, creating a virtual pool of unallocated salary increases available for re-distribution, was probably a decisive factor enabling an agreement.

The current system, however, remains inflexible and in need of significant further reforms, as soon as possible

The implementation of the collective agreement was interrupted by the unexpected deterioration of Slovenia's economic growth and public finances, necessitating a temporary freeze of salary increases and bonuses. This was accepted by some of the representative trade unions, but opposed

by others. It was therefore not possible to take the first set of reforms to a fully satisfactory conclusion.

The current salary system remains quite deeply inflexible and retains underlying weaknesses which require increasingly urgent attention. The recent reform was oriented towards creating order in a disorganised system. It did not tackle the need for a more decentralised framework. However, like those in other OECD member countries, the Slovenian public service needs greater ability to take the organisational needs and workforce characteristics of different budget users into account. This is virtually impossible to achieve in fully centralised systems due to information asymmetries, transaction costs and lead times.

It is essential that public services are delivered in a manner which matches modern standards for efficiency, quality and responsiveness.

It is also essential that governments be empowered to pursue active and effective fiscal policies. Slovenia is a small country with an open economy and a member of the euro currency area. It is more exposed than some other countries to potential fiscal crises, if it cannot pursue active fiscal policies.

Key elements for further reform

Legislative framework: move to a system limited to long-term governance elements

Slovenia has extensive legislation on the organisation of its public service, on public human resource arrangements including salaries, and on other expenditure lines. The inertia generated by these arrangements hampers flexibility in both human resource management and fiscal policies. Executive powers need to be expanded to enable both empowerment of budget users and a constructive social dialogue at the budget-user level. Legislation should therefore be limited to governance elements that remain stable over time, such as minimum labour protection, systemic issues and framework conditions. Budget users should be given more influence over their own establishment and employee remuneration under an adequate affordability restriction.

Scope of the system: sustain the comprehensive coverage of the public sector, with some delegation

There are two main alternatives for the continued improvement of the public sector salary system:

- Reduce the coverage of the public sector salary system to core public employees and adapt the employment conditions of other public employees to those of private employees.
- Retain the present comprehensive public sector salary system and introduce (and over time, expand) delegation to organisations and line managers of decisions on staff composition and basic salaries and other remuneration issues.

The second alternative seems more appropriate for Slovenia, given its specific national context and the process leading up to the present situation.

Collective bargaining system: move to a two-tiered approach

Slovenia should consider using a two-tiered collective bargaining system for the governance of decentralised salary revisions. In this model, a national collective agreement is implemented through local collective agreements. The processes and other bargaining parameters for decentralised bargaining are set in the national collective agreement. Such a system would enable budget users to adapt their human resource management to their own organisational needs and to the skills, tasks and performance of their own employees.

Salary setting: establish delegated salary setting with budgetary safeguards

Delegated salary setting requires the introduction of appropriate instruments that preserve the coherence of the public sector salary system and enable the government to hold budget users to account for how they have used their delegated authority. The most important instrument is making budget increases or decreases independent of actual salary increases (i.e. an affordability principle). Complementary budgetary reforms establishing an effective affordability restriction will therefore be required.

There should also be comprehensive sector-wide salary statistics enabling monitoring and comparisons.

The guiding benchmarks for public wage setting should be the international competitiveness of the Slovenian economy, wage developments in the private sector, and the state of public finances. There should be no automatic adjustments of public sector salaries for inflation or for salary developments in the private sector. It would, however, be appropriate to take the latter into account when determining bargaining parameters for different budget users.

The present linking of post classifications to centralised establishment controls and the budgeting process limits the ability of managers at the budget-user level to act and hampers the use of classifications for other purposes. A consistent shift to top-down budgeting would make the present linking superfluous. The post classification system should instead focus on the description of the actual content and skills requirements of different posts, and be complemented by a parallel system for describing the skills of individual employees.

Institutional framework: set up and empower a central public employer office

A continued and sustainable reform should include the strengthening of a professional central public employer office. This will be critical to ensuring a coherent system. The new function should be empowered to represent the public employer in collective bargaining.

Industrial relations system: bring this system into line with OECD good practice

The industrial relations system should be brought into line with prevailing practices in other OECD member countries. Slovenia should therefore review the legislation covering the public service and, where appropriate, abolish the remaining vestiges of the previous self-management system, in order to better separate democratic processes and interest representation. Remaining corporatist elements – such as compulsory collective agreements – should also be phased out and a clear distinction between political issues and employer-employee relations should be established.

Roadmap for further reform: create and communicate a plan of action

The reforms outlined in this report are challenging. Slovenia should draw up a forward-looking reform programme based on its National Reform Programme and detail the steps to be taken. It should, however, abstain from trying to achieve everything at once and instead opt for an iterative implementation. A "big bang" approach would be counterproductive.

The roadmap requires positive participation by the unions in support of the government's strategic objectives to restore economic growth and sound public finances. The unions need to be encouraged to discuss the shape of a general agreement aimed at reducing the scope of the issues covered by the social dialogue. Both sides have an interest in establishing a renewed, active and constructive social dialogue adapted to a modern society and economy.

Communicating the reforms – both within the public administration and with the broader public – is important. The government should clearly and transparently explain the objectives of the reform and the underlying motivation for carrying it forward.

Chapter 1

Slovenia's macro fiscal context

Slovenia has enjoyed successful economic development, but its economic and fiscal outlook has become worrying, urging calls for further fiscal consolidation. Against the backdrop of fiscal tightening, the Slovenian public administration is being asked to increase the efficiency and effectiveness of its operations. This chapter sets the macro fiscal context, which is important to provide context for the salary system reform and its contribution to fiscal consolidation.

A corrigendum has been issued for this page. See http://www.oecd.org/dataoecd/3/5/49415878.pdf

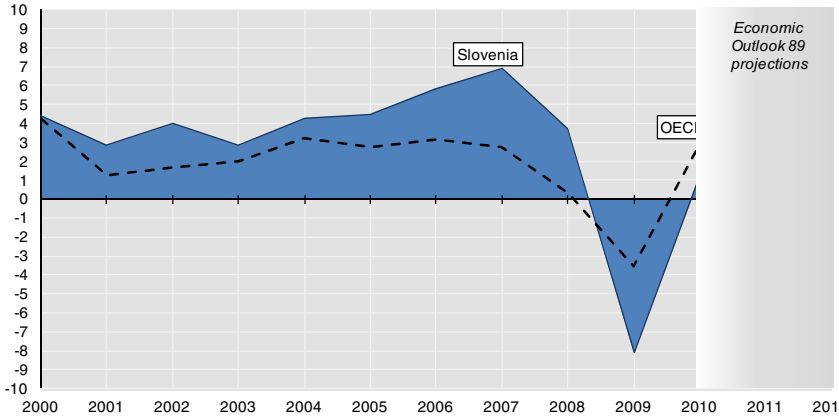
Economic context

An economy which has, overall, developed successfully

Since gaining independence in 1992, Slovenia has made a successful transition to an advanced economy. In 1995, Slovenia's gross national income per person equalled 67% of the OECD average. Thirteen years later, Slovenia's resilient efforts to catch up with other OECD member countries were rewarded by a 14 percentage point increase in GNI per person, representing 80% of the OECD average in 2008. Slovenia's economy was the sixth fastest growing in the OECD between 2000 and 2008, averaging a 4.4% growth of real GDP per year, compared to an OECD average of 3%.

Figure 1.1. **Real GDP growth, 2000-2012**

Annual % change



Source: OECD (2011), "OECD Economic Outlook No. 89", *OECD Economic Outlook: Statistics and Projections* (database), Vol. 2011/1, OECD Publishing, Paris.

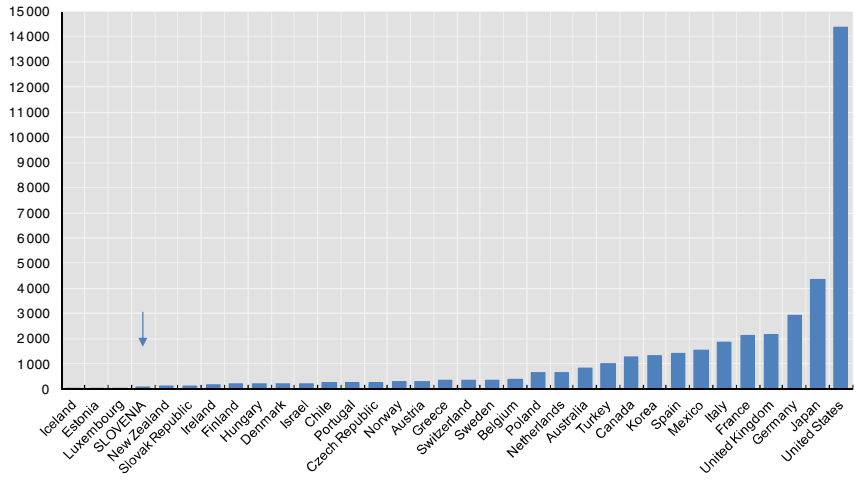
A small and open economy which is especially exposed to global developments and crises

Like most other small and open economies, Slovenia is very vulnerable to external economic shocks, such as the global financial crisis.

Slovenia has the fourth smallest economy in the OECD (see Figure 1.2). Slovenia's GDP was USD 56 billion in 2008, twice the size of Estonia and four times smaller than Denmark.

Figure 1.2. **Size of GDP in OECD member countries, 2008**

Billions USD, current prices and PPPs



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2010), *OECD Factbook 2010: Economic, Environmental and Social Statistics*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/factbook-2010-en*.

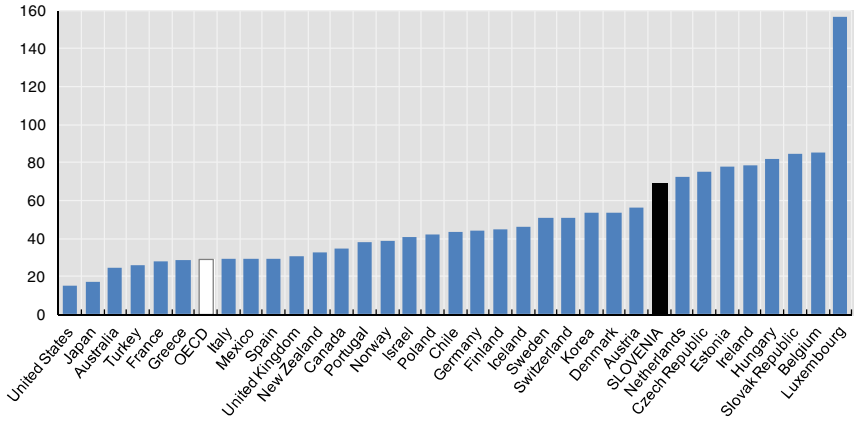
Slovenia also has a very open economy, the ninth most open among OECD member countries in 2008 (see Figure 1.3). International trade in goods and services represented almost 70% of GDP in 2008. Slovenia is more open than countries such as Denmark and Finland, but less open than Estonia and Ireland. As a small and open economy, Slovenia's economic success is highly dependent on external demand from main trading partners and on internal competitiveness.

These characteristics weighed on Slovenia during the global financial and economic crisis. Despite its success, Slovenia's frailties were severely exposed. The economy faced the second worst recession among OECD member countries in 2009, when GDP declined by 8% (the OECD average was a 3.4% contraction). The May 2011 *OECD Economic Outlook*

(OECD, 2011a) shows that the Slovenian economy is recovering from the crisis, supported by external demand and re-stocking. It is expected to gradually gain strength as private investment and consumption improve. Real GDP is expected to grow by 1.8% in 2011 and 2.6% in 2012.

Figure 1.3. **International trade of goods and services, 2008**

% of GDP



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD Statistical Database.

Unemployment, which was below the OECD average, has increased considerably

The unemployment rate has remained below the OECD average since 2001, continuously decreasing until 2008, when it reached its lowest point at 4.4% (see Figure 1.4). Unemployment has increased considerably since the crisis and was expected to peak by mid-2011 at approximately 7.5%, when activity will start picking up (based on OECD, 2011a).

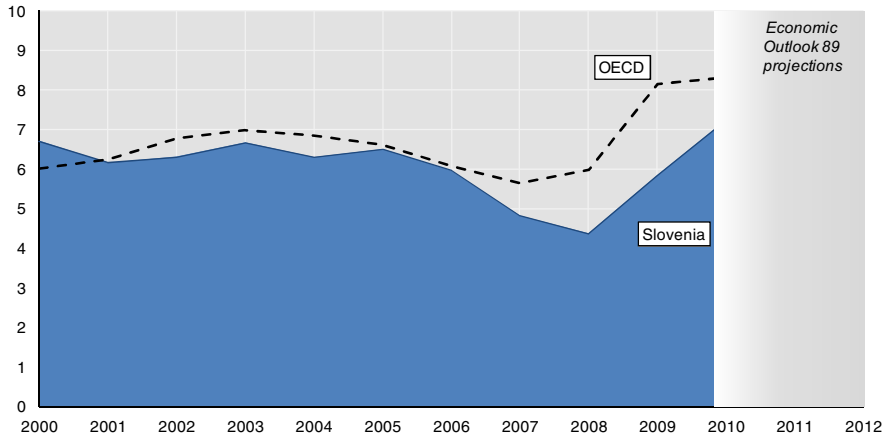
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Public finances, which were under control, are now showing signs of relative strain

Between 2000 and 2008, the Slovenian Government successfully kept its public finances within the Maastricht criteria, averaging a budget deficit of 2.2% of GDP per year and maintaining a level of public debt below 35% of GDP (see Figures 1.5 and 1.6). Since the global financial and economic crisis, although both the budget deficit and the level of public debt deteriorated significantly, only the fiscal balance breached the Maastricht criteria. Nevertheless, both have remained and are expected to stay below the OECD average until 2012. Despite the necessary fiscal consolidation measures currently in place, Slovenia is not expected to return to a budget deficit within the Maastricht criteria before 2013. The level of public debt will remain one of the lowest amongst OECD member countries, but is expected to increase gradually and reach 47% by 2012.

Figure 1.4. **Unemployment rate, 2000-2012**

As a % of the civilian labour force



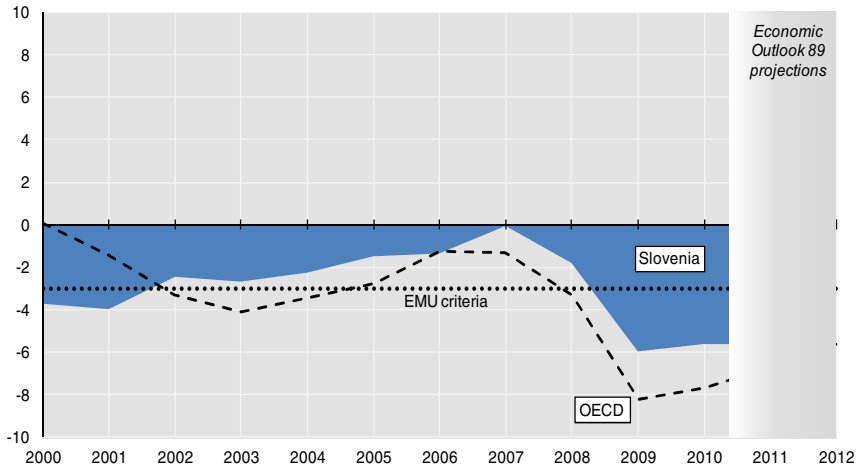
Note: Harmonised unemployment rates.

Source: OECD (2011), "OECD Economic Outlook No. 89", *OECD Economic Outlook: Statistics and Projections* (database), Vol. 2011/1, OECD Publishing, Paris.

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Figure 1.5. **General government fiscal balance, 2000-2012**

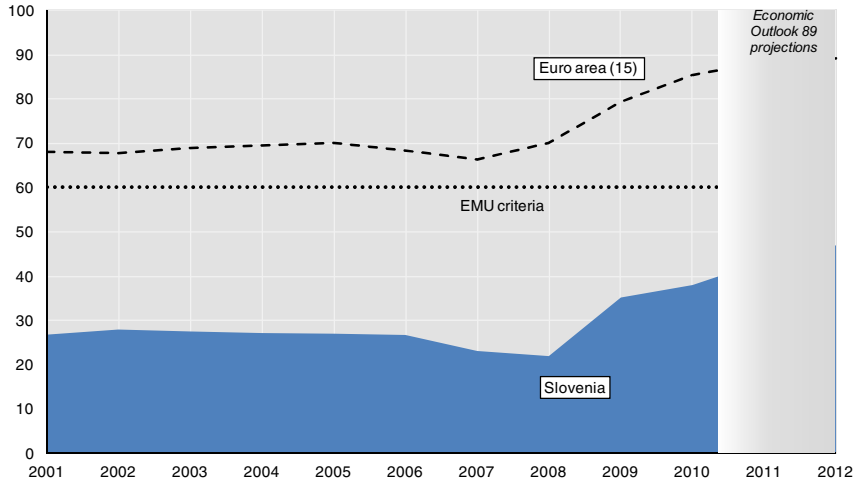
As a % of GDP



Source: OECD (2011), "OECD Economic Outlook No. 89", *OECD Economic Outlook: Statistics and Projections* (database), Vol. 2011/1, OECD Publishing, Paris.

Figure 1.6. **General government debt, 2001-2012**

% of GDP, Maastricht criteria



Source: OECD (2011), "OECD Economic Outlook No. 89", *OECD Economic Outlook: Statistics and Projections* (database), Vol. 2011/1, OECD Publishing, Paris.

A corrigendum has been issued for this page. See http://www.oecd.org/dataoecd/3/5/49415878.pdf

Inflation has always been higher than the euro area average

Inflation has always been higher than the euro area average, especially in the early 2000s when there was strong economic growth. Considerable efforts were made to contain inflation in order to join the EMU in 2007. However, inflation picked up just before the crisis and was alarmingly high in 2008, at around 5.5% (see Figure 1.7).

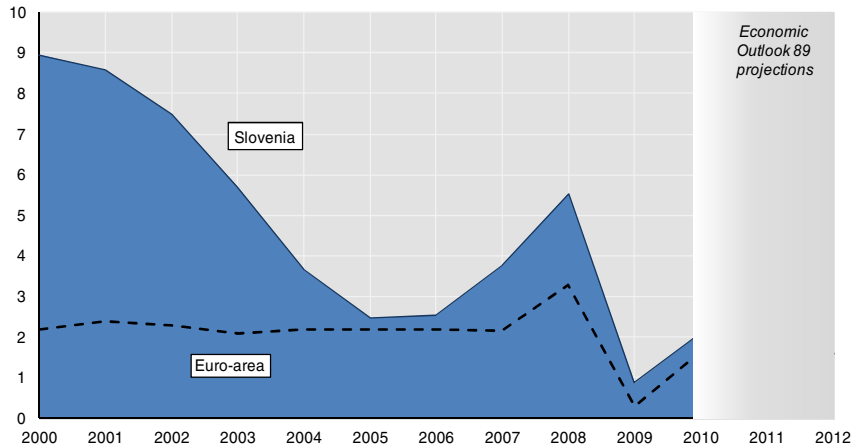
Fiscal consolidation

The increase in Slovenian public debt is worrying and must be addressed

The Slovenian fiscal situation is not extreme, but the increase in public debt is worrying and must be addressed – particularly given the present international fiscal environment. The experiences of other countries that have weathered similar problems show that it is imperative to retain the confidence of capital market actors.

Figure 1.7. **Consumer price indices**

% change from previous year



Note: For the euro area countries, the euro area aggregate and the United Kingdom: harmonised index of consumer prices (HICP).

Source: OECD (2011), "OECD Economic Outlook No. 89", *OECD Economic Outlook: Statistics and Projections* (database), Vol. 2011/1, OECD Publishing, Paris.

Efforts to achieve fiscal consolidation have triggered an international public discussion on the appropriate role and size of government in society and the economy. While government efforts to cushion the effects of the financial and economic crisis were applauded, the rhetoric has sharply switched in many countries, as government debt as a share of GDP has risen as a result of these efforts. Across the OECD, there are calls for governments to consolidate their finances and, in particular, target waste and inefficiency. As unemployment has soared in many countries, the number and relative stability of public sector jobs and wages has come under fire (OECD, 2011c).

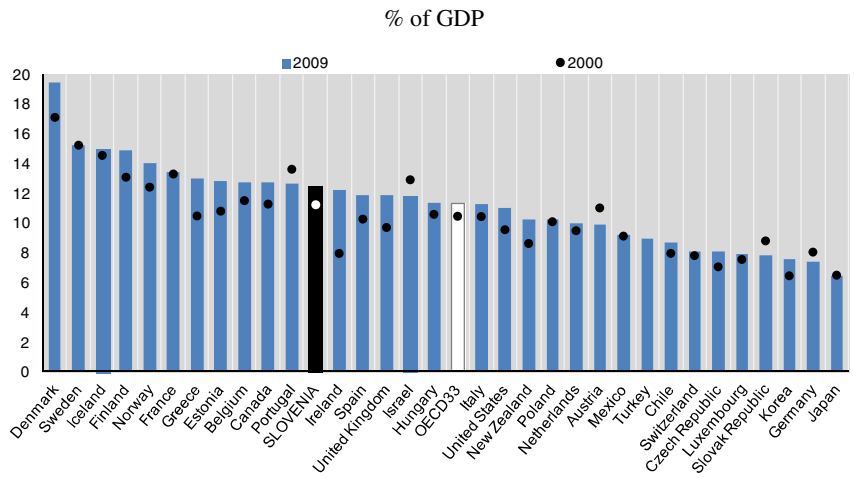
Most OECD member countries have earmarked operational expenditure for savings

Across the OECD, the public wage bill accounts for a large share of public expenditure, and public employment is often substantial (see Figures 1.8 and 1.9). This has led most OECD member countries to announce operational savings in their consolidation plans, though ambition and level of detail vary (OECD, 2011d). In most countries, fiscal consolidation plans focus on reducing programme and operational expenditures. Expenditure cuts concentrate on two main areas:

- reducing spending on programmes (such as health, changes to social benefit systems, old-age pensions, capital infrastructure and official development assistance), which includes all spending except for compensation costs; and
- reducing operational spending by cutting compensation costs (through staff reductions or wage and benefit cuts), re-organising government, or implementing across-the-board efficiency cuts.

Some countries have announced other types of cuts, such as overall spending freezes (OECD, 2011c) (see Figure 1.10).

Figure 1.8. **Compensation of employees, 2000 and 2008**



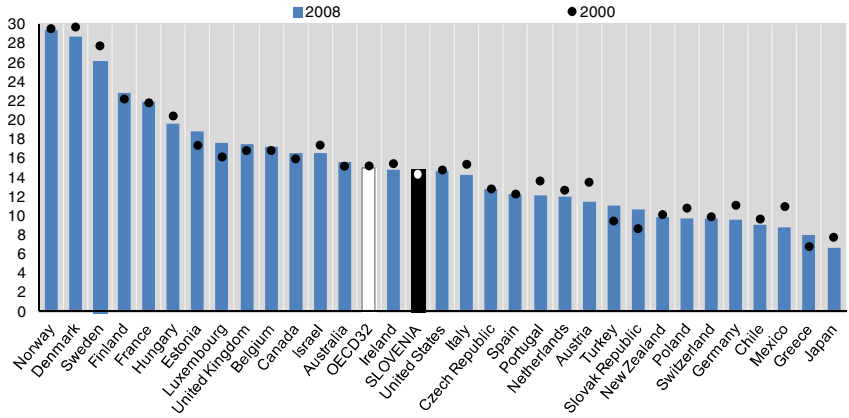
Note: Data are missing for Australia. 2000 data for Turkey are missing. OECD33 does not include Turkey. For Mexico: 2003 instead of 2000. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD National Accounts; OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/gov_glance-2011-en*.

Almost all OECD member countries have earmarked operational expenditures for savings (see Figure 1.10). Operating expenditures will be cut by 10% in the central government in France. The Netherlands and the United Kingdom have announced far-reaching and very substantial operational expenditure cutbacks. In the Netherlands, across-the-board savings on operational expenditures will be implemented at all levels of government, amounting to EUR 6 billion by 2015. All ministries' operational budgets in the United Kingdom will be reduced between 33% and 42% by 2014. The cumulative reduction in operating expenditures reaches more than 1% of GDP in Estonia and in the Netherland's five-year consolidation plan. In Greece, savings of 0.8% of GDP are targeted in 2011 alone (OECD, 2011d) (see Figure 1.11A).

Figure 1.9. **Employment in general government, 2000 and 2009**

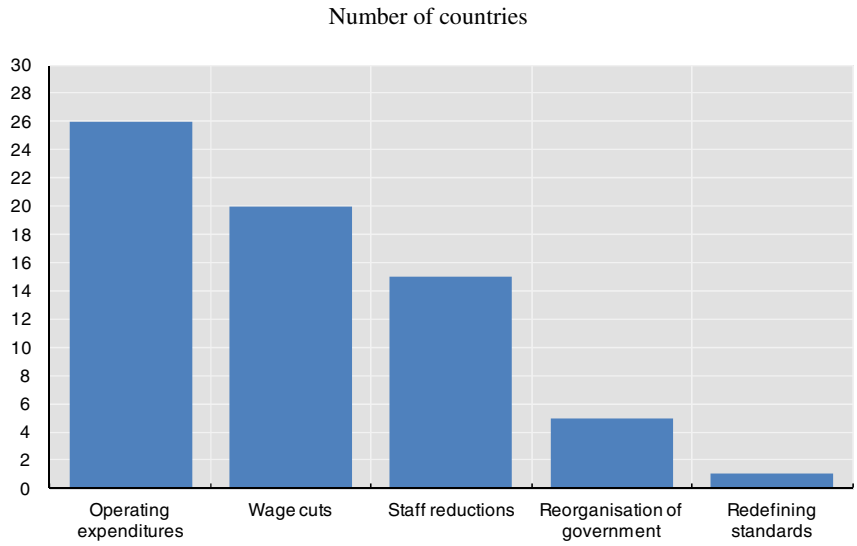
% of the labour force



Notes: Japan: employment is not classified according to SNA definition, i.e. activity (market/non-market) and control by the government, but status of employers as legal entities. The figure for employment in general government is replaced by direct employment by national or local governments. Data for Iceland and Korea are missing. Data for Australia, Chile and the United States refer to the public sector (general government and public corporations). Data for Austria, the Czech Republic, Italy, the Netherlands, New Zealand and Poland are expressed in full-time equivalents (FTEs). In New Zealand, FTEs are included for education, health and community services, and personal and other services. Finland, Israel, Mexico, Poland and Sweden: 2007 instead of 2008. France, Japan, New Zealand and Portugal: 2006 instead of 2008. Ireland, Japan, Luxembourg, Slovenia and Switzerland: 2001 instead of 2000. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/gov_glance-2011-en* based on International Labour Organization (ILO), *Laborsta database*. Data for Turkey are from the Ministry of Finance and the Turkish Statistical Institute. Data for Japan for employment are from the Establishment and Enterprise Census.

Figure 1.10. **Operational measures – frequency**

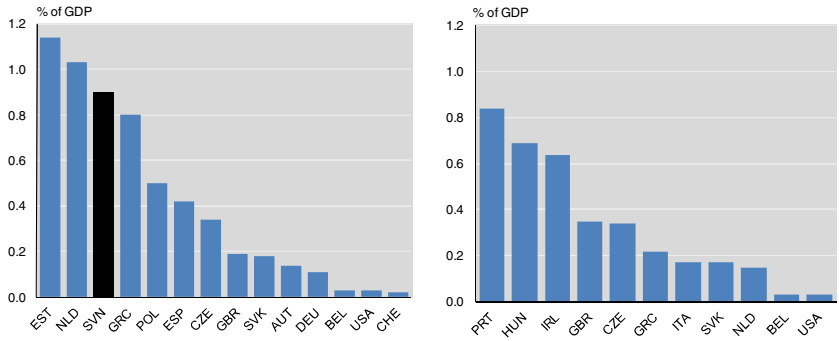


Note: Out of a total of 20 countries.

Source: OECD (2011), "Restoring Public Finances", *Special issue of the OECD Journal on Budgeting, 2011/2,* OECD Publishing, Paris.

Countries' fiscal consolidation needs are related to governments' ability to match revenues to expenditures – not the overall size of government relative to the economy. For example, Finland (where government expenditures totalled 56% of GDP in 2009) and New Zealand (where government expenditures totalled 41.9% of GDP in 2008) demonstrate similar fiscal consolidation needs. In Slovenia, total government revenue in 2009 represented 43% of GDP (41% in the OECD) and government expenditure represented 49% of GDP (46% in the OECD) (OECD, 2011d).

Figure 1.11. **Operational measures – impact**



Notes: The figures for the United Kingdom only sum up wage freezes and initial savings on operational expenditures. The data for Greece only include 2011 measures.

Source: OECD (2011), "Restoring Public Finances", *Special issue of the OECD Journal on Budgeting, 2011/2,* OECD Publishing, Paris.

Savings can be achieved by cutting compensation costs and/or by reducing the workforce

Compensation costs can be lowered by reducing the size of the workforce and/or cutting wages. While government employment across the OECD has generally been stable over the past decade, at least 17 governments across the OECD have announced workforce reduction measures and/or cuts to salaries and benefits in order to cut costs. On average, governments in OECD member countries employ 15% of the labour force. The size of the Slovenian public sector is very close to the OECD average, with the share of employment in general government at 14.7% of the labour force (OECD, 2011c) (see Figure 1.9).

In some OECD member countries, public sector employment will be scaled back considerably (see Table 1.1). The Czech Republic plans to remove 10% of the public workforce, excluding teachers. By 2014, there should be 330 000 fewer public sector employees in the United Kingdom and around 25 000 fewer in Ireland. Other countries (France, Greece, Portugal and Spain) will only replace a certain number of vacant positions or retiring employees (OECD, 2011d). Slovenia reports a planned 1% reduction across the board of public sector employees. *It should be noted that staff reduction plans fall outside the scope of the OECD's review of*

Slovenia's public sector salary system, but are discussed in detail as part of the broader Public Governance Review.

Table 1.1. **Staff reduction targets in selected OECD member countries**

Country	Reductions
Austria	3 000 federal officials by 2014
France	97 000 public sector jobs by only replacing 1 of 2 retiring state employees
Germany	10 000 federal public sector jobs by 2014
Greece	20% of retiring employees replaced, fewer public short-term contract employees
Ireland	24 750 public sector jobs by 2014
Portugal	Recruitment freeze of civil servants (no replacements)
Slovenia	1% of public sector employees from 2010-2011
Spain	10% replacement of vacant positions between 2011 and 2013
United Kingdom	330 000 public sector jobs by 2014

Source: OECD (2011), "Restoring Public Finances", *Special issue of the OECD Journal on Budgeting, 2011/2,* OECD Publishing, Paris.

OECD data on remuneration for key public sector positions show that wages and salaries represent, on average, 80% of total compensation. Twenty OECD member countries have announced plans to freeze or cut public sector wages. The range of wage cuts is wide and crosses categories of countries, from a two-year wage freeze in the United Kingdom to a 10% wage cut in the Czech Republic, and approximately a 14% wage reduction in Ireland (see Table 1.2). The cutbacks are even higher in Greece if reductions in allowances and earlier implemented cuts from 2009 and 2010 are included. The total quantified wage reduction is between 0.6% of GDP and more than 0.8% of GDP in Hungary, Ireland and Portugal (see Figure 1.11B) (OECD, 2011d). Slovenia reports a 14% wage and intermediate public consumption cut.

In addition, government (as an employer) contributes to retirement plans or pensions, and private health insurance costs or other social contributions. Thus, reforms to the pension and health systems could also have important effects on government compensation costs. However, changes in these areas may be more difficult to implement for current staff, as they involve altering long-term contracts. *It should be noted: while pension and health systems form part of government compensation costs, they are not within the scope of this review.*

Table 1.2. **Wage reduction targets in selected OECD member countries**

Country	Reductions
Belgium	0.7% savings on personnel expenditures
Czech Republic	10% wage cut in the public sector (excluding teachers)
Estonia	9% savings on personnel expenditures
France	Freezing public sector wages in 2011
Greece	Allowances cut by 20% in 2010 Abolishing the 13th and 14th month bonuses for monthly earnings above EUR 3 000 (=14%)
Ireland	13.5% public sector wage cut in 2009-2010; more cuts expected in 2011-2014
Portugal	5% wage cut in the public sector, 0.11% to 0.84% of GDP wage cut by 2013
Slovak Republic	10% wage cut in central government
Spain	5% wage cut in 2010, frozen in 2011
United Kingdom	Two-year wage freeze

Source: OECD (2011), "Restoring Public Finances", *Special issue of the OECD Journal on Budgeting, 2011/2,* OECD Publishing, Paris.

Administrative re-organisations can also yield savings

Some countries have announced savings by re-organising the way the public administration functions, but only two countries (Greece and the United Kingdom) have detailed plans for such re-organisation. It is understood that Slovenia is looking at opportunities to re-organise the way its public administration functions. This issue is covered in more detail in the OECD's *Public Governance Review of Slovenia.*

Implementation of Slovenia's strategy for fiscal consolidation requires decreasing the cost of the public sector workforce

Slovenia has submitted an update to its Stability Programme to the European Union and has adopted a strategy for an exit from the present fiscal problems (Government of Slovenia, 2010a; 2010b). The strategy includes a consolidation of public finances supported by structural measures, institutional adjustments and improvements in labour relations. The implementation of this strategy depends on Slovenia having a sufficient capacity for active fiscal policies. Central government expenditure is to be reduced from 24.9% of GDP in 2010 to 21.6% in 2013 (Government of Slovenia, 2010b).

As part of its fiscal consolidation plans, Slovenia is looking to reduce the cost of its public sector workforce through three key measures:

- amendment of rules and criteria regarding the number of organisational levels and unification of procedures relating to the adoption of job classification acts;
- reduction of the number of employees in the public sector by 1%, i.e. approximately 1 600 public servants per year; and
- measures regarding salaries and other receipts from employment, in force until November 2011 (Government of Slovenia, 2011b). Specifically, Slovenia has looked to cut operational spending through staff reductions, wage and performance pay freezes and spending freezes – and also proposals to re-organise government.

Limiting public wage and consumption increases, which made a consolidation contribution of 0.8% of GDP in 2010, are the most important operational expenditure measures. The government also had a goal of reducing public sector employment by 1% in 2010 and by the same amount in 2011. Pension reform and reduced investments are also important measures. Increased excise duties drive the revenue enhancements. A new tax information system is expected to enhance revenues by up to 0.8% of GDP in 2013 (OECD, 2011d) (see Table 1.3).

Table 1.3. **Major consolidation measures in Slovenia**

Millions EUR (as % of GDP[1])

		2010	2011	2012	2013
Expenditures		879 (2.44)	1 039 (2.79)	1 287 (3.33)	1 457 (3.61)
1. Operational measures		273 (0.76)	273 (0.73)	378 (0.98)	483 (1.20)
Compensation of employees		202 (0.56)	202 (0.54)	277 (0.72)	352 (0.87)
	Wage limitation	limited to 1.2% annually			
	Reduce the number of public employees in 2010 and 2011	-1%	-1%		
Intermediate consumption	(The public sector wage bill and intermediate consumption will be cut by -14%)	71 (0.20)	71 (0.19)	101 (0.26)	131 (0.33)
2. Programme measures		606 (1.68)	765 (2.06)	908 (2.35)	973 (2.42)
Pensions		74 (0.21)	112 (0.30)	162 (0.42)	212 (0.53)
Social transfers		22 (0.06)	22 (0.06)	47 (0.12)	62 (0.15)
Health	Reduce medicine prices. Restrictive policy on sick leave benefits and the amount of payments for extra time in health institutions	n.a.	n.a.	n.a.	n.a.
Investments	Reduced by	266 (0.74)	266 (0.71)	334 (0.86)	334 (0.83)
Other expenditure	Reduced by	244 (0.68)	366 (0.98)	366 (0.95)	366 (0.91)
Redefinition of standards	Redefining public service standards, reconsider the price of services and increase use of user fees	0.4% of GDP by 2013[2]			
Revenues		6 (0.02)	189 (0.51)	322 (0.83)	521 (1.29)
VAT	Reduced	-100 (0.28)	-100 (0.27)	-100 (0.26)	-100 (0.25)

Table 1.3. **Major consolidation measures in Slovenia** *(cont'd)*

millions EUR (as % of GDP[1])

		2010	2011	2012	2013
Excise duties	Mineral oil and gas	40 (0.11)	56 (0.15)	56 (0.14)	56 (0.14)
	Alcohol	4 (0.01)	4 (0.01)	4 (0.01)	4 (0.01)
	Tobacco	21 (0.06)	45 (0.12)	71 (0.18)	86 (0.21)
	Electricity	21 (0.06)	141 (0.38)	141 (0.37)	141 (0.35)
Motor vehicles	To limit possible tax evasions and introduce environmental criteria	19 (0.05)	28 (0.07)	28 (0.07)	28 (0.07)
Administrative	New tax information system		15 (0.04)	122 (0.32)	306 (0.76)
Real estate	A property tax is planned for implementation in 2011		n.a.	n.a.	n.a.

Notes: 1. OECD calculations using OECD forecasts of nominal GDP for 2010-2013. 2. Not included in calculations.

Source: OECD (2011), "Restoring Public Finances", *Special issue of the OECD Journal on Budgeting, 2011/2,* OECD Publishing, Paris.

Chapter 2

Slovenia's public sector salary system

Slovenia implemented a new public sector salary system in 2008. Negotiations for the new system were long and the reform process was complex. Implementation of the reform was further complicated by the unexpected deterioration of Slovenia's economic growth and public finances, necessitating a temporary freeze to some provisions in the new system. This chapter explains the current public sector salary system and its evolution.

Background

Initial development of the public sector salary system and first reforms

The Law on Relation of Salaries in State Organs, Local Communities and Public Institutions, adopted in 1994, established a unified salary scheme for the whole of the Slovenian public sector, ranging from officials in higher state institutions (the President, parliamentarians, ministers, etc.) to the lower ranked public employees. There were similarities between this system and the present structure. However, the cohesion and systematisation of the original scheme turned out to be unsustainable, possibly because it was not supported by an appropriate budget system and efficient employer co-ordination. The system was instead distorted little by little over the course of time, as ministries made adjustments and introduced new forms of cash supplements.

As the proliferation of allowances and special cases grew, the system was distorted. It became almost impossible to know which salary components and amounts were applicable, and the scheme became quite opaque. Salary disparities between ministries were widespread and substantial – the variable component of a salary could amount to more than 50% of the take-home pay (even up to 80% according to certain sources), varying from one budget user[1] to another, or even from one individual to another.

The state of the then-salary system led to a push by the government and unions for reform. Negotiations between the government and the representative trade unions on a proposal to modernise the public sector salary system commenced in 1998/1999. After a long negotiation period, a settlement was agreed; the first stage of a modernisation effort occurred with the implementation of the Public Sector Salary System Act and Civil Servant Act, which were adopted by the Slovenian Parliament in 2002. Vital parts of the implementation of the Public Salary System Act, including salary setting, could only be achieved through a collective agreement.

The reform was at least partially intended to restore the remuneration structure laid down in 1994. It thus entailed changes in the relative remuneration (including cash supplements) for different tasks and professions – a controversial issue in any national context. The changes in relative salaries also meant that remuneration increases for some employees would have to be balanced by remuneration reductions for other employees, which is even more controversial. It is thus not surprising that the reform led

to disagreements among trade unions and a continued fracturing of the trade union structure.

An element which helped Slovenia overcome these controversies and to reform the system was that all salary adjustments were frozen when the Public Sector Salary System Act was adopted, awaiting a collective agreement on its implementation. As the years passed, this led to a gradual general erosion of the public remuneration level. However, at the same time, a stockpile of unallocated salary increases was accumulating. The erosion reduced the number of employees who would have to face additional salary cuts when the new system was adopted, and the stockpile of funds facilitated the government's financing of the salary increases that would come with the implementation of the new public sector salary system.

However, this was not in itself sufficient for an agreement. The legislative requirements for a collective agreement meant that the government had to secure acceptance by trade unions representing a majority of the public sector employees. This turned out to be difficult, possibly due to the strain of the re-arrangement of relative salary levels and abolition of special allowances, and was probably the main reason for the drawn-out reform process. Progress was only made possible by a legislative amendment changing the formal requirement to a majority of the representative unions (quorum rules).[2] The reform could then be launched with the support of a number of small unions, even against the opposition of certain large trade unions. It is unclear if, and to what extent, this affected the content of the collective agreement.

Negotiations between the government and the representative trade unions continued after the adoption of the Public Sector Salary System Act in 2002, until a new salary system was agreed in 2008. In effect, negotiations on the existing salary system took some nine years (negotiations on the reform of the public sector salary system originally commenced in 1998/1999). This negotiation period was long and protracted, and it is fair to say that public servants, unions and the government grew weary.

The final stage of negotiations became hurried, since the government wanted to conclude the process before the parliamentary elections in 2008. This also meant that the time available for implementing the new salary system in the different public organisations was cut short; several officials interviewed indicated that this also affected the quality of the implementation of the new salary system and negatively impacted upon public sector staff.

The outcome of the negotiations was implemented partially through legislation and partially by collective agreement. The reform – which became the existing public sector salary system – entailed substantial changes in relative salaries and the abolition of many supplementary cash benefits, which meant that there would be both winners and losers at the individual level, as well as across public functions and professions. A key component of the agreement was the payment of a 13% salary adjustment to staff, eliminating disparities between agreed and actual wages, to help compensate staff for the long period of frozen wages during the negotiation period.[3] Slovenian public employees went without salary increases during the negotiating period for the new salary system, and thus made a major contribution to the reform process. They could legitimately argue that the increases distributed were not new salary increases but represented a paying out of salaries due for past work.

The release of the pool of frozen salary increases entailed a substantial increase in the public wage bill. In order to avoid an economic disturbance due to a rapid increase in domestic demand, it was agreed that the salary adjustment increases should be paid out in four instalments. The first two payments were made as agreed. However, due to the unexpected deterioration of Slovenia's economy and fiscal situation in 2009, the government considered that it would not be prudent to implement the remaining agreed adjustment increases. Thus, the third and fourth payments were frozen. They remain so today, and will be paid only after growth in real GDP exceeds 2.5%. As at May 2011 (OECD, 2011a), growth in real GDP is expected to pass the 2.5% threshold in 2012, when it is predicted to reach 2.6% (see Figure 2.1).

Wage adjustments were also frozen after the January 2011 indexation (but should the actual cost of living growth index for the period December 2010 to December 2011 exceed 2%, basic salaries will be increased by this difference in January 2012). A number of other cost-saving measures were implemented in the public sector salary system at the same time as salary increases. These included freezing performance pay and bonuses during 2011 and 2012, and reducing compensation for an increased workload. In addition, officials promoted to a higher position during 2011 would not receive the corresponding salary increase until 2012, and other public employees could not progress to a higher pay class during 2011.

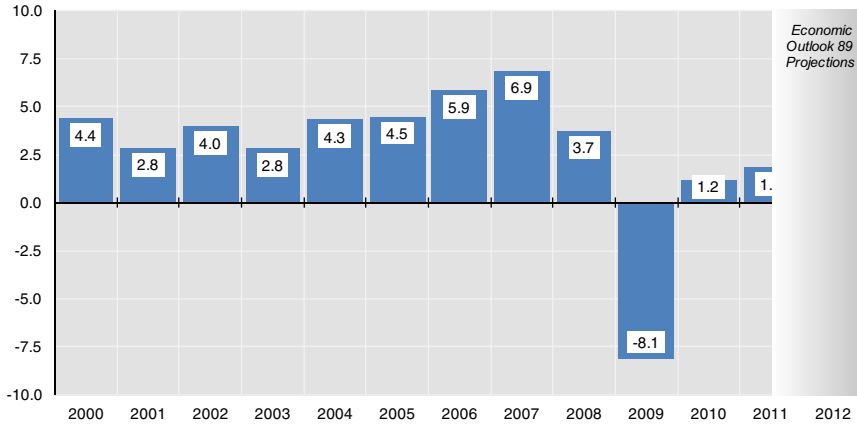
Any slowing in economic growth will see the remaining payment of salary increases pushed further into the future, which will likely have a devastating impact on staff morale and performance. This would also impact the government's ability to further negotiate reform of the public sector salary system with trade unions. It is understood that the Negotiating Group of Public Sector Trade Unions, which opposed the government's measures

A corrigendum has been issued for this page. See http://www.oecd.org/dataoecd/3/5/49415878.pdf

to freeze salaries and payments, has challenged the decision before both the Constitutional Court and a Labour and Social Court, and attempted to initiate a popular referendum.

Figure 2.1. **Real GDP growth, 2000-2012**

Annual percentage change



Source: OECD (2011), "OECD Economic Outlook No. 89", *OECD Economic Outlook: Statistics and Projections* (database), Vol. 2011/1, OECD Publishing, Paris.

The present public sector salary system[4]

Scope of the public sector salary system

The salary system in Slovenia applies to approximately 160 000 employees in the public sector, including functionaries and directors. The public sector salary system is centralised and applies to employees in different activities of the public sector.

The main rules in relation to the present public sector salary system are enshrined in parliamentary legislation. The main acts are the general Employment Relations Act, the Public Administration Act, the Civil Servants Act (CSA), and the Public Sector Salary System Act (SSA). These are complemented by secondary legislation adopted by the government, including the Decree on the Promotion of Public Employees to Salary Grades.

The Public Sector Salary System Act regulates the rules for stipulating, calculating and paying salaries, as well as the rules for earmarking the amount of funds for salaries. The General Collective Agreement for the Public Sector defines benchmark positions and titles, and the scale of bonuses and criteria for work performance. Only bonuses defined by the Public Sector Salary System Act can be paid; their amount is provided by the General Collective Agreement.

The public sector salary system covers the whole of the public sector, including the central public administration and broader public sector (see Box 2.1).

Box 2.1. **Structure of the public administration**

The Slovenian public sector is composed of:

- state bodies and the administrations of self-governing local communities;
- public agencies, public funds, public institutions, and public commercial institutions; and
- other entities of public law that indirectly use state or local government budgetary funds.

Public enterprises and commercial companies in which the state or local communities are controlling shareholders or have prevailing influence are not considered to be part of the public sector (CSA, s1(2); SSA, s2(1)).

There are three distinct groups of staff within the Slovenian public sector; functionaries, officials or official civil servants, and professional-technical civil servants. **Functionaries** are not explicitly defined, but it would seem that they are political staff, i.e. ministers, state secretaries and political advisors holding functions. All other personnel within the public sector are referred to as **civil servants**. These are subdivided into three groups depending on the type of post.[1] An **official** is a qualified civil servant who performs public tasks or provides qualified assistance to officials. Officials who hold managerial posts – called **positions** – correspond to what is normally referred to as senior civil servants (CSA, s80). Other officials are said to be appointed to both a work post and a **title**, and mainly correspond to what is normally referred to as administrators. Other civil servants are called **professional-technical civil servants** and perform ancillary administrative or technical work (CSA, s23).

1. This report uses the label "post" rather than "position", which is normally used in OECD documents. The reason for this is that the Slovenian legislation uses the label "position" to designate posts held by politically appointed persons.

The Ministry of Public Administration is responsible for the public sector salary system, i.e. for setting the salary system regulations, interpretation of legislation, and supervision of the implementation of the regulations. Responsibility for the proper implementation of the salary system and paying salaries is devolved to individual budget users. As basic salaries are stipulated by a regulatory framework, they are not negotiable within individual organisations (either by the HR unit or individual managers).

Employment arrangements

The Slovenian employment system is post-based, but also includes elements normally found in career-based systems. Recruitment is always for a specific post which is included in an approved personnel plan (CSA, s55), but internal careers are both encouraged and facilitated. The use of titles for official civil servants creates an image of a corps. The central personnel office operates a form of an internal labour market in the public administration by keeping records of vacant posts, work requirements in project groups and similar personnel requirements, and of employees who request permanent or temporary transfers or whose principal proposes such transfers (CSA, s48).

Workforce planning is based on personnel plans (known in Slovenia as **jobs systematisation**), which are drawn up by each budget user (CSA, s21) and are used as a means to calculate expected costs. These plans show actual employment, state the intended permanent and temporary (fixed-term) employment, and contain an action programme covering the following two years. Personnel plans may, when appropriate, identify an expected reduction or restructuring of work posts; they may also contain plans for additional permanent and/or temporary employment in case of an increase in workload that cannot be actioned based on existing staffing levels (CSA, s42).

Establishment control is based on parallel processing of draft personnel plans and budget petitions. After the budget is adopted, budget users must adopt personnel plans that are harmonised with the budget (CSA, s43). Personnel plans may be amended during a budget period if more staff are needed provided that funding has been secured (CSA, s45). Budget users must keep a catalogue of functions, posts and titles associated with official work posts that include, for example: the name of the function or post, the tariff group for the post, the salary grade of the function, the post or title that can be achieved through promotion to a higher grade (SSA, s7(4)). Benchmark posts are selected posts that facilitate comparison inside salary groups and between salary groups (SSA, s12).

Staff may only be hired for posts which are included in a budget user's personnel plan (CSA, s55). Before a budget user can initiate an external recruitment it must first determine if the vacancy can be filled internally, either within the organisation or within the wider public administration (CSA, s57). Employment can be offered on a permanent basis or for a fixed term (CSA, s54); however, fixed-term employment (i.e. temporary employment) is only permitted in specified situations (CSA, s68). Permanent employment is not guaranteed for life, and under certain provision can be terminated (CSA, Chapter XXI).

Appointment to a senior management position is for five years (CSA, S82). Persons who were officials before their appointment have a right to transfer to another appropriate post when leaving the position, if such a post is available. The employment of other staff is terminated at the end of their respective appointment term (CSA, s93).

Salary progression (known as promotion in Slovenia) depends on the time spent at a particular grade, but also on a positive service performance assessment. Promotion to a higher title within the same career class is possible after a minimum number of positive assessments (SSA, Chapter V). The maximum number of earned grade increases varies based on posts and titles – but generally public servants may be promoted by one or two salary grades every three years if they fulfil the prescribed conditions (SSA, s16(3)).

The Slovenian public administration has a system for awarding performance rewards (SSA, Chapter VI). These can be awarded for regular work performance, but also for an increased workload (SSA, s21). The allocation of performance rewards for regular work is regulated by a collective agreement (SSA, s22a). The total amount of performance rewards payable is between 2% and 5% of the annual payroll (per budget user); however, the amount of performance rewards for regular work paid to the same civil servant may not exceed two monthly wages. Performance rewards for senior management are calculated separately (SSA, s22). Additional performance rewards for increased workload can be financed from savings due to vacancies (SSA, s22d-22e). Bodies that sell goods and services on the market may, under certain conditions, use part of the proceeds for additional performance rewards (SSA, s22i-22j).

The extent of an employer's powers to terminate an employment contract and the due procedure for doing so are regulated by law (CSA, s155). The employment of a civil servant may be terminated for reasons of: reduction in the scope of public tasks; privatisation of public tasks; organisational, structural or financial reasons or similar (CSA, s159); and for incompetence (CSA, s141-146). However, before a permanent

employee can be terminated for grounds other than incompetence, the opportunity must be provided to transfer the employee to another position available on the internal labour market.

Salary system arrangements

The basic wage of a civil servant is determined by the salary grade into which the post or title of the civil servant is classified, or which the civil servant has acquired through salary progression (SSA, Article 9.1).

There is a common salary scale with 65 salary grades (see Annex A). The salary starts with EUR 478.27 in grade 1, and increases by 4 % between each salary grade to EUR 5 890.80 in salary grade 65.[5]

All functions and posts belong to a salary group and a salary subgroup (SSA, Article 7.1). These are listed in Annex B. An annex to the Public Sector Salary System Act[6] lists a range of allowed salary grades for each wage subgroup.

All posts and titles also belong to a tariff group that denotes the level and difficulty of the position and titles, with regard to required education or training (SSA, Article 8(1-3)). These are listed in Annex B. For each tariff group, a lowest possible salary grade for the public sector has to be set through the collective agreement. These are included in Annex C.

All posts and titles are classified into salary grades (SSA, Article 12) using a common methodology and taking into consideration:

- the level of difficulty of the work tasks or the conditions for acquiring the title;
- the level of training required (the necessary professional qualifications, the additional skills and experience required);
- the responsibility and authorisations;
- the physical and mental exertions involved; and
- environmental influences.

Benchmark posts and titles are selected posts and titles that facilitate comparison inside salary groups and between salary groups.

The common methodology, the definition of the benchmark posts and titles, and the classification of these posts and titles must be determined for the public sector via collective agreement. The positions and titles in salary groups D, E, F, G, H, J and K, and in salary subgroups C2, C3, C5 and C6, have to be classified in salary grades through a collective agreement for the public sector.

In addition to their basic salaries, public servants are also able to access a list of various cash supplements (called allowances or bonuses); this has recently been simplified. The present supplements are: *i)* a position bonus; *ii)* a length of service increment; *iii)* a mentorship bonus; *iv)* an allowance for specialisation, master's degree or PhD, if such is not a condition for occupying the position; *v)* a bilingualism bonus; *vi)* bonuses for disadvantageous working conditions not taken into consideration in the valuation of the position or title; *vii)* bonuses for dangers and special burdens not taken into consideration in the valuation of the position or title; and *viii)* bonuses for working during less convenient hours (SSA, s23(1)).

Main challenges in the existing system

The existing system is a foundation on which to build

In its National Reform Programme, the Slovenian Government has recognised recent and ongoing changes to the functioning of its public sector. It acknowledges that the growing complexity of the public sector environment requires new ways of organising work, increasing flexibility and streamlining operations. The Slovenian Government has thus decided to introduce a new approach to public sector management (Government of Slovenia, 2011a).

The long-term goals of this programme include savings in public expenditure, an increase in the quality of public services, a modernisation of the justice system, and more transparency in public management. Among other things, the Slovenian Government intends to introduce results-oriented management, increase flexibility, and transfer powers and responsibilities to lower levels within the public management. Management is to be oriented towards achieving objectives and expected results, and budget users will be required to report on their advancements (Government of Slovenia, 2011a).

The recently introduced public sector salary system addressed a number of existing problems and represented an important first step towards a modernised public sector salary system, corresponding to the requirements of a small open economy within a larger currency area. The acute problems existing today were created less by the recent salary system reform than the unexpected fiscal crisis, and exacerbated by the government's difficulties in reducing other public expenditure and/or increasing tax revenues.

But the reforms have left a number of rigidities and insufficiencies

While a uniform salary system has the advantage of preventing incoherencies, it also impedes necessary adaptation to organisational needs and workforce characteristics at budget-user level. A general trend among OECD member countries has thus been to develop more flexible public sector salary systems that enable such adaptations within a common uniform framework.

The process leading up to the reform and implementation of the new public sector salary system in Slovenia was not optimal. Under normal circumstances, the new system could have been allowed to be fully implemented and "bedded-down" before initiating discussion about the next steps in modernising the salary system. However, fiscal turbulence in the euro area has required temporary departures from the original agreement.

At the same time, there are some weaknesses in the present salary system that will need to be addressed. One of the weaknesses of the present system is that it is built on an implicit assumption that a parallel salary evolution in all parts of the public sector is desirable. However, the market wage for different tasks and skills does not evolve in the same way and an adaptation of these differences is difficult (although not impossible) without an element of decentralised pay setting. Thus, the Slovenian public service requires a larger scope for taking the organisational needs and workforce characteristics of different budget users into account. This is virtually impossible to achieve in a fully centralised system due to information asymmetries, transaction costs and lead times.

The multitude of cash supplements that existed in the previous public sector salary system was a typical characteristic of a centralised, and thus static, salary system. When basic salaries could not be adjusted to adapt to varying organisational needs and workforce compositions, different cash supplements were created. These same effects can be seen today in France, and in Sweden before the reform of its public sector salary system. Slovenia has managed to increase the transparency and coherence of its salary system by eliminating a large number of cash supplements, but if the basic system is not made more flexible it will be hard to resist a re-emergence of many of these cash supplements.

The present public sector salary system is linked to budgeting processes and establishment controls through both the grading of posts and titles and job systemisation. When the salary system is made more versatile, it will be necessary to consider how establishment controls and budgetary systems should be adjusted. The integration of elements of top-down budgeting[7] is already challenging the existing linkages, and a full conversion of the budgeting arrangements would facilitate continued reforms of the public

sector salary system. A more detailed discussion of the public sector budgeting system operating in Slovenia is provided in the broader OECD *Public Governance Review*.

A downside of the present job systematisation and salary system is that in practice there is little scope for any active workforce planning. The personnel plans are essentially descriptions of an existing structure. Competencies play a limited role and are largely identified with formal diplomas. The statutory clause that grading (and re-grading) of a post requires a collective agreement adds to the inertia and to a relatively static organisational structure. It also introduces an asymmetry, since it can be expected to be easier to get an agreement on an up-grading than on a down-grading.

Key considerations for a more effective public sector salary system

New paradigms for public management

Ability to govern and manage

The ability to govern and manage adequately is essential for the quality, efficiency and responsiveness of public services. During the 20th century, the old and established paradigm for public management – oriented versus stability and foresight – has been challenged by new models.

Two paradigms – an ideal bureaucracy and new public management – are often perceived as alternatives and opposed to each other. Neither, however, are exclusive and the new heterogeneity of the public service means that different parts might need to be governed and managed in different ways in order to be efficient (Kiviniemi and Virtanen, 2000; Rexed, 2008). These two paradigms can therefore coexist within a public service that is able to adapt its human resource management arrangements to the organisational needs of different budget users. The Weberian ideal type is also still very relevant for countries making a transition from an authoritarian to a democratic form of governance. However, if there is a common trend in the evolution of human resource management in the public administrations among OECD member countries, then it is a paradigm shift from rule-based governance and rule obedience to managerial discretion and accountability for results.

Ability to attract, motivate and retain

The high-level goals of any human resource management system are to ensure that the organisation concerned is adequately staffed with competent and motivated employees, both at present and sustainably over time. Public human resource management has a number of additional goals including ensuring equal access to public employment and ensuring adherence to core civil service values.

Public employment has traditionally been associated with a certain social standing, which has strengthened its competitiveness compared to private employment. Many OECD member countries have also built their core public employment systems as career systems, with entry at low functional levels, promotions reserved for insiders and expectations of life-long service. This has provided their public employees with vested interests in attained positions and has led to reduced turnover.

Value changes among citizens are undermining these systems. These changes are mainly linked to growing affluence, but also to other factors. One such shift is from trust in traditional authorities to self-reliance; something which tends to normalise the social standing of public employees. This shift has been relatively strong in the former Communist countries. Another shift is that so-called survival values are gradually weakened while so-called "self-expression" values are strengthened. At the same time, immaterial rewards are becoming more important than material rewards for large parts of the population.[8]

Other European surveys (Personalestyrelsen, 2001; EIPA, 2002) show that persons attracted to public employment tend to assign more importance to a meaningful job and to their contribution to society than other persons. Public sectors thus do not normally have to compete for competence only with material rewards. Still, employees have to feel valued and respected if they are to be motivated and abstain from looking for other jobs.

Career systems, life-long employment and better security when sick, disabled or retired (including benefits for surviving family members) have enabled many OECD member countries to pay relatively low salaries in their public sectors. The expansion of the general social security systems and the emergence of cross-sectoral professions with stronger identification with their profession than with the public service have, however, weakened these elements.

The public services of all OECD member countries need to be attractive employers in order to acquire and retain competent employees. The weakening of the traditional attractiveness of the public service has to be met in an adequate manner. It has not only becomes imperative to pay market wages, but also to provide a stimulating work environment. Public

employees also need to feel that they are respected and have possibilities for self-expression and personal development.

Ability to adapt and evolve

OECD member countries have undergone substantial changes since the middle of the 20th century. Today their economies and societies are more open to international influences than before and their public sectors are more complex and heterogeneous. Rising affluence and a more sophisticated society create demand for new services and increase quality expectations. A technical revolution based on digitalised information and micro-electronic applications creates new potential for responsiveness, service quality and efficiency. At the same time, the more challenging macroeconomic environment described earlier creates new constraints that have to be observed.

To this can be added the constant shifts in the supply of and demand for skills in the modern and more sophisticated labour market; this leads to shifts in the relative market wage for different skills. Basing salaries on posts rather than on skills, or increasing all salaries at the same pace, risks that governments will be unable to recruit and retain employees with sought-after or high-demand skills.

All OECD member country governments also face a constant need to re-organise parts of their public services, increasing some and downsizing others as needs and priorities change. Public services can therefore no longer afford a static organisation or static human resource management arrangements. They also need to be able to pursue a salary policy that limits the risks for both under- and over-payment in relation to market wages.

Failure to adapt may be costly. Adding on new staff for new tasks and public functions without being able to downsize the establishment due to demand changes or technical innovations creates a bloated public sector. Inability to respond to labour market changes generates recruitment and retention problems. Inability to reduce the size of public establishments and/or the level of public salaries severely restricts a country's capacity for active fiscal policies.

A final observation is that establishment flexibility has become more important than remuneration flexibility. The need to pay market wages implies that pay cuts can only be temporary measures (unless wages are above the market rates and the pay cuts entail a normalisation). Forced salary cuts also threaten the implicit social contract between the state and its servants. Establishment adjustments are therefore a more sustainable way of achieving fiscal stability and an appropriate workforce.

Ability to perform

Performance is not a new concept in public management. Even Weber's ideal bureaucracy (discussed earlier) can be understood as intending to enable and reward the type of individual performance appropriate for civil servants exercising public authority: correct behaviour and due processes. Today's more costly and heterogeneous public services have led to a broadening of the performance concept to include cost efficiency, quality improvements and responsiveness to citizens' expectations. It means that good performance today means different things in different public functions.

It is necessary to make a distinction between the individual and the organisational performance, and to understand how they interact with each other. Merely optimising individual performances is no guarantee for an optimal organisational performance. The focus must be on the contribution of each individual towards the organisational performance and the achievement of the organisational goals.

The notion of individual performance is complex and sometimes contradictory. Today, it is less a question of working more, faster or harder than of doing the right things at the right time and in the right way. It is also about using one's full capacity and competence to further the goals and interests of the organisation. It is also about signals. An organisation that doesn't distinguish between good and bad performance sends an implicit message to its employees that performance doesn't matter. In these respects there are no fundamental differences between private and public organisations; what differs are merely the goals and interests of private and public organisations.

The notion of organisational performance and productivity of public services is problematic. The quality of products and services sold on a market is reflected in the price, and estimates of organisational performance and productivity can therefore be based on price and volume indicators. Public organisations have to find separate and reliable indicators of the quality of the provided services in the absence of price signals.

Managing for performance in public organisations requires a broad range of adapted management practices, arrangements and mechanisms including strategic planning and management, internal administrative and organisational flexibility, citizen relation management and systematic competency management. A performance-oriented remuneration system cannot by itself achieve any significant results, but it is a necessary complement to the other elements of performance-oriented management.

A performing organisation is characterised by an awareness of the need for performance improvements, openness to individual initiatives and a capacity for innovation. A performing organisation therefore uses its remuneration system to signal the importance of improved performance. Performance is essentially a cultural issue, and the desired state is a culture of continuous improvement.

Comparable countries

Slovenia has expressed an interest in public management systems that are comparable with its own in terms of the size and structure of the public service, and the wider human resource management context (e.g. currently devolved or centralised). Estonia could be seen as a logical choice due to its similar size and background, and its innovative record as a member of the euro zone. However, there are significant differences. Estonia has made a clearer break with pre-independence administrative arrangements, but the planned reform of its Civil Service Law is long overdue since attempts to reform it have consistently been thwarted. Trade unions are also considerably weaker and less involved in public human resource management in Estonia.

There are no ready-made systems in other OECD member countries that can be copied and transferred for use in Slovenia. OECD member countries are a very heterogeneous group; in size as well as in constitutional context, administrative culture and public human resource management arrangements. Other OECD member countries can still provide valuable guidance and role models for the Slovenian Government, as long as Slovenia makes the necessary adaptations to its own context. Interesting examples of different arrangements can be found in both small and large countries, and a country that is innovative in one area may be more traditional in another.

The countries used for comparisons and illustrations in the report therefore vary. However, three relatively small countries seem to be especially interesting when looking at the Slovenian context:

- Belgium, with its Copernicus reform intended to strengthen public management;
- Denmark, with its evolved social dialogue; and
- New Zealand, with its innovative central governance of decentralised management.

Notes

1. This report uses the label "budget users" for public entities that have their own budget allocations, since this term is used in Slovenian documents.

2. Initially, the Public Sector Salary System Act determined that the collective agreement for the public sector was agreed when signed by the Slovenian Government and representative public sector trade unions (representing at least four different activities) whose total membership exceeded 40% of public sector employees. This article was changed in 2010, whereby Article 42 (conclusion of collective agreements and deadlines for their implementation) states that: *(i)* the collective agreement for the public sector and its amendments shall be deemed to be concluded when signed by the Government of Slovenia and the majority of the public sector representative trade unions (representing at least four different public sector activities); and *(ii)* if the collective agreement for the public sector or its amendments are not concluded in accordance with *(i)* that it shall be sufficient for the conclusion of the collective agreement for the public sector or its amendments if they are signed by the Government of Slovenia and the public sector representative trade unions (of at least four different public sector activities) whose total number of members exceeds 40% of public sector employees covered by the collective agreement for the public sector.

3. At the individual level, the government intended that wage disparities be eliminated based on the pay class of the civil servant immediately prior to and upon the new salary system entering into force. The collective agreement for the public sector signed in June 2008 assumed that wage disparities would be eliminated by 2010 based on the following proportions and dynamics: first settlement at the implementation of the new salary system, but with settlement from 1 May 2008, the second at 1 January 2009, the third at 1 September 2009, and the fourth at 1 March 2010. It should be noted that the first and the second payments were implemented within the stipulated period. However, the third and the fourth have yet to be paid. An agreement in November 2010 provides for the third and fourth tranche to be made in the October of two consecutive years when real growth in gross domestic product exceeds 2.5%; in the first year, the base salaries for civil servants will increase for the value of the third quarter of wage disparities, and in the second year the base salaries for civil servants will increase for the value of the fourth quarter of wage disparities.

4. The description of the present Slovenian public sector salary system is based on translated versions of selected Slovenian legislative acts and on other material available in one of the OECD's official languages. Thus,

there is the unavoidable risk for errors due to incomplete information or misunderstandings.

5. The amounts given are valid from 1 January 2011.

6. This annex is not included in the translated versions of the act that is available on the Internet.

7. "Top-down" refers to a system where budget allocations are determined by political priorities and not by existing expenditure structures. It presupposes that budget users have the powers necessary for reducing their costs when necessary.

8. This paragraph is based on the results of the multi-national *World Values Survey*.

Chapter 3

Findings – determining a way forward

The recent reform of the public sector salary system provides a necessary foundation; however, further reform is needed. Slovenia faces a number of contextual challenges on its path to a modernised public sector salary system. This last chapter sets out the specific findings of the review and makes proposals for the way forward.

Incremental implementation, while generating forward momentum

One of the issues raised regularly in the public management debate is the relative merit of quick comprehensive reforms – so-called big bangs – versus more gradual and incremental reforms. One argument in favour of big-bang reforms is that reform resistance might be overcome by using windows of opportunity and packaging diverse changes in a single political package. However, arguments in favour of incremental reform are that it facilitates dialogue and competency development, enables feedback from previous reform steps, and thus reduces the risk of failure.

The choice between these two strategies is a question of political judgement. It seems, however, that Slovenia cannot within the foreseeable future muster the political energy necessary for a big bang, and that the inertia created by the referendum opportunities (until that system can be reformed) would make such a strategy extremely risky. Given the contextual setting within Slovenia, the OECD proposes that any further reform to the public sector salary system should be gradual and incremental. However, it is critical that this reform process is set in motion in such a way as to generate irreversible forward momentum.

An incremental strategy enables a country to chose its next steps and thus follow an evolutionary path carefully. This allows governments to learn from and build on the experiences from previous steps, and to time reform steps so as to maximise their chances of success. At the same time, it entails an inherent risk for losing sight of the ultimate goal, and going in the possible, not the desired, direction. The incremental strategy should therefore be based on a clear political vision of what Slovenia wishes to achieve. Such a strategy should be documented and communicated to social partners and staff to help provide a reform vision with a clearly articulated goal. It should generate forward momentum.

Necessary contextual changes

The creation of a versatile public sector salary system will also require parallel changes in at least three other areas. The present legislation on public human resource management should be reduced to the issues where parliamentary legislation is appropriate. Other issues should be left to the discretion of the government or operational managers, although under *ex post* accountability and, where appropriate, subjected to collective bargaining.

A larger sphere of managerial discretion under an affordability restriction[1] should replace the present detailed fiscal management. Operational managers need to be able to use available funds more freely, and thus have flexibility in the number and types of employees, their remuneration and other types of expenditure. The remaining corporatist elements in the industrial relations system should be replaced by a more normal social dialogue structure based on respect for democratic processes and the separate roles of employers and trade unions, and on free collective bargaining.

Changing perspectives, assumptions and values

Any consideration of further modernisation of Slovenia's public sector salary system will require a change in paradigm – a change in the assumptions, values and practices which constitute the foundation on which operations are based. There are certain elements in the operation of Slovenia's public administration which will hold back its ability to implement further modernisation; this will need to be addressed before reform efforts can reasonably commence. The issues which are specifically relevant to further modernisation of the salary system are discussed here. A broader discussion of the organisational culture change required to support a performance-oriented public administration is covered in the OECD's *Public Governance Review of Slovenia*.

Excessive reliance on legislation

The new heterogeneity of public service is one of the main driving forces behind the modernisation of public services in OECD member countries; at the same time, it is one of the pivotal points in reform debates and strategies. A number of issues can be extracted from previous discussions on modernisation at national levels and in OECD forums.[2]

One key issue is the balance between rules-based (i.e. statutory) and judgement-based decisions (i.e. managerial). Both have advantages and disadvantages. Rules are both essential and unavoidable, but overly extensive rule-based arrangements can prevent the public service from achieving the expected quality, efficiency and responsiveness. Another key issue is the balance between stability – rules that should remain as they are for a long time – and the need for active and responsive management of public services.

Parliamentary processes are essentially designed for governance rather than management. They entail considerable lead times from inception – the government's decision to draft a bill or a member's decision to enter a

motion – to execution, after a proposal has been adopted and transmitted to the executive branch. Their focus is on guaranteeing adequate time for consultations and deliberations rather than on rapid responses to emerging needs, changing circumstances and inertia. They also frequently include the right for a qualified minority to delay the process in order to have more time for consultations and deliberations.

These characteristics are both understandable and valuable when it is a question of determining frameworks, rights and obligations that are expected to endure for a considerable time. Parliamentary decisions are also always about setting rules, and an extensive reliance on parliamentary legislation also often prevents a transition from rules-based to results-oriented management of public services. Parliamentary processes are thus unsuitable for operational decisions. Therefore, all OECD member countries have an executive function – normally a government composed of ministers with different portfolios.

This issue concerns the division of responsibilities between the elected assembly – the Parliament – and the national executive – the government. The existing division of responsibilities varies considerably across OECD member countries depending on such context elements as unitary versus federal states, presidential versus parliamentarian systems, and single seat electoral districts versus proportional representation in parliaments. The practices in OECD member countries range widely in terms of legislative output and from a marginal to a substantial use of collective agreements as governance instruments. However, the modernisation process almost always involves moving issues and mandates from the legislative to the executive sphere, and the creation of spheres of managerial discretion at sub-government levels. The key drivers are the need for timely and adequate responses to political events and changing business needs, and the need to be able to manage the macroeconomic constraints discussed earlier, and to pursue sufficiently active fiscal policies.

Slovenia has relatively extensive parliamentary legislation on public expenditure, on the organisation of the public service and on the human resource management arrangements in the public sector. This means that the executive's freedom of action tends to be more limited in Slovenia than in many other OECD member countries. The ensuing rigidities hamper Slovenia's ability to pursue active fiscal policies and performance-oriented human resource management policies. The constitutional safeguards around changes in parliamentary legislation exacerbate these problems.

Slovenia should review its present balance between parliamentary legislation and executive orders in order to achieve a more appropriate division of responsibilities. Parliamentary legislation should be limited to

issues that are intended to remain constant over time, such as minimum standards and basic rights and other framework conditions. It is especially important to empower the executive to manage all employer-employee issues, and thus increase the scope for both decentralisation and collective bargaining.

A challenging constitutional context

In Slovenia, the constitutional context is particularly important when considering changes to public sector salary system arrangements. The Slovenian Constitution makes heavy use of referendums. This has significant implications for the government's ability to pass a legislative programme; it has already affected the government's ability to further modernise its public sector salary system, and will continue to be a factor in this issue.

Any law that reduces legal entitlements or replaces statutory benefits with unconditional collective bargaining runs the risk of being the subject of a referendum.[3] Slovenia's current public sector salary system is governed by four key legislative acts – the Employment Relations Act, the Public Administration Act, the Civil Servants Act, and the Public Sector Salary System Act. Any amendment to these acts requires agreement by the Parliament and can be referred to referendum. Negotiation of collective agreements is between the government and trade unions, and does not need to be approved by the Parliament; it is thus not subject to referendum, but to union *quorum* requirements.

The Slovenian constitutional rules for popular referendums are similar to those in Switzerland (although the number of signatures required is, as a share of the population, higher than in Switzerland). Switzerland also has no requirement of a minimum participation. Other countries, such as Italy, require a participation rate of more than 50% for the outcome to be binding. What makes the Slovenian situation more rigid is that employment conditions, as well as social benefits and public expenditure, are more often regulated by parliamentary law than in many other OECD member countries. This creates rigidities that are absent in, for example, Switzerland.

There are many examples of the use of popular referendums in Slovenia, often on multiple occasions for one issue, which have thwarted the government's efforts to implement its legislative agenda. One notable example of the effect of referendums on the government's ability to pass key legislation – particularly with economic impact – is the recent attempt to pass a pension reform package. The bill contained measures to help improve fiscal sustainability into the future and was voted down through a referendum on 5 June 2011 by 72% of those who voted.[4] In comments to the

media, the Slovenian Prime Minister indicated his plans to send a further package of fiscal consolidation measures to the Parliament, aimed at countering the negative consequences of the rejection of the proposed reform.

There is a fine balance between citizen democratic rights, and confidence in the government and ensuring that it has the ability to undertake its elected post. There are lessons to be learnt from other OECD member countries which are also having difficulty passing austerity packages. Slovenia must act quickly to secure its economic and fiscal future. An appropriate resolution to the over-use of referendums in Slovenia must be found to ensure that measures taken in the interest and welfare of the country can be implemented and take effect to secure Slovenia's economic and fiscal future.

Liberating the human resource managers

Slovenia has an integrated system for budgeting, establishment control and salary setting. Each budget user must supply a draft personnel plan setting out its desired or existing workforce numbers and their composition. Each work post in this plan is classified according to a common scheme and associated with a specific salary grade range. Information is also provided for each employee on his or her seniority status and entitlement to a higher grade than the minimum associated with the post. The proposed personnel plan is used as an input to the budgeting process and for calculating required allocations. When a budget user receives its final budget allocation, it must review and, if necessary, revise its draft personnel plan.

This type of integrated system for budgeting, establishment control and salary setting has obvious advantages, especially if and when management experiences and capacity is limited. It provides for cost-efficient centralised management, and its outcome is foreseeable and transparent. It also provides a high level of protection against personal and political patronage. Similar systems existed in the Nordic countries before they began to decentralise their public human resource management, and there are similarities with systems still existing in other OECD member countries.

These systems are, however, associated with the Weberian paradigm and are based on the assumptions that workforce numbers and their composition are stable and that human resources can be managed by rules. The systems function adequately as long as public employment is increasing, provided that there are adequate possibilities for transferring staff among posts and budget users. New skills requirements can then be satisfied by recruitment. However, there are often difficulties in coping with a general downsizing of the public service.

Such systems are also essentially designed for bottom-up budgeting, where budget allocations are determined by previous commitments and existing staff establishments. Slovenia has, however, already introduced elements of top-down budgeting as part of its fiscal stabilisation programme. All budget users have been instructed to reduce their establishment plans by 1%, but budget allocations have been cut considerably more for many budget users.

Many OECD member countries have moved away from this type of fully integrated system for budgeting, establishment control and salary setting. The impetus comes from all three directions. Top-down budgeting is by definition de-linked from expenditure commitments and no longer needs access to personnel plans. Systematic workforce planning shifts the emphasis from heads to skills. Job classification schemes are then no longer normative but shift to describing the actual content and skill requirements of posts. Salary systems are at the same time becoming more versatile to enable employers to take skills, competences, performance and labour market conditions into account.

Importantly, these changes open up the system to active and systematic workforce planning at the budget-user level. Freed from the static grading scheme and the linked establishment controls, it becomes possible to assess both required and available competencies and to draw up strategies and plans for achieving a better match.

The transition to a new system is far from complete among OECD member countries, many of which still have centralised establishment controls (as shown by explicit staff reduction targets that are part of their fiscal stabilisation strategies. This is especially true for OECD member countries with career-based systems and employment-for-life guarantees. Here, staff reductions can only be achieved through centrally managed programmes for re-assigning surplus staff to other posts.

OECD member countries with post-based systems and no guarantees of employment for life have greater freedom of action. One example is Sweden, whose fiscal forecasts for 1994 indicated a budget deficit of 14% of GDP and a rapidly increasing public debt. It did not set any general quantitative targets for establishment reductions or salary decreases. Instead, it cut budget allocations for all budget users at the same time as it reduced internal regulation and empowered budget users to seek the best possible combination of staff reductions, salary freezes and other cost reductions.

Slovenia's present fiscal stabilisation programme contains a general requirement for all budget users to reduce their personnel plans by 1%. Budget cuts are higher for some budget users, implying a need for even larger staff reductions. Budget users that have a low staff turnover or with

statutory staffing requirements have, however, already indicated that they will be unlikely to meet these targets. Technically it is possible to terminate the employment of persons that are no longer needed (CSA, s159-161), but the formal requirements (CSA, s162-163) are substantive. The required process seems to be time consuming, preventing reasonably quick responses to changes in business requirements or allocated resources.

Balancing coherence with adaptability

Appropriate internal coherence is an essential element of salary structures in any organisation. Equivalent skills, merits and performances should be rewarded equally, and any significant deviation from this principle is either economically or socially unsound. This is even truer for public administrations, where the public service ethos is founded on principles of equal treatment and non-discrimination.

At the same time, modern organisations need to have the ability to adapt and evolve. Salary structures cannot be static, but must continually be reviewed and assessed. Relative salary levels should be adjusted when appropriate, and individual salaries may also need to be changed. All public services therefore need to find an appropriate and functioning balance between coherence and adaptation.

The present Slovenian public sector salary system is uniform and covers the whole of the public sector; this includes universities, hospitals and local governments. The common grading system and salary scheme guarantee a high degree of coherence in the salary structure across the public sector. This is a great achievement compared with the previous system, which lacked the mechanisms necessary for achieving coherence.

The existing system includes some mechanisms enabling individual adaptation, such as salary progression being dependent on favourable performance assessments and certain types of cash supplements. Collective adjustments of relative salary levels can, however, only be undertaken through a cumbersome process for re-grading posts by specific budget users. There do not seem to be any formal mechanisms for ensuring coherence across budget users in re-grading.

The experience of other OECD member countries

All OECD member countries have struggled with the need to strike a suitable balance between coherence and adaptation. They have, however, implemented widely different solutions, based on differences in their administrative, political and constitutional contexts. Career systems can

include a substantial capacity for re-assigning staff to other posts. Post-based systems normally lack this capacity, but can instead allow the dismissal of surplus labour, and thus have larger establishment flexibility. Direct salary cuts tend to be exceptional in both types of system due to the social and contractual nature of salaries, and remuneration flexibility is thus mainly provided by reducing expected salary increases or even freezing existing salaries.

Some OECD member countries, such as Belgium and France (see Box 3.1), have opted for a combination of uniform legislation combined with adaptation in secondary legislation. The necessary co-ordination is political-administrative, and collective agreements play a secondary role.

Box 3.1. **Achieving coherence – country group A**

Belgium

Belgium consists of a federal level, three territorial regions and three linguistic communities, all with equal constitutional standing. Public salaries are set by statutes. The necessary coherence is assured by a royal decree covering all permanent public employment in any of the seven government entities. Adaptation is achieved by a set of more detailed royal decrees with additional rules for specific public functions or professions. Posts are graded and linked to a set of salary schedules.

France

The French civil service system is based on four civil service laws that together form the general civil service statute. These are basic laws providing the rights and obligations of all civil servants and three laws that relate to the three civil service groups: the French state civil service (*la fonction publique de l'état*), the public servants working in regional and local government (*la fonction publique territoriale*) and the public servants working in public hospitals (*la fonction publique hospitalière*). The system is relatively fragmented due to the existence of a generally large number of separate careers (UPAN, 2006c).

All state civil servants are classified in a unique salary scale. The different elements used to calculate the total pay consist of a basic index in euros, a multiplier corresponding to the civil servant's corps and grade, diverse benefits and indemnities relating to family situation (e.g. housing), as well as deductions, such as contributions to pension and taxes, and bonuses varying by corps. Under this system, civil servants at the same hierarchy level within the same corps in the same ministry receive the same basic pay, irrespective of the quality of their individual work. Cash supplements vary and make the system very opaque. These patterns make the system difficult to reform (World Bank, 2011).

Some OECD member countries – such as Denmark, Finland, New Zealand and Sweden (see Box 3.2) – have replaced traditional civil service systems with an extensive decentralisation of actual salary setting and enforced employer co-ordination linked to bargaining processes and collective agreements. These countries have also developed mechanisms for supporting and monitoring decentralised salary setting. These include supporting budgeting arrangements, guidelines and salary statistics.

Box 3.2. **Achieving coherence – country group B**

Denmark

Denmark has a single two-tiered system for decentralised salary setting for all national government employees. A central collective agreement is negotiated by a separately managed part of the Ministry of Finance (*Personalestyrelsen*). This agreement is then implemented through secondary collective agreements at the budget-user level. Budget users are free to set individual salaries but have to respect the central collective agreement and an affordability restriction. The contents of the central collective agreement are taken into account in setting the individual budget allocations for budget users.

Denmark originally had a classical salary system based on the classification of posts and a salary scale. The consistent use of individual salaries in Denmark is the result of a new salary system that was recently introduced. There are still small groups of uniformed employees that enjoy a traditional civil servant status.

The systems in Finland and Sweden are similar; however, the salient differences are in how wage setting is governed. This is discussed later in this report.

New Zealand

New Zealand has a single-level system of decentralised salary setting for all national government employees. Individual salaries are set by collective bargaining at the budget-user level. The system is managed by an arm's-length agency – the States Services Commission. It exercises control over decentralised bargaining by issuing bargaining parameters that budget users must observe. The bargaining parameters indicate the general employment conditions that are allowed to be amended by local collective agreements. Budget users are free to set individual salaries, but operate within a fixed affordability restriction.

Finally, there are countries such as Estonia, Germany and Ireland (see Box 3.3) that operate dual employment systems in the public sector. They have a traditional civil service system for employees in the government core,

where priority is given to coherence and predictability. Other public employees are employed on the same basis as private employees, and priority is given to adaptability.

Box 3.3. **Achieving coherence – country group C**

Estonia

Estonia has a dual employment system. Officials exercise public authority, implement government policies, and provide public services. Auxiliary staff members provide the technical conditions within agencies that officials need for their work. The employment conditions of officials are regulated by statutes, either by the general Public Service Act or a special law, such as for military personnel, policy officers, border guards, public prosecutors, judges, etc. The employment conditions of auxiliary staff are – like in the private sector – regulated by the Wages Act and collective agreements.

Germany

Germany has a dual employment system. Civil servants (*Beamte*) exercise public functions and have favoured standing. Other public employees (*Angestellte*) are mainly used for administrative and technical tasks. Salaries for civil servants are set by statutes. There used to be a single salary system for all civil servants, but the federated entities (*Lander*) have recently been empowered to adjust the system for their own civil servants. Salaries for other public employees are set by collective agreements.

A relatively large part of the public workforce is composed of civil servants, and the distinction between tasks that require civil servant status and other tasks is not completely rational. It reflects the historical evolution of the public sector and public workforce rather than conscious principles.

Of those OECD member countries mentioned above, none have a completely uniform public employment and salary system for central government employees, although some have had such systems. This is an indication of the need for adaption to a more heterogeneous public service, and the specificities of different public functions and professions.

Another common element among these countries is coherent governance of salaries and other employment conditions in the Centre of Government. This type of system is attained within the sector-wide decentralisation of human resource management. An important observation is thus that the salary system is not fragmented by a complete devolution to line ministries. Local governments may or may not be encompassed by the same

governance arrangements, depending on how autonomous they are in relation to the central government.

However, the scope and character of employees and public functions varies outside the core values of government. In some countries, such as Estonia and Germany, there is a horizontal split between officials and auxiliary staff. In countries such as Belgium and France, the scope of special rules is defined on functional and professional grounds. Special rules are typically used for service-producing functions, especially if they have strong professional cultures, i.e. such as for health, education and cultural services. In countries such as Denmark and New Zealand, all groups are managed in a decentralised system that enables a suitable adaptation for each public function and group. Uniformed groups are, however, often still partially governed by special statutes, even in countries where human resource management is normally completely decentralised.

The present Slovenian public sector salary system is uniform and covers the entire Slovenian public sector, including local governments. It has recently replaced a system with significant inconsistencies, where a large part of total remuneration was in the form of different cash supplements. There are some who support relaxation of the uniform rules. This is likely partially in reaction to transient introduction problems, but it also highlights a lack of a clear strategy for continued evolution of the salary system and of mechanisms for an adaptation to the business needs and workforces of different public functions and budget users.

The recent reform of the Slovenian public sector salary system required a substantial investment of both political and administrative efforts, but resulted in a more coherent and transparent salary system. The broad coverage of the Slovenian public sector salary system is also a valuable achievement that should be safeguarded. Turning back towards a more fragmented public sector salary system would merely waste these investments without resulting in any substantial advantages. Given this, it is suggested that Slovenia instead explore alternative models for introducing options for adaption to business needs and individual workforce characteristics within the existing public sector salary system.

A single salary system covering the entire public sector is not a common feature in OECD member countries. The only countries with such broad coverage are those where local governments play a more limited role, such as Belgium and Ireland, due to the specific context. Federal governments normally have no influence over human resource management in sub-national government administrations. Sub-national governments in unitary countries also tend to enjoy substantial autonomy and manage their own human resources. A desirable coherence can still be achieved, as in the

Netherlands and in Nordic countries, through constructive employer co-ordination of salary bargaining covering both national and sub-national public services.

Supporting coherence with a central employer office

One prerequisite for avoiding a return to a more fragmented system is maintaining and strengthening a professional central public employer office operating at arm's length from the political level.

Such institutions can be found in many OECD member countries, for example Australia (Australian Public Service Commission), Belgium (*Service Public Federal Organisation et Personnel/Fédérale Overheidsdienst Personnel en Organisatie*), Denmark (*Personalestyrelsen*), Finland (*Valtion tyomarkkinalaitos/Statens Arbetsmarknadsverk*), France (*Direction générale de l'administration et la fonction publique*), New Zealand (State Services Commission), Sweden (*Arbetsgivarverket*) and the United States (Office of Personnel Management). Box 3.4 sets out characteristics of these offices around the OECD.

Box 3.4. **Strengthening the central HR function**

The mandate and tasks of central HR institutions (employer offices) varies across OECD member countries. Broadly, however, they are responsible for promoting professional human resource management with budget users at arm's length from the political level, and they are themselves a professional HRM body. Core responsibilities may include:

- strategic workforce planning across the whole of government;
- the design, promotion and enforcement of shared systems such as job classification, competence management, career management and performance assessments;
- the oversight and promotion of public service values and ethics;
- whole-of-service training;
- recruitment and retention; and
- management of the senior civil service.

Box 3.4. **Strengthening the central HR function** *(cont'd)*

Responsibilities may also include budget-related elements of HRM, although these are often allocated to Ministries of Finance. These would include wage setting, representation of the government as an employer in central bargaining covering some or all groups of budget users, and setting the parameters for decentralised bargaining, either unilaterally or through a central collective agreement. If HRM responsibilities are shared in this way, it is very important to establish close and effective co-ordination between the Finance Ministry and the central employer office.

A central employer's office implies a clear delegation of human resource management powers from the political level to a separately managed professional body. It remains responsible to the political hierarchy and central collective agreements may have to be approved by the political level.

A central HR institution typically does not centralise all decisions and processes, however. It usually operates within a framework of significant decentralised HR responsibilities to managers across the administration, providing them with advice and support in their decisions, as well as enforcing shared systems. A strong centre, in fact, enables more effective delegation of certain aspects of HR management to line ministries and others.

In essence, therefore, the function of the central HR institution is to design and oversee the application of core HR policies, while leaving implementation to line ministry HR bodies and line managers.

The Ministry of Public Administration is responsible for the public sector salary system. It oversees the regulatory framework for the system. Its oversight role covers the setting of regulations, interpretation of legislation and implementation of regulations. Responsibility for the proper implementation of the salary system and paying salaries is devolved to individual budget users. As basic salaries are stipulated by a regulatory framework, they are not negotiable within individual organisations (either by the HR unit or individual managers). The extensive reliance on legislation means that the social dialogue primarily deals with legislative amendments and implementation, and that the political level represents the public employer in these negotiations.

The OECD's recommendations for a more versatile public sector salary system require a central public employer function with a significantly adjusted remit. The function should be empowered to represent the public employer in collective bargaining, should be responsible for the rules and arrangements, and should provide bargaining parameters and support for the delegated pay setters. This could not be achieved merely by drafting new

terms of reference, but would require a build-up of new competences. It would also entail a reduction of political involvement in collective bargaining.

Establishing a viable evolutionary pathway

Implementation of the proposed changes should be achieved through an iterative process as a long-term vision is required. There are two possible evolutionary paths. The first path, based on the existing structure, could begin by transforming the present authorisation for bonuses into a pool for extra salary increases for selected employees, and then gradually increase the pool as managers of the budget users gain experience and competence in salary setting. Another possible incremental step could be to select some public functions or sub-sectors that already have a professional management capacity and establish bounded legislation for these budget users.

Should Slovenia opt for the second path, the hospital and tertiary education sectors would be logical candidates. Their interest in being empowered to set their own salaries may, however, be partly motivated by expectations that this would enable them to increase their salaries relative to the rest of the public sector. Thus, this evolutionary path would need to be combined with a change to top-down budgeting and the establishment of affordability restrictions for delegated salary setting at the budget-user level.

However, the first path has the advantage that it introduces the ability for adaptation and a gradual build up of competence across the entire public sector. It also avoids giving an impression that some public functions or sub-sectors are given an opt-out from the single coherent public sector salary system. Slovenia also already has a nucleus of a partial delegation of salary setting, in that salary progression is dependent on favourable performance assessments. This evolutionary path could be initiated by reviewing the rules surrounding salary progression and amending the relevant regulations in order to weaken the link to seniority and allow business needs and workforce characteristics to be taken into account.

Setting up an effective job classification framework

Job classification, a core element of human resource management systems

Job classification schemes are ubiquitous elements in all large-scale human resource management systems. They can provide information regarding the situation on the ground and reduce the transaction costs

associated with recruitment, training, performance assessments and salary setting. Job classifications are always based on a catalogue of post types and their characteristics, and a procedure for determining or amending the classification of a post. However, they vary in their degree of sophistication, as well as in how they are used.

Centralised human resource management tends to use job classifications as normative instruments for determining post establishment and as the basis for salary setting. Seniority increases and different cash supplements are then used to take task and responsibility variations and individual merits into account. Career-based staff systems with multiple careers also tend to use job classifications as normative instruments for defining the set of jobs reserved for a specific career. These job classifications have typically evolved over time as part of budget negotiations and tend to be simplistic.

The introduction of top-down budgeting and decentralisation of human resource management under an affordability restriction do not make job classifications obsolete, but they do change the logic. Normative job classifications would only work to hamper the exploitation of the advantages of decentralised human resource management, where they would instead become descriptive tools, and may be included in the delegated powers.

Centrally defined systems for descriptive job classifications are necessary if the government wants to produce useful sector-wide salary statistics. There are also cases where classifications are transformed into instruments for systematic competency management. However, this is still rare as systematic competency management is uncommon in both private enterprises and public services. When they are used, they tend to be structured using sophisticated analytical methods. See Box 3.5 for country examples.

Weaknesses of the current Slovenian system

The Slovenian system for job classifications is essentially a system for setting salaries. There are 11 salary groups comprising a total of 31 salary subgroups. These subgroups constitute the allowed job types, and all titles and other posts (see the discussion earlier in this report regarding the difference between titles and posts) have to be classified accordingly. There are a number of benchmark posts that facilitate comparisons inside and among salary groups.

There is a common methodology for classifying posts and titles into salary grades. The legislation stipulates that the following criteria be taken into consideration by the common methodology:

Box 3.5. **Country examples of job classification systems**

Belgium

Both the Belgian federal public service and the Flemish Region have developed sophisticated systems for systematic competency management based on competence dictionaries (SPF P&O, 2002; Vlaamse Overheid, 2005). These are used to identify the competence requirements in operative terms for each post. Employees' competences are assessed in the same way and the identified competency gaps are then used as targets for recruitment and training strategies.

Sweden

Each post in the national public service is classified using a common classification scheme and assigned a four-digit code that signals the content and complexity of the tasks associated with the post. Each agency classifies its own posts and may change the classification of a post when necessary.

The classifications are used to produce a detailed salary statistic covering the entire national public service. Each national government agency provides information on the salary and classification of the post for each of its employees. In return, they receive information on the average salary for staff of the same age and sex and with posts that are classified in the same way, as well as on the distribution around the mean.

- the level of difficulty of the work tasks or the conditions for acquiring the title or post;
- the level of training required (the necessary professional qualifications, the additional skills and experience required);
- the responsibility and authorisations;
- the physical and mental exertions involved; and
- environmental influences.

The legislation also stipulates that the common methodology – as well as the classification of benchmark posts and titles, and of posts and titles in 24 of the 31 salary subgroups – must occur by collective agreement.

Each budget user is expected to develop a job catalogue listing the posts and titles in the organisation and the holders of these posts and titles. This catalogue is the basis for the draft personnel plan that the budget user must

submit during preparations of the budget, and which defines both the allowed number of staff and the expected payroll costs.

This system is primarily designed for salary setting, budgeting and establishment control and can, as currently constructed, hardly be used for systematic competency management or more versatile human resource management. The only variable that may be influenced by the individual budget user is the grading (classification) of titles and posts. However, this can only be achieved through a collective agreement.

Introducing top-down budgeting would break the link between the job catalogue and the budget process and enable modernisation of the system of job classifications. Continued improvements could involve action along two axes. The first would entail opening up from rigid posts and titles to broader job categories and job classes while creating corresponding salary ranges and a more flexible procedure for local grading (classification). This could be seen as the continuation of the salary reform, creating more flexibility but ensuring that no staff are left worse off by using red-circling/grandfathering arrangements. In this case, care should be taken to preserve the possibilities for salary comparisons across the public sector. The second would be to start aligning requirements for formal educational achievements with a systematic description of the actual skills and competences required for each post and title. This would be facilitated by the development of an adequate competence catalogue.

A key weakness of the public sector salary system is that its fundamental base is a grading of posts and titles rather than individual skills, competences, performances and actual tasks. A budget user that needs to modernise its internal organisation also faces considerable obstacles due to the inertia generated by the present procedure for re-classification and re-grading of posts.

Another weakness concerns rudimentary competency management, which seems to be limited to setting minimum requirements for educational achievements. Systematic competency management of the type used in, for example, the federal and the Flemish public services in Belgium would require a shift in the emphasis of jobs systematisation from graded posts to available and required skills, competences and capacity. Assessments of organisations' competence needs and the corresponding individual competences of employees could then be used for recruitment and training.

Slovenia's job classification scheme is rigid and prohibits any further modernisation of the public sector salary system. It is highly recommended that, incrementally over time, Slovenia look to transition to a modernised job classification (classes) framework built on competencies and attached to salary ranges with salary steps. This would enable greater managerial

flexibility in setting starting salaries and greater linkages to other reforms within the salary system to support the development of more efficient and effective operation of the public administration. Examples of countries operating modernised job classification systems include Australia (see Box 3.6) and New Zealand.

Box 3.6. **Job classification framework in Australia**

The Australian Public Service operates a standard schedule of approved salary classifications, where agency heads (secretary of a department, head of an executive agency or statutory agency) have the delegation to allocate and approve classification of each group of duties to be performed by their organisation. The classification must be appropriate based on the work value requirements of the group of duties. An agency head must issue, in writing, work-level standards describing the work requirements for each classification applying to a group of duties to be performed in the organisation. Work-level standards for a classification must reflect the work-value requirements for the classification.

Each classification is matched by salary ranges (broadband) with salary steps (salary scale), which enable salary progression within the broadband. Salary advancement for individuals within classifications and broadbands is subject to a minimum rating of satisfactory performance. The monetary value of the salary steps is determined within each individual agency's collective agreement. Salary increases (indexation of the salary scale) are determined through collective agreements, which are generally renegotiated every three to four years. Improvements in pay and conditions are to be funded from within existing organisational budgets, without the re-direction of programme funding. In addition, improvements in remuneration (or salary indexation) are to be offset by genuine, quantifiable productivity improvements.

Source: Australian Department of Employment, Workplace Relations and Small Business (2000), Public Service Classification Rules, Commonwealth of Australia, Canberra; Australian Public Service Commission (2011), "Australian Public Service Bargaining Framework", Commonwealth of Australia, Canberra, January.

The issue of wage relativities

The function of salaries

Salaries have many overlapping social and economic functions. From a purely fiscal standpoint, salaries represent production costs for employers and subsistence means for employees. From a broader economic point of view, salaries also represent market prices for different types of skills that must be paid for in order to ensure adequate access to those skills. They can also be used as managerial instruments by which employers signal

satisfaction and/or dissatisfaction. Finally, they are also status markers and part of a workplace's internal social fabric.

Existing salary structures are always the products of complex processes. Annual revisions are normally iterative and restricted by what changes are possible in the short run, and budgetary restrictions limit the possible adjustments of relative salary levels. Slovenia's recent revision of its public sector salary system is a rare exception, with its whole-of-government perspective, its substantial adjustments of relative remuneration levels and its long maturing time.

Employment conditions have traditionally been different in the public and private sectors. The segmentation of the labour market into public and private has come under increasing pressure as societies have evolved, private enterprises have become more attractive employers, and citizens' preferences have changed as a result of better education and higher affluence. Centrally determined employment conditions – including salaries – have, in many OECD member countries, been seen as an impediment to continued development of an efficient and service-oriented administration, and of performance-oriented management. A recurring problem associated with centrally defined and operated salary systems is salary discrepancies relative to market wages, where some employees are paid more than necessary, while others are paid lower wages than they could get elsewhere.

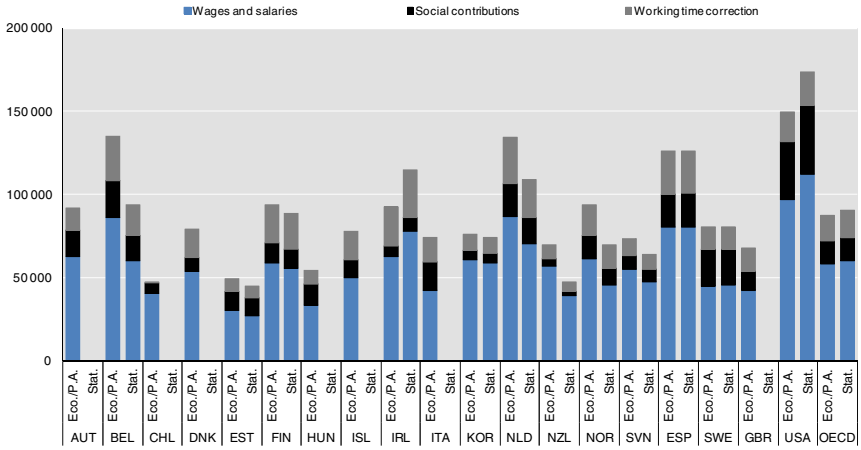
Determining the appropriate level of compensation

Over time, it becomes difficult for public services to pay wages below market rates and still remain employers of choice. The value changes discussed earlier tend to exacerbate these problems. Slovenia is no exception. Survey data for Slovenia indicate high scores for self-reliance while materialist values remain strong. Data for persons aged 15-29 shows that 95% agree that "a job that is interesting" and 91 % that "good pay" are important aspects when looking for work, while only 67 % say the same about "a respected job".[5]

OECD comparative data indicate that Slovenia falls below the OECD average for compensation of its public sector economists/policy analysts, middle managers and particularly senior managers (see Figures 3.1-3.3).

Figure 3.1. **Average annual compensation of economists and statisticians in central government**

2009 USD PPP, adjusted for differences in working hours and holidays

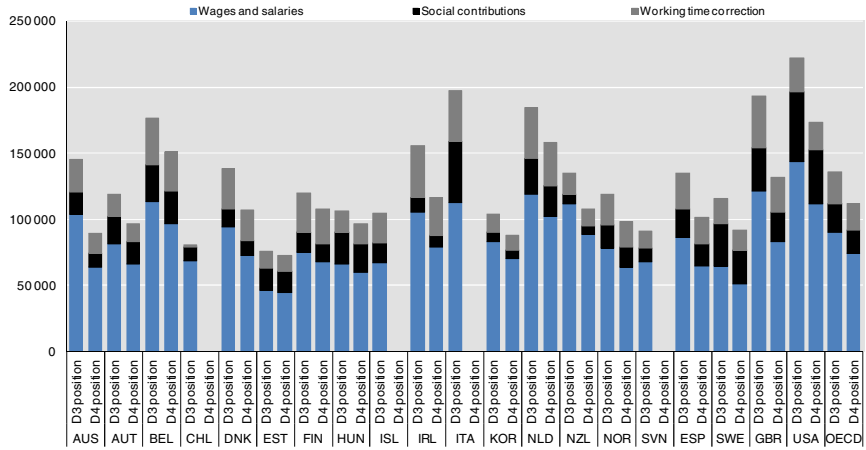


Notes*:* Compensation data for statisticians are missing or mixed with economist/policy analyst positions for Austria, Chile, Denmark, Hungary, Iceland, Italy and the United Kingdom. Austria: economists/policy analysts and statisticians have the same compensation. Brazil: source of social contribution: IBGE. Source of PPP: World Bank. Data include career salary +60% of *Direcção e Assessor amento Superiores*. Chile: data exclude bonuses for critical functions. This affects cross-country comparisons by one to two percentage points depending on the occupational group, but may be much higher for top-ranking positions. Ireland: data take into account the decrease in salaries following the Financial Emergency Measures in the Public Interest Act 2009. Social contributions rates refer to staff hired after 1995 and exclude unfunded pension schemes though the pay-as-you-go system. Estonia: the information does not correspond exactly to the ISCO occupational groups. Economists/policy analysts cover all professionals that are employed in policy making or basic units in ministries, and statisticians cover all professionals in support units. Korea: civil servants are entitled to 3-21 days of annual leave per year depending on the length of service. New Zealand: data do not include all social payments including sick leave and other unfunded leave payments made by employers. Spain: major reductions in compensation made in May 2010 are not reflected. United Kingdom: data exclude additional payments. Data are not available for Australia, the Czech Republic, France, Germany, Greece, Israel, Japan, Luxembourg, Mexico, Poland, Portugal, the Slovak Republic, Switzerland and Turkey. Canada withdrew its data.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris.

Figure 3.2. **Average annual compensation of middle managers in central government, 2009**

2009 USD PPP, adjusted for differences in working hours and holidays

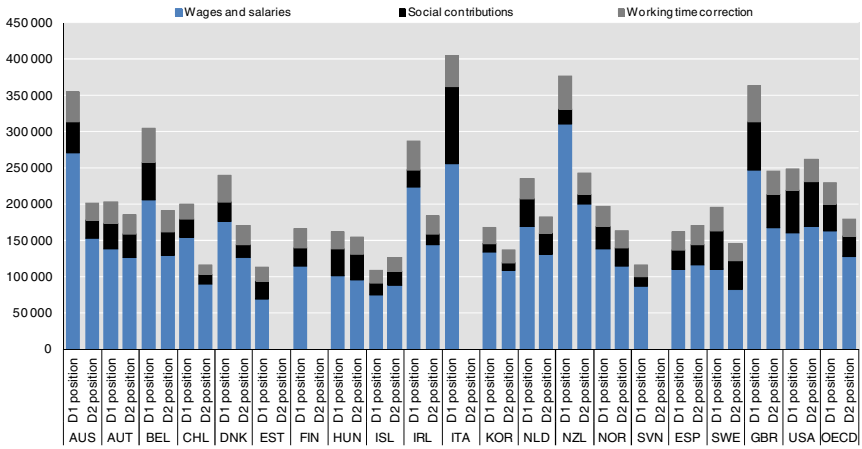


Notes: Compensation data for D4 positions are missing or mixed with D3 positions for Chile, Iceland, Italy and Slovenia. Austria: value is median rather than average. Brazil: source of social contribution: IBGE. Source of PPP: World Bank. Data include career salary +60% of *Direcção e Assessor amento Superiores*. Chile: data exclude bonuses for critical functions. This affects cross-country comparisons by one to two percentage points depending on the occupational group, but may be much higher for top-ranking positions. Estonia: data for managers in policy-making/basic units of ministries are presented under D3 and data for managers in support units of the ministries (budgeting, personnel, IT, etc.) are presented under D4. Ireland: data take into account the decrease in salaries following the Financial Emergency Measures in the Public Interest Act 2009. Social contribution rates are for staff hired after 1995 and exclude unfunded pension schemes though the pay-as-you-go system. Italy: public managers' compensation is comprehensive in that it rewards "all functions, tasks, and assignments performed in relation to their office" and also includes social contributions paid by the manager (11% of gross salary). The government introduced cuts in 2011 to the wages of all public managers with a total gross remuneration above EUR 90 000. Reductions amount to 5% for the share of gross remuneration between EUR 90 000 and EUR 150 000, and 10% for the part exceeding EUR 150 000. Korea: civil servants are entitled to 3-21 days of annual leave per year depending on the length of service. New Zealand: data do not include all social payments including sick leave and other unfunded leave payments made by employers. Spain: data are from 2009, and a major reduction in compensation in May 2010 is not reflected. United Kingdom: data exclude additional payments. Data are not available for the Czech Republic, France, Germany, Greece, Israel, Japan, Luxembourg, Mexico, Poland, Portugal, the Slovak Republic, Switzerland and Turkey. Canada withdrew its data.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris.

Figure 3.3. **Average annual compensation of central government senior managers, 2009**

2009 USD PPP, adjusted for differences in holidays



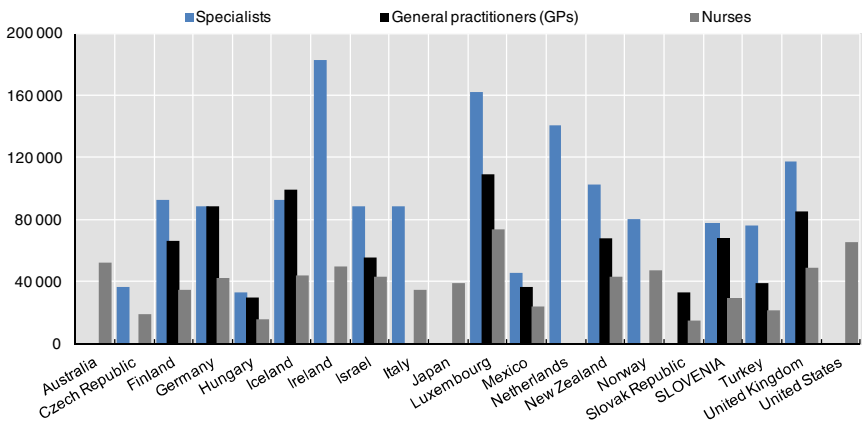
Notes: Compensation data for D2 positions are missing or mixed with D1 positions in Estonia, Finland, Italy and Slovenia. Austria: value is median rather than average. Brazil: source of social contribution: IBGE, source of PPP: World Bank. data include career salary +60% of *Direcção e Assessor amento Superiores*. Chile: data exclude bonuses for critical functions. This affects cross-country comparisons by one to two percentage points depending on the occupational group, but may be much higher for top-ranking positions. Ireland: data take into account the decrease in salaries following the Financial Emergency Measures in the Public Interest Act 2009. Social contribution rates are for staff hired after 1995 and exclude unfunded pension schemes through the pay-as-you-go system. Italy: public managers' compensation is comprehensive in that it rewards "all functions, tasks, and assignments performed in relation to their office" and also includes social contributions paid by the manager (11% of gross salary). The government introduced cuts in 2011 to the wages of all public managers with a total gross remuneration above EUR 90 000. Reductions amount to 5% for the share of gross remuneration between EUR 90 000 and EUR 150 000, and 10% for the part exceeding EUR 150 000. Korea: civil servants are entitled to 3-21 days of annual leave per year depending on the length of service. New Zealand: data do not include all social payments including sick leave and other unfunded leave payments made by employers. The D1 and D2 managers' compensation of the particular organisations surveyed are among the highest of all New Zealand public service departments. Spain: data are from 2009, and a major reduction in compensation in May 2010 is not reflected. United Kingdom: data exclude additional payments. Data are not available for the Czech Republic, France, Germany, Greece, Israel, Japan, Luxembourg, Mexico, Poland, Portugal, the Slovak Republic, Switzerland and Turkey. Canada withdrew its data.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris.

Salaries and wages are not monolithic across the government; they vary by position, the share of remuneration based on performance, working hours and benefits. For example, in Australia, performance-related pay can represent either over 20% of the basic salary or less than 10%, depending on the position. While there is a large variation across countries in the average annual compensation paid for certain positions, teachers and nurses tend to make less than the average wage for university-educated adults in most countries. This is particularly evident in Slovenia (see Figures 3.4 and 3.5).

Figure 3.4. **Compensation of salaried doctors and nurses, 2008**

2009 USD PPP



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris.

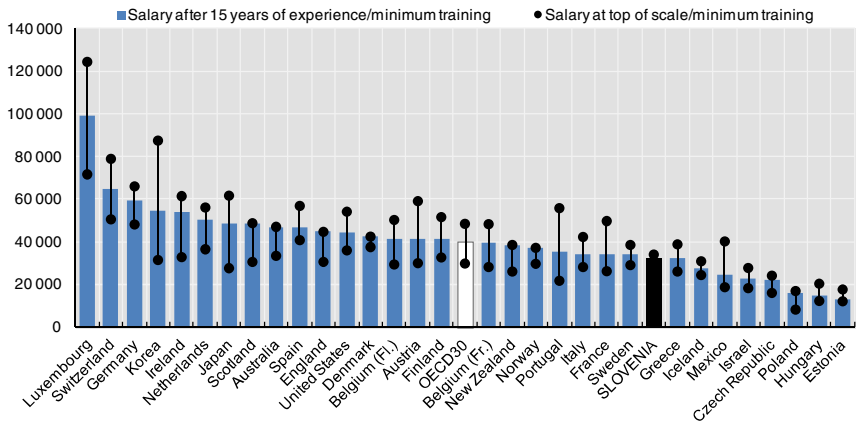
Despite the low comparative public sector wages, there are no indications that in Slovenia average public sector salaries are significantly lower than private sector wages. However, there may be professions and skills where this is the case. That said, there are differing views among OECD member countries as to the appropriate ratio of difference in wages between the public and private sectors.

Many countries do not have the data to determine whether public sector staff are overpaid or underpaid compared to private sector counterparts. One of the tasks of the central public employer should therefore be to monitor the relative wage developments in the private and public sectors based on tasks,

professions and/or skill levels. It should also assist the Slovenian Government in drawing up and implementing systematic policies for attracting and retaining scarce and salient competences.

Figure 3.5. **Teachers' salaries in lower secondary education in public institutions, 2008**

2009 USD PPP



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris.

Substantial work is being undertaken in many OECD member countries on analytical job evaluation schemes aimed at determining objective relative salary levels for different jobs and competences. These projects are often undertaken in relation to alleged cases of salary discrimination. Such job evaluations are quite sophisticated instruments for pay determination that may produce credible technical results, but are cumbersome and expensive and only justified if the pay system that it produces is to stay fixed for a considerable number of years (Cardona, 2007a,b). They may also produce results that are incompatible with the wage relations established in the labour market.

There is generally no valid answer to the question of optimal salary criteria. However, it is possible to provide a number of general recommendations. One is to use market wages and targets for different skills and competences. Another is to ensure that efforts, initiatives and

performances are rewarded, and that unsatisfactory work and behaviour is sanctioned or at least signalled. This can't be undertaken without a sufficient scope for individual differentiation of remuneration. In addition, it is also possible to phase out automatic seniority rewards and instead allow valuable previous experiences to affect individual remuneration. A final possibility is to ensure that the combination of job content, remuneration and other work conditions are such that it is possible to recruit and retain a sufficiently skilled work force.

Finally, remuneration systems should be as simple and transparent as possible. All differences in salaries and salary increases should be easily understood based on objective factors, and thus perceived as legitimate. A constructive social dialogue about both the design and operation of the remuneration system can make important contributions towards these goals.

Appropriate method of determining wage increases

The public sector represents an important segment of the economy in all OECD member countries, although its share of GDP varies across countries. The public employer is also by far the largest employer, ranging from 7% of the labour force in Japan to nearly 30% in Denmark and Norway. According to 2009 data, Slovenia's compensation costs of general government employees was just above the OECD average, at 25% (see Figure 3.6).

The public sector tends to be dominated by the provision of services, and thus the work is relatively labour-intensive. The number of public employees and their level of remuneration is therefore always a key fiscal policy variable. Both these quantities are by nature more easily increased than decreased, especially in countries with indexed salaries and employment for life.

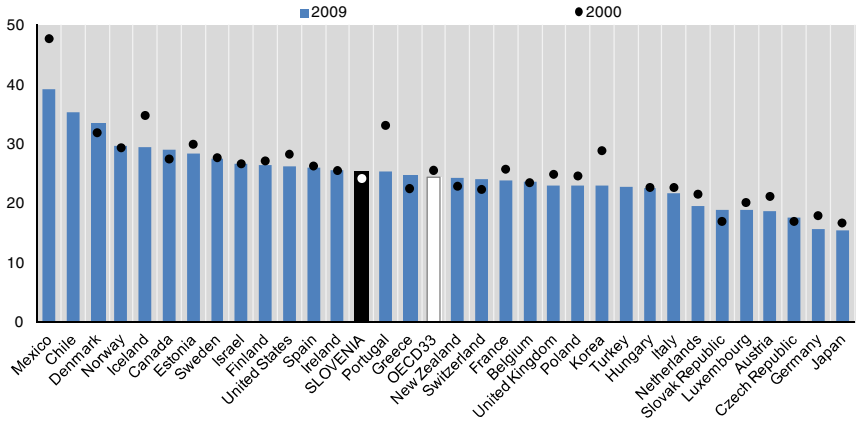
The public sector must compete with the private sector for staff with appropriate skills. The size of the public sector means that wage setting in the public sector may influence wage setting in the private sector, and thus its economic competitiveness. This effect is especially important in small countries where foreign trade is high in relation to GDP, and even more so in countries that belong to a currency union, such as Slovenia.

Pre-modern public sectors rarely had any systematic wage-setting mechanisms. The governments could in theory set salaries at will, although this was rarely a real option. Governments wanted public employees to be loyal and to identify themselves with the public service, and cultural expectations therefore always played a strong role. Automatic inflation indexation was introduced in some OECD member countries as a replacement for earlier formal or informal provision principles. All forms of

inflation indexation are, however, incompatible with active fiscal policies and cost management. These systems have therefore been or are being phased out in OECD member countries. Price movements may, however, still be one of the factors taken into account when setting public sector salaries.

Figure 3.6. **Compensation of general government employees, 2000-2009**

As a % of general government expenditure



Note: no data for Australia. No 2000 data for Chile and Turkey. OECD 31 does not include Australia, Chile and Turkey. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD National Accounts.

A goal in the Slovenian Social Agreement for 2007-2009 was that pay growth in real terms be maintained at a steady level so that levels of pay in Slovenia could gradually approach those in more developed countries, and that pay growth take both inflation and productivity into account. These commitments were clearly unsustainable, as demonstrated when economic growth and public finances deteriorated, particularly during the crisis.

The mere size of public sector employment makes unstructured and unprincipled salary setting risky. All countries need to structure their salary setting and find benchmarks and reference points that enable them to master cost evolutions, reduce transaction costs and manage the interdependence between public and private wage formation. Many OECD member countries

also employ other methods for moving salary setting from the sphere of political discretion to more structured or formalised processes.

The exact modalities of these processes are more transparent, and thus more accessible, in countries with decentralised pay setting and salaries which are set on an individual basis. Many countries use *ad hoc* remuneration comparisons with the private sector as inputs to the regular wage setting in the public sector. Some countries use sectoral pay boards composed of independent experts that present recommendations for salary increases for certain groups of employees. However, there is always a risk that such systems may result in higher salary increases than that which would occur as part of a negotiated settlement. See Box 3.7 for country examples.

Box 3.7. **Country examples of mechanisms for determining wage increases**

Denmark

The Danish central collective agreement for the national public service is negotiated and signed by the Government Employer's Authority (*Personalestyrelsen*), an independently managed body within the Ministry of Finance. The macroeconomic and fiscal policy inputs to this process come from other parts of the Ministry of Finance, while both the Government Employer's Authority and the trade unions may contribute comparisons with salaries in the private and local government sectors. The final agreement has to be approved by the Minister of Finance. Agreements have included *ex post* adjustments for higher or lower salary increases in the private sector. The affordability restrictions are set by budget allocations, which take the national collective agreement into account.

Finland

The Finnish central collective agreement for the national public service is negotiated and signed by the Government Employer's Authority (*Valtion työmarkkinalaitos*/*Statens Arbetsmarknadsverk*), an independently managed part of the Ministry of Finance. The salary negotiations are normally preceded by the negotiation of a broad income policy agreement between the government and all relevant social and economic actors. This agreement sets limits for acceptable wage increases in each economic sector, including the national service and the local public service sector.

Box 3.7. **Country examples of mechanisms for determining wage increases** *(cont'd)*

Sweden

Salary setting is delegated to the individual national government agencies. The Swedish central collective agreement for the national public services is negotiated and signed by the Agency for Government Employers, which functions as an agency confederation. Salary agreements signed by national government agencies do not have to be approved by the government. Instead, agencies have to observe an affordability restriction, since budget allocations are not affected by actual salary increases. The Ministry of Finance uses a formalised private sector benchmark to determine how budget allocations are to be adjusted for wage cost increases. This benchmark is based on the average increases of salaries for white-collar employees in the parts of the private sector that are exposed to foreign competition.

United Kingdom

The United Kingdom sets bargaining parameters and adjustments of budget allocations after bi-lateral negotiations between the Treasury (i.e. the ministry responsible for the budget) and individual budget users. The *ad hoc* nature of these negotiations and the fact that they are spread over a time period has led to inconsistencies in the public salary structure. In addition, salary increases for selected groups, such as teachers and medical staff, are based on the recommendations of independent pay boards; this has also contributed to a lack of coherence in the public sector salary structure (Pilichowski, 2005; Rexed, 2007).

Adapting the wage negotiation framework

Slovenia is a small country with a high foreign trade dependency and member of the euro area. Thus, it needs to institutionalise a wage-setting mechanism that enables its government to pursue active fiscal policies and to manage the interdependencies between public and private wage setting. Any form of automatic salary indexation – generally or for selected groups – would in this context be counter-productive. Slovenia should thus avoid a return to the type of agreements represented by the 2007-2009 Social Agreement, and instead merely anchor wage formation to the country's international economic competitiveness and the stability of its public finances.

It is proposed that Slovenia opt for a simple and easily implemented model for wage negotiations. Later in this report, Slovenia is advised to implement a model for two-tiered collective bargaining. That model enables a central ministerial body to propose bargaining parameters, after consultation with concerned ministers, and to enshrine them in a national collective agreement. It should be noted that the collective agreement for the Danish national public service determines salary increases on an *ad hoc* basis, and that they can contain *ex post* corrections if salary growth in the private sector differs from expectations.

Slovenia needs to amend its public sector salary system to allow for increased decentralisation and a greater scope for budget users to adapt their remuneration structure to their own business needs and workforce characteristics. As a first note, an iterative processes is preferable to implementation via a fast major change, particularly due to the specific Slovenian context. There are three possible evolutionary paths that Slovenia could consider.

A first option could be to move towards a dual employment system, similar to the type used in either Estonia or Germany. This would entail taking technical and administrative staff out of the civil service system and using the same type of human resource management practices as in the private market for these groups. It would, however, still leave Slovenia with a need for a more versatile salary and management system for its remaining civil servants.

The remaining two evolutionary paths lead to a larger delegation of human resource management, but differ in how this is achieved. The first entails introducing delegation in a few sectors and then gradually expanding the number of functions or sectors with delegated salary setting. It might then seem logical to start with sectors that already have a professional management capacity, such as the hospital and the tertiary education sectors. Their interest in being empowered to set their own salaries may, however, partly be motivated by expectations that this would enable them to increase their salaries relative to the rest of the public sector. This evolutionary path would therefore need to be combined with a change to top-down budgeting and the establishment of affordability restrictions for delegated salary setting at a budget-user level.

The remaining possible evolutionary path would entail a broad but limited delegation, which then would be gradually expanded as budget user managers and trade unions gained experience from and capacity for decentralised salary bargaining. It might then seem logical to start by transforming the present authorisations for bonuses into a pool for extra salary increases for selected employees, and then gradually increase the pool

as the managers of the budget users gained experience and competence in salary setting.

This evolutionary path has the advantage that it introduces ability for adaptation and a gradual build-up of competence across the entire public sector. It also avoids giving an impression that some public functions or sub-sectors can opt out of the single coherent public sector salary system.

It seems reasonable – given the specific Slovenian context and its recent investment in a coherent public sector salary system – to recommend that Slovenia opt for the third of the evolutionary paths. It can – like in New Zealand and other OECD member countries that still have statutory governance of employment conditions – replace national bargaining with sub-central bargaining bounded by bargaining parameters established unilaterally by the public employer. Slovenia's established tradition of social dialogue and trade union involvement in salary setting would, however, make it more reasonable to use a two-tiered bargaining model. Denmark provides an example (see Box 3.8).

Box 3.8. **Two-tiered bargaining in Denmark**

Denmark sets salaries through a two-tiered bargaining and collective agreement system. The national agreement covers the entire national public service. It sets expected average levels of salary increases and may provide guarantees for minimum increases, regulates employment conditions that should be equal for all employees, sets standard conditions to be applied unless the local social partners agree on amendments, and sets the procedures to be followed when implementing the agreement.

The national collective agreement is implemented by local collective agreements at the budget-user level. Secondary bargaining at the local level only concerns the local parties; that is, the budget user's management and local trade union representatives. The central parties do not participate on either the employer's or the trade union's side, unless the bargaining process breaks down. Trade unions that are not represented among the budget user's employees are neither consulted nor informed. This type of devolution is made possible by the fact that both local employers and local trade union representatives are bound by the bargaining parameters set out in the central collective agreement and by the affordability restriction set by the budget system. The national collective agreement is implemented by local collective agreements at the budget-user level. These agreements are financially bounded by the budget allocations that constitute an affordability restriction.

The salient characteristics of this model are that the central collective agreement, and not the personnel plans of individual budget users, are used as an input to the national budget process. The budgets of individual budget users are thus not affected by their own salary setting, thereby establishing an efficient affordability restriction.

The national social partners co-operate in setting the bargaining parameters and the procedures for its implementation at the budget-user level. These may include both individual and collective guaranteed salary increases, which may vary across budget users, public functions and/or professions. They also agree on measures to support decentralised salary setting such as the production of appropriate salary statistics. Finally, they set the procedures to follow if the local partners fail to reach a local agreement.

This model allows for gradual expansion of the scope of decentralised salary setting. The transitions to such systems in the Scandinavian countries were undertaken slowly. Initially, national collective agreements were relatively detailed and contained much of the adaptation to specific sectoral or functional business needs. Gradually, as budget users and local trade unions at the budget-user level gained more experience and competence in salary setting, the material contents were transferred to secondary agreements at the budget-user level. There is nothing in the model as such that requires a complete transition to individually set salaries, although that has been the case in the Nordic countries.

The functioning of the Danish model is facilitated by a tradition of constructive social dialogue and the high level of concentration and co-operation in the Danish trade union movement. These issues are discussed later in this chapter.

Cash supplements

Supplementary cash benefits are ubiquitous in remuneration systems. The number of such benefits and their aggregated scope vary substantially across OECD member countries. They have never been the subject of systematic scrutiny, nor is there a uniform terminology for the labelling of different supplements. For the purpose of this report, they can, however, be grouped into three major groups:

- generally occurring supplements;
- supplements linked to collective salary systems; and
- other supplements.

Generally occurring supplements include compensation for expenses (i.e. business travel, meals away from home, workroom at home, etc.); compensation for inconvenient work hours (i.e. overtime, work when others are free, shift work, being on call, etc.); and compensation for inconvenient work conditions (i.e. different types of hardship including sea duty, flight duty, outback posting, solitary work, aggravated risks, etc.). Almost all remuneration systems have similar supplements for staff below the management level.

Supplements linked to collective salary systems include rewards for greater responsibilities; for higher competences (i.e. diplomas, experiences, language proficiencies, etc.) and for higher performances than normally associated with the grade. They also include compensation for postings to locations with a high cost of living and supplements intended to reduce the risk of resignations. This type of supplement is linked to salary systems based on a formal grading of posts. There is no need for these supplements in systems based on individually determined salaries, although some supplements may be retained as visible incentives even in such systems, for example for performance or language proficiencies.

Other existing supplements include supplements due to family situations (i.e. spouse, children and other dependents), annual supplements, and holiday supplements. These types of supplements are very dependent on the national context, and a complete review of practices in OECD member countries would probably reveal a number of unexpected benefits. Some Irish public employees, for example, receive supplements for not being able to claim other supplements (Leahy, 2009).

The total remuneration system can also include other benefits in addition to basic salary and supplements, such as access to education, pension entitlements and extra insurance coverage. These are not discussed in this report.

Supplementary cash benefits provide short-term flexibility that makes it possible to compensate employees for unforeseen variations in working conditions and tasks. There are at the same time many examples where they have grown beyond that rationale and crowded out basic salaries. Line ministries that have to use a common post systematisation and salary scale may, for example, introduce or increase supplementary cash benefits as a way of increasing the remuneration of staff within their sector. If this is allowed to continue unchecked, it will relatively quickly result in substantial incoherencies.

Comparative data on the frequency of cash supplements other than performance bonuses are scarce, and much of the information that is available is only isolated facts. Interpretation is also difficult due to the lack

of clear definitions. For example, a Canadian Government regulation (Canadian Government, 2011) lists 54 different cash supplements that are not included when wage rates are calculated. Sweden had a substantial number of different cash supplements in the 1970s before it began to decentralise salary setting in the national public services (Arbetsgivarverket, 1974). An OECD presentation (Pilichowski, 2005) in 2005 showed levels in selected OECD member countries ranging from 0 to 80% of total remuneration. A World Bank Study of Kazakhstan (World Bank, 2007) estimated levels of 39-40% in central offices, and 23-29% in de-concentrated offices.

The situation in Slovenia before the recent reform of its public sector salary system – which included eliminating a large number of supplementary cash benefits – presents a similar picture. A country report (Virant, 1999) prepared in 1999 for SIGMA stated that bonuses and allowances stood for between 0 and 70% of take-home pay. Later, another SIGMA report (OECD, 2003) on Slovenia stated that the variable part of the salary might amount to more than 50% of the take-home pay (even up to 80% according to certain sources), depending on the institution or even varying from one individual to another. More than 80 different supplements, bonuses and allowances had then been recorded in a tally.

The existence of an abundance of cash supplements to the basic salary makes a remuneration system less manageable and transparent. They, for example, make it difficult to assess relative remuneration levels, both for women in relation to men and for the public sector in relation to the private. The problems were highlighted in the latter SIGMA report on Slovenia, which stated that it was almost impossible to know which salary components and amounts were applicable, that the system was very opaque, and that salary disparities between ministries were widespread and substantial. Both the OECD and the World Bank therefore recommend that cash supplements be integrated into the basic salary. This will, however, be difficult unless the system for setting the basic salary is reformed at the same time.

Slovenia's general Employment Relations Act contains a set of compulsory cash supplements (Articles 127-131). These include *i)* allowances for special working hours, i.e. night work, overtime, Sunday work and work on statutory holidays and free days; *ii)* allowances for years of service; *iii)* holiday allowances; and *iv)* reimbursement of costs for meals during work, for travel expenses to and from work, and for costs the worker incurred during business travels. The amounts are not set by the law but in collective agreements or executive orders.

Of the cash supplements for public sector staff, one is specific to Slovenia: the legislated compensation for travel expenses to and from work. This obligation was originally included in collective agreements during the Yugoslav years, and can only be understood as a product of the specific Yugoslav self-management system. However, after independence it was transferred to parliamentary legislation (Employment Relations Act, Article 130). Such expenses are normally considered as personal living costs in other OECD member countries, since the employer cannot influence the employee's choice of a place to live. The only exceptions are when the employer has transferred an employee to a post in another part of the country. It is suggested that Slovenia look to phase out this specific cash supplement in all other cases.

At present, there are eight groups of allowed cash supplements listed in the Public Sector Salary System Act (s23(1)). The amounts for these supplements are stipulated by law, government decree or the collective agreement for the public sector. The allowed supplements are:

- position bonuses;
- length-of-service increments;
- mentorship bonuses;
- bonuses for specialisation, master's degree or PhD, if such is not a condition for occupying the position;
- bilingualism bonuses;
- compensation for disadvantageous working conditions not taken into consideration in the valuation of the position or title;
- compensation for dangers and special burdens not taken into consideration in the valuation of the position or title; and
- compensation for work during less convenient hours.

This list is not excessive and corresponds to supplements in other OECD member countries. Only three of the supplements belong to the group of generally occurring supplements: mentorship, bilingualism bonuses, and compensation for work during less convenient hours. The other five are all linked to collective salary systems, which means that they can be integrated into a more flexible system for setting basic pay.

Decentralisation of decisions on eligibility criteria and amounts for cash supplements to line ministries or budget users would entail significant risks for incoherencies, which could be mitigated by the use of appropriate affordability restrictions. Thus, the Slovenian Government should for the

time being ensure that these decisions are taken by a central employer's office, when appropriate after consultation with the concerned line ministries and/or budget users.

Performance incentives

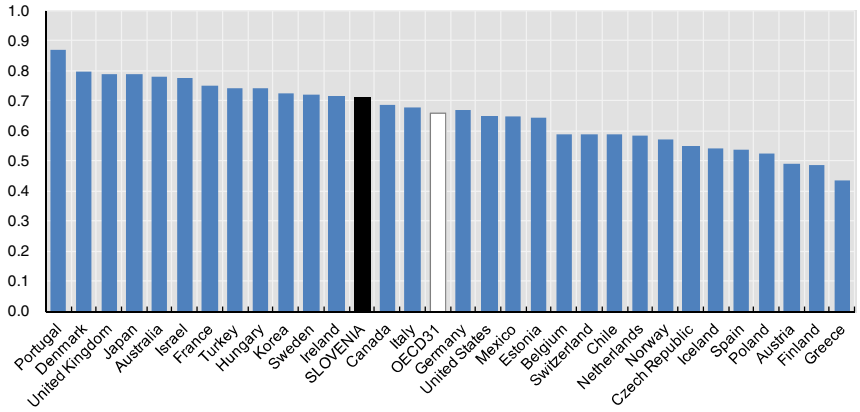
The ultimate aim of performance management is to enable operational managers to work with their staffs to align their individual needs, interests and career aspirations with the organisation's business needs. Performance management at the individual level can thus be described as a process for ensuring that employees understand what is expected of them, assessing their performances, providing them with feedback, and helping them do better. It is related to, and sometimes combined with, measures that promote continuous improvement, and should enable a learning process.

Today's more heterogeneous character of public service means that the performance concept has been broadened and that new models and incentives for better performance are being sought and tested among OECD member countries. Over the past two decades, the majority of OECD member countries have implemented reforms to modernise their public administrations with the aim of increasing efficiency and quality in service delivery. A cornerstone of these reforms has been the implementation of performance-oriented management of public services and public employees.

The data available for OECD member countries show that performance is an important issue on all governments' agendas. At the same time, they show a variation in both the importance assigned to performance in government and management and the use of performance-related pay elements. OECD data show a variation in the reported extent of the use of performance assessment in HR decisions, ranging from just over 0.4 in Greece to almost 0.9 in Portugal on a scale of 0 (no use) to 1 (high use) (OECD, 2011c).[6] Slovenia ranks above the OECD average at 0.7 (see Figure 3.7). However, such data should be used with caution, as it merely indicates the use of performance assessment in HR decisions and not the quality and effectiveness of its use.

Individual indicator-based performance rewards are rare for public employees and other white-collar employees. Performance-related pay elements are instead almost always based on assessments of the individual employee's performance. This can only be done by those who have close contact with the employee. It thus requires some kind of devolved decisions. Judgment-based assessments are vulnerable to patronage and discrimination, and countries that use such methods have to ensure that there are sufficient checks and balances limiting such risks (see Box 3.9 for country examples).

Figure 3.7. **Extent of the use of performance assessments in HR decisions in central government, 2010**



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris.

Box 3.9. **Country examples of performance management schemes**

United States

In the General Schedule base pay system, an agency may advance an employee who meets a high performance bar – outstanding performance – to the next step of a grade (range) (approximately a 3% increase). An agency may grant a cash performance bonus for above-average performance. These bonuses are typically 1-2% of salary.

Funding is provided out of the regular budget for salaries and expenses. This scheme applies to around 1 million employees. In the case of unusually outstanding performance, a department head may pay an individual a larger bonus, but never more than 20% of base pay.

Box 3.9. **Country examples of performance management schemes** *(cont'd)*

Netherlands

An old system with a performance bonus scheme, market-related allowances and continued service bonuses was abolished in 1998 and replaced by an uncapped award. This can take the form of a one-off bonus or a periodic supplement. The reasons for granting awards are no longer laid down in the rules and regulations. The competent authority at the decentralised level can determine its own reasons for making such an award and how to achieve this.

Since 1 January 2001, civil servants have had an enforceable right to a performance assessment interview, and at least one must be held each year. The competent authority's assessment of performance and any resultant decision on pay must be based on transparent and objective appraisal criteria.

There are no longer any automatic annual salary increases. The criterion for the award of an annual salary increase is that performance has been satisfactory (in the competent authority's assessment).

Various types of performance-related pay elements are used. At one end are temporary bonuses given in addition to other forms of remuneration. These entail additional costs and are therefore normally not allowed to surpass a minimum number, size and duration. In the middle are systems with fixed salary scales or grids, where progression depends on favourable performance assessments. At the other end are systems with individual pay, where performance assessment is merely one of several factors influencing the pay decisions, which are difficult to separate from other factors.

The OECD also suggests that assessments be transparent and easily understandable, and that employees have access to secondary reviews of less favourable assessments.

Box 3.10. **OECD guidelines for performance-oriented HRM**

Based on a number of different reports and peer-to-peer discussions, the OECD has identified nine salient points as guidelines for performance-oriented human resource management (OECD, 2008: 44-45):[1]

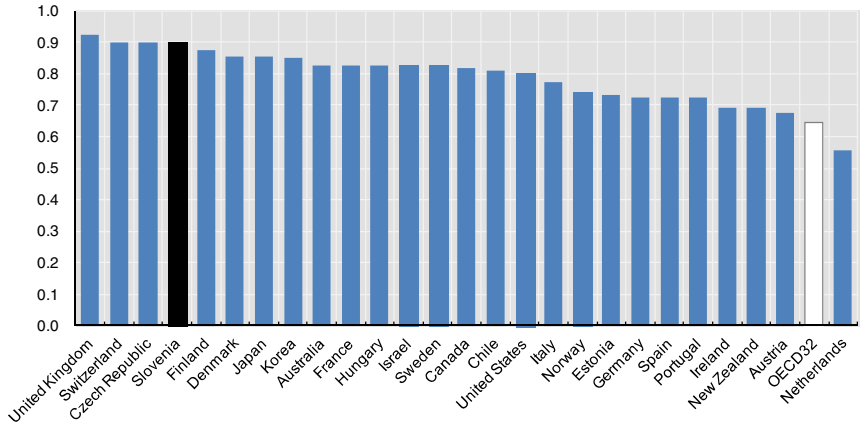
1. The cornerstones of any performance management are the strategic goals and the business plans of the organisation.
2. Performance management should be based on a systematic assessment of employee performances.
3. The performance orientation should be based on a performance dialogue between each employee and his/her closest supervisor, aimed at clarifying what is expected of the employee, but also at what the organisation can do in order to make these goals attainable.
4. Good performances should be rewarded. They should be publicly commended as a normal occurrence in the everyday life in the organisation.
5. The team is sometimes more important for the attainment of the organisation's goals than its individual members. Individual rewards should be balanced against team rewards, as appropriate.
6. Unsatisfactory performances should also be addressed in an appropriate manner.
7. Promotion processes should make use of the information generated by the performance management and assessment systems.
8. Public sector managers should be trained in performance management and assessments.
9. Care should be taken that performance management does not undermine the core values and ethos of the public service.

1. The points have been abbreviated compared with the original list.

Source: OECD (2008), *The State of the Public Service*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264047990-en.*

The available data shows a variation in the reported use of performance-related pay elements among OECD member countries, from around 0.9 in the United Kingdom to around 0.55 in the Netherlands, on a scale of 0 (no use) to 1 (high use) (OECD, 2011c,[7] see Figure 3.8). While Slovenia rates at 0.9, it should be noted that the use of performance-related pay was frozen as part of austerity measures in response to the global financial and economic crisis.

Figure 3.8. **Extent of the use of performance-related pay in central government, 2010**



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris.

Within the Slovenian public sector salary system, appointments to senior management positions are for limited terms. Both progression in the salary scale and promotion to a higher title require a number of favourable performance assessments. The public sector salary system also includes a mechanism for temporary performance rewards for public servants who achieve above-average work results in conducting their regular work. Finally, it is also possible to cancel the employment of employees if they fail to achieve the expected work results and are deemed incompetent (however, this clause is rarely accessed within the Slovenian public administration).

Thus, at face value the present Slovenian public sector salary system would seem to contain adequate mechanisms for signalling the importance of performance, for rewarding good performance, and for attending to bad performance. Some of these have been temporarily inactivated due to the need for fiscal stabilisation, but should be re-activated as soon as possible. Further efforts to improve the performance orientation of the public services should focus on organisations' capacity and competence for assessing individual performances.

The stipulated process for assessing the performances of public employees[8] is relatively sophisticated and compares well with systems in

other OECD member countries. The assessments shall be based on substantiated data, documented on evaluation sheets, and include:

- work results;
- independence, creativity and accuracy in the performance of work;
- reliability in the performance of work;
- the quality of co-operation and the organisation of work; and
- other skills in relation to the performance of work.

Both officials and other public servants have access to an appropriate mechanism for a secondary review in case they are not satisfied with the original assessment. The Slovenian arrangements are thus fully compatible with the nine points drawn up by the OECD. However, while this is the process on paper, in practice there is little understanding among line managers as to how to appropriately and objectively evaluate staff performance. Interviews with HR units in various line ministries indicated that more often than not managers were rating staff as performing "excellent" as a means of ensuring their progression through the grades. Underperformance was said to rarely be addressed, which has had implications on the motivation of higher performing staff. It is suggested that in addition to undertaking a programme to increase line managers' awareness of how to appropriately undertake individual staff performance assessments, Slovenia should also look for ways to standardise assessment ratings within organisations to ensure more coherence across line managers in making assessments and adhering to formal guidelines.

A common experience of OECD member countries is that actual practices and outcomes of assessment processes are highly dependent on the integrity, commitment and competence of the superiors responsible for the assessments. There is always a risk for patronage and discrimination, although this can be significantly reduced by the type of structuring, transparency and secondary reviews existing in Slovenia. Some countries have also found that local trade unions can play an important role by monitoring the assessment practices and assisting members.

The main risk observed in other OECD member countries is an insufficient differentiation of assessments, and assessment creep. There are cases where performance rewards have been rotated within groups instead of being used to reward above-average performance. Superiors have to be able to communicate improvement needs to employees, and to delay salary progression or promotion until these have been satisfied.

Slovenian efforts in this area should be oriented towards improving the functioning of the existing systems. Maintaining and improving the managerial competence and capacity for performance management and performance assessments is an area where continuous improvements are both possible and essential. The ability to manage and promote good performances should be an important element when recruiting managers and when assessing their performance.

Renewing the social dialogue

The term "social dialogue" covers a range of relations between the government and the public employer on the one hand, and trade unions and other associations representing public employees on the other. The core relationship is bargaining about remuneration and other employment conditions, aiming at a binding collective agreement. In some cases – such as the Netherlands – where legally binding collective agreements are not allowed for civil servants, they result in collective agreements that have to be approved by the government in order to enter into force. In countries where all public employment conditions are regulated by executive order or parliamentary legislation, trade unions normally engage in less formalised negotiations about the content of the orders or acts.

In countries where trade union membership is relatively high and unions have local organisations in the workplaces, they can engage in a management dialogue and even participate in managerial functions. Early examples of this were the German co-determination system and the self-government system in Yugoslavia.

Governments may choose to consult trade unions on any issue of importance for union members. The European Social Dialogue stipulated in the European Treaty[9] is an example of such a dialogue, which enables the European Commission to determine if social partners support proposed initiatives and if it would be possible to achieve the same result by a European collective agreement. Trade unions may also act as political entities and stakeholder representatives, and lobby towards the government and the Parliament. Such lobbying can concern any issue of importance for trade union members.

Two OECD member countries – Finland and Ireland (OECD, 2008a; 2010d) – have a tradition of broad social agreements involving not only the government and the trade unions but also business associations and other organisations of economic interest (see Box 3.11). These agreements normally set the parameters for ensuing collective bargaining in different sectors, and include government commitments concerning, for example, tax and social security reforms.

Box 3.11. **Country examples of social dialogue**

Finland

The Finnish agreements are limited to income policy issues. They were born out of a need for broad national support for macroeconomic stabilisation, and have assisted Finland in mastering wage formation and adapting wage increases to the existing macroeconomic situation. In spite of this, the dominant Finnish trade union confederation (SAK/LO) has declared itself in favour of a continuation, recognising that appropriate macroeconomic and fiscal policies are beneficial for its members.

Ireland

The Irish agreements have had a broader coverage and intent. The Irish Government has used such agreements to gain acceptance for selected structural reforms. However, the downside of this has been difficulties in launching and implementing other structural reforms. The agreements were also perceived as a way of allocating resources generated by Ireland's fast economic growth. Thus, the severe fiscal crisis led to a breakdown in tripartite relations when the government enforced pay cuts for public employees, and the main organisation representing private employers (IBEC) formally withdrew from the agreements in December 2009.

Slovenia had a similar Social Agreement covering 2007-2009 (Eurofound, 2007). It contained 19 chapters outlining the tasks allotted to each of the three social partners – the government, employers and the trade unions. Among other aspects, the chapters covered control of inflation and price policy, public finances, social dialogue, the tax system, a competitive economy and more rapid economic growth, employment and the labour market, pay, and safety and health at work. It was, as in Ireland, a way of allocating resources generated by fast economic growth. It was therefore not possible to agree on a continuation after 2009 due to the deterioration of Slovenia's economic growth and fiscal situation.

A number of ILO conventions set a global standard for industrial relations systems. However, international surveys and reviews show a broad spectrum of different outcomes in spite of the common standard. Basically, the spectrum goes from countries with weak and fragmented trade unions without bargaining strength, to countries with strong and coherently organised trade union movements able to wield a substantial influence.

International experiences indicate that the latter countries have benefited from having strong unions. These are able to assume responsibility for social and macroeconomic outcomes because of their extensive membership, but are for the same reason also forced to do so. In countries with weak and fragmented trade unions, social dialogue and collective bargaining have been hampered by their inability to see beyond the short-term interests of their own members, and often also by internal trade union competition and dissent.

A EUPAN review of the organised national social dialogue in member countries shows a large variation in union structures (see Table 3.1). They were classified as centralised in seven countries (including Slovenia), largely centralised in six more countries, both centralised and decentralised in ten countries, largely decentralised in one country and decentralised in two countries (Estonia and the Netherlands). Countries where employment conditions are mainly governed by legislation and executive orders tend to have centralised or largely centralised social dialogue arrangements. Countries with contractual or semi-contractual governance of employment conditions may have more or fully decentralised arrangements.

The important role played by unions

Union structures vary substantially across countries. A recent European report (European Commission, 2010, Table 1.1) showed a spectrum from Austria, Ireland, Latvia and the United Kingdom – each with a single trade union confederation – to France, with nine confederations of which four were limited to the public sector. In 16 of the 27 member countries there were unions organised on political grounds, and in 10 there were unions organised on religious grounds.

Table 3.1. **The structure of social dialogue in selected EU member countries**

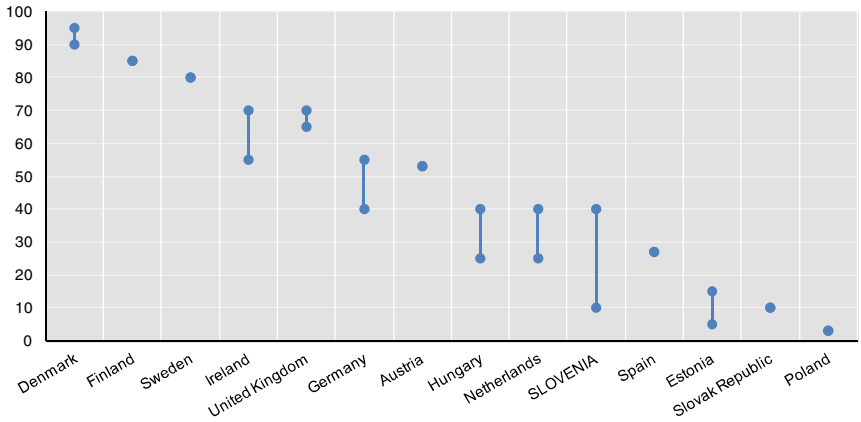
Country	Structure
Austria	Centralised
Bulgaria	Centralised
Czech Republic	Centralised
Greece	Centralised
Luxembourg	Centralised
Poland	Centralised
Slovenia	Centralised
France	Largely centralised
Hungary	Largely centralised
Ireland	Largely centralised
Malta	Largely centralised
Portugal	Largely centralised
Spain	Largely centralised
Belgium	Both centralised and decentralised
Denmark	Both centralised and decentralised
Finland	Both centralised and decentralised
Germany	Both centralised and decentralised
Italy	Both centralised and decentralised
Latvia	Both centralised and decentralised
Lithuania	Both centralised and decentralised
Romania	Both centralised and decentralised
Slovak Republic	Both centralised and decentralised
Sweden	Both centralised and decentralised
United Kingdom	Largely decentralised
Estonia	Decentralised
Netherlands	Decentralised

Source: EUPAN (2008), "Comparative analysis of the social dialogue in central public administrations of the European Union member states", report prepared by EIPA and published by the French Presidency of the European Union.

Union membership also varies substantially across countries. The European report mentioned above showed a range from about 70% in Denmark, Finland and Sweden to 10% or less in Estonia, France and Lithuania (European Commission, 2010, Chart 1.3). A EUPAN review (EUPAN, 2008, Chart 1) showed a range for the public services from about 90% in the three Nordic countries to around 10% in five Baltic and Eastern European countries (see Figure 3.9).

Figure 3.9. **Trade union density, 2008**

% of employees and civil servants who are a member of a trade union organisation



Note: The vertical lines represent a range, for example an estimated 10-40% of employees and civil servants in Slovenia are members of a trade union organisation. Precise data for Belgium and France are not available, due to confidentiality of union membership. Precise data for the Czech Republic, Greece, Italy and Luxembourg are not available. Data for Portugal is considered as sensitive where the Constitution opposes gathering of figures.

Source: EUPAN (2008), "Comparative analysis of the social dialogue in central public administrations of the European Union member states", report prepared by EIPA and published by the French Presidency of the European Union.

The same is true for how centralised or decentralised trade unions are. The European report (European Commission, 2010, Chart 1.1) shows that they are extremely centralised in Austria (index over 0.8) compared to around 0.5 in Germany and the Netherlands and below 0.15 in France and the United Kingdom.

These differences more or less determine the differences in national industrial relations climates and the character of the social dialogue at the national level. The social dialogue is most established and constructive in countries where trade unions have many members and national confederations are able to co-ordinate trade unions' actions in different sectors and at different levels. It is, on the other hand, most vulnerable and least constructive in countries with weak and fragmented trade union movements.

Governments can affect the evolution of public trade union structures through the way they act in relation to existing trade unions. The strong membership in and co-operation among public sector unions in the Nordic

countries is, for example, supported by public employers that insist on signing coherent national collective agreements with all established trade union confederations and that discourage union fractionalism. A more recent example is the federal Government in Brazil, which has set up a "national negotiating table" with the major trade union confederations representing federal employees (OECD, 2010a).

The Slovenian industrial relations system

The Slovenian industrial relations system is governed by the Employment Relations Act, the Collective Agreements Act and the Representativeness of Trade Unions Act. Slovenian trade unions are officially classified by the Ministry of Labour, Family and Social Affairs as "representative" if they have a sufficiently strong affiliation in a sector or profession. Currently, there are 42 trade unions recognised as representative (Slovenian Ministry of Labour, Family and Social Affairs, 2011). There is a *quorum* rule, requiring that collective agreements be signed by a certain number of representative trade unions.

Before independence, there was only a single trade union federation in Slovenia. After independence, a number of new sectoral and professional trade unions were formed, at the same time that the existing trade union federation was reformed. When negotiations on the new public sector salary system started, there were 13 trade unions recognised as representative for different groups of public employees. When they finished eight to nine years later, the number had more than doubled and has since continued to increase. At the same time, total trade union affiliation fell from close to 100% before independence to 44 % today (Eurofound, 2009).

The negotiations on a new public sector salary system exposed the Slovenian trade unions to considerable stress. The creation of a single job classification scheme and a single salary scheme meant that while some salaries would be increased, others should be decreased. The abolition of most kinds of supplementary cash benefits also affected sectors, professions and individuals differently. This was probably a main reason for the continued fragmentation of the Slovenian trade union movement.

The fragmentation tendency was reinforced by the legal change intended to make it possible for the government to reach a collective agreement on a new salary system. The stipulation that a collective agreement had to be accepted by trade unions representing a majority of employees was replaced by a requirement of a majority of representative trade unions, regardless of their actual membership. While this change helped the government to manage an immediate problem, it was basically unsound and has already been reversed. Consideration should be given to moving back to a system

where decisions are taken by the majority of union members, and not the majority of unions.

The future of the Slovenian trade union movement is and should be in its own hands. The Slovenian Government should, however, abstain from actions that would further weaken the country's trade union movement. If there is to be a legislated *quorum* rule for valid collective agreements in the future, it should continue to be the number of represented public employees and not the number of unions.

The Slovenian trade union movement has weakened since independence, partly because of a loss of members and partly because of the fragmentation into a growing number of small unions that are only representative in a specific industry, function or profession. At the same time, however, Slovenian trade unions continue to enjoy substantial legislative power, inherited from the previous Yugoslav corporatist arrangements.

OECD member countries as a rule safeguard the sovereignty of the democratic system from undue influences from other social and economic actors. Many OECD member countries also make a clear formal distinction between lobbying for legislative changes and bargaining for collective agreements on employment conditions. This has been made possible by reducing the legislation on employment conditions – primarily by limiting compulsory legislation to protective minimum rules – and thus opening up for more extensive supplementary regulation of remuneration and other employment conditions through collective agreements.

Nor is the public employer a typical employer. The public services implement the will of people, as expressed in democratic elections and channelled through an elected government. The core element in the public service ethos is that a public servant must respect and execute all decisions emanating from a legitimate government. The potential for co-determination is therefore more limited for public employees in democratic countries than for private employees.

These distinctions seem less clear in Slovenia, possibly because of vestiges of the self-management arrangements dominating before Slovenia's independence. Slovenia should therefore review and, where appropriate, abolish the remaining pieces of this system in the legislation, in order to achieve a better separation of democratic processes and interest representation.

Of special interest for this report are the stipulations in the Public Sector Salary System Act that all decisions that affect the salary grade range used for a specific post must be made through collective agreements. This

infringes on the elected government's sovereignty over the extent and character of the public services, severely limits the mandate and powers of public managers, and hampers the adaptability of the salary system. Table 3.2 provides a comparative table of the extent of union involvement in public sector HRM issues and sources of financial support in OECD member countries. Slovenia is the only OECD member country for which there is data available where union consultation or agreement is mandatory for all the key indicators. The Slovenian Government intends to introduce business principles in its public management, increase flexibility, and transfer powers and responsibilities to lower levels. This will require reforming the way budget users can take decisions on post grading and salary setting.

Compulsory collective agreements raise difficult issues in the context of a modernised approach to governance. Firstly, a general principle in modern law is that all agreements should be freely entered contracts that can be cancelled by either parties.[10] Secondly, the public employer mandate is an emanation of the democratic system and should never be legally subordinated to other social and economic interests.

All stipulations of collective agreements in Slovenia's Public Sector Salary System Act should thus be deleted. This does not, however, affect the substantial inherent value in social agreements on employment conditions, and they should normally and as far as possible be managed by collective agreements. Earlier in this report it was suggested that Slovenia adopt a model for salary setting based on two-tiered bargaining. In such a structure it would be logical to negotiate and reach a central collective agreement on the system for classification and grading of posts and titles, including adequate procedures for implementing this system through collective agreements at the budget-user level.

Slovenia should consider what role it would like its unions to play in the negotiation of the details and design of the salary system and regarding wage increases. Whatever options are chosen, ideally the system should enable the government to actually govern while also affording staff representatives (trade unions) a voice in how the system should operate. This will be a fine balance to achieve.

Table 3.2. **Extent of union involvement in HRM issues and sources of financial support, 2010**

	Base salary/ social benefits	Additional remuneration and performance pay	Right to strike/ minimum service	Work conditions (number of working hours, part-time work)	Employment framework (statutory rules, etc.)	Code of conduct	Introduction of new management tools	Government restructuring (delegation, institutional change, changes to the budget process)	Degree of public funding of civil service unions
Australia	⊙	⊙	⊙	⊙	⊙	❍	⊙	❍	None
Austria	⊙	❍	n/a	❍	⊙	⊙	❍	❍	None
Belgium	⊙	⊙	⊙	⊙	⊙	⊙	⊙	❍	Partial
Canada	●	●	●	●	⊙	⊙	⊙	n/a	None
Chile	⊙	⊙	n/a	❍	⊙	⊙	⊙	n/a	None
Czech Republic	⊙	⊙	⊙	⊙	● ⊙	⊙	⊙	⊙	None
Denmark	●	●	●	●	●	⊙	❍	❍	None
Estonia	⊙	❍	n/a	⊙	⊙	⊙	⊙	❍	None
Finland	● ⊙	● ⊙	⊙ ●	● ⊙	⊙	⊙ ⊙	⊙	⊙ ⊙	None
France	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	Partial
Germany	⊙	⊙	n/a	⊙	⊙	⊙	n/a	n/a	None
Greece	⊙	❍	⊙	⊙	⊙	⊙	❍	⊙	Partial
Hungary	⊙	⊙	●	⊙	⊙	⊙	⊙	❍	Majority
Iceland	●	●	● ⊙	●	● ⊙	⊙	❍	❍	None
Ireland	⊙	⊙	⊙	⊙	⊙	⊙	⊙	❍	Partial
Israel	●	●	●	●	⊙	❍	⊙	⊙	None
Italy	●	●	⊙	⊙	⊙	⊙	⊙	⊙	Partial
Japan	⊙	⊙	n/a	⊙	n/a	n/a	n/a	n/a	None
Korea	⊙	⊙	❍	⊙	❍	❍	❍	❍	None

Table 3.2. **Extent of union involvement in HRM issues and sources of financial support, 2010** *(cont'd)*

	Base salary/ social benefits	Additional remuneration and performance pay	Right to strike/ minimum service	Work conditions (number of working hours, part-time work)	Employment framework (statutory rules, etc.)	Code of conduct	Introduction of new management tools	Government restructuring (delegation, institutional change, changes to the budget process)	Degree of public funding of civil service unions
Mexico	●	●	⭘	⭘	●	⭘	⭘	⊙	None
Netherlands	●	❍	❍	⭘	●	❍	❍	❍	Partial
New Zealand	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	None
Norway	●	●	● ⭘	● ⭘	● ⭘	⊙	⊙ ⭘	⭘	Partial
Poland	⭘	⭘	⭘	⭘	⭘	⭘	n/a	⊙	Partial
Portugal	⭘	⭘	⭘	⭘	⭘	⊙	⭘	n/a	None
Slovak Republic	⭘	❍	❍	⭘	⊙	❍	❍	❍	None
Slovenia	●	●	⭘	⭘	⭘	●	⭘	⭘	None
Spain	n/a	n/a	⭘	⭘	⭘	⭘	❍	❍	Majority
Sweden	●	●	●	●	●	❍	⊙	❍ ⊙	None
Switzerland	⭘	⭘	⭘	⭘	⭘	⊙	⊙	⭘	None
Turkey	⭘	⭘	❍	⊙	⊙	⊙	⊙	⊙	None
United Kingdom	⭘	⭘	⊙	⭘	⊙	⊙	⊙	⊙	None
United States	❍	❍	❍	⊙	⊙	❍	⊙	⊙	Partial
Total OECD 33									

Table 3.2. **Extent of union involvement in HRM issues and sources of financial support, 2010** *(cont'd)*

	Base salary/ social benefits	Additional remuneration and performance pay	Right to strike/ minimum service	Work conditions (number of working hours, part-time work)	Employment framework (statutory rules, etc.)	Code of conduct	Introduction of new management tools	Government restructuring (delegation, institutional change, changes to the budget process)	Degree of public funding of civil service unions
●·Agreement with union is mandatory	11	10	8	7	7	1	0	0	None: 22
◘·By law, union must be consulted	14	12	14	19	14	8	7	7	Partial: 9
⊙·Consultation with union is voluntary	6	4	3	6	12	16	15	9	Majority: 2
❍·Union not normally involved in negotiation process	1	6	5	2	1	7	8	13	

Note: n/a.: not available. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris.

The government should renew the social dialogue that existed previously in Slovenia. A robust, modern social dialogue will require trade unions to respond constructively in the context of the restoration of economic growth and sound public finances. The fiscal problems and the ensuing delay in paying out agreed salary increases has impaired the social dialogue and created a need for a restoration of trust. The willingness of the Confederation of Public Sector Trade Unions to agree on amendments to the existing collective agreement indicates that this is possible.

The government should seek political support and trade union acceptance for a reform of the collective bargaining system in the public sector, aiming at establishing a two-tiered salary bargaining system. The lack of experience with decentralised collective bargaining on both the public employer and the trade union side would make it natural to begin with quite extensive substantive content in the national collective agreement.

After such an agreement is in place, the next step would be to discuss and agree on a staged decentralisation process. A balance has to be found between the desire to increase budget users' influence over their own establishment and salary structure, and the need to allow time to build competences and experiences. The long-term goal should be to reduce the content of the national collective agreement to systemic issues, employment conditions that should be equal for all public employees, and the bargaining parameters and procedures for its implementation at the budget-user level.

It should be reiterated that this type of reform has to be accompanied by an adaptation of the budgetary arrangements so that the social partners at the budget-user level operate under an affordability restriction. It should also be accompanied by a strengthening of the central public employer office and its capacity for supporting and monitoring the decentralised bargaining processes.

A final observation is that a reform of the public sector salary system should have a long-term perspective, and therefore should be de-linked from the present need for fiscal stabilisation. Trade unions must be confident that the government's intention with the reform is not to depress public salaries but to allow the social partners at the budget-user level the possibility of adapting the salary structure to the situation at hand.

Notes

1. The term "affordability restriction" refers to an arrangement where a delegated power to decide on expenditures is effectively limited by a budget allocation.
2. Good summaries of the outcome of these discussions are given in OECD (2002 and 2008b).
3. Under Slovenia's Constitution, any issue which is the subject of regulation by parliamentary law can be referred to a referendum. The National Assembly must call a referendum if requested by at least one-third of the deputies, by the National Council, or by 40 000 voters (Constitution, Article 90). A proposal is passed in a referendum if a majority of those voting have cast votes in favour of the proposal (Constitution, Article 90); there are no minimum participation requirements. Under Slovenian legislation, a bill rejected in a referendum cannot be implemented and Parliament cannot discuss it again for at least 12 months.
4. Unofficial results of the Slovenian Electoral Commission.
5. Data taken from the 1999-2000 *World Values Survey*.
6. The data should be interpreted with caution since they may reflect ambitions rather than actual practices and are affected by the interpretation of the questions. The difference in importance reported for Denmark and Finland is thus probably overstated.
7. The data should be interpreted with caution since they may reflect ambitions rather than actual practices and are affected by the interpretation of the questions. The difference in importance reported for Denmark and Finland is thus probably overstated.
8. Civil Servants Act, Chapter XV; Public Sector Salary System Act, Article 17-17a.
9. Treaty on European Union, Articles 137-139.
10. Table 33.1 in OECD (2011c) states that collective agreements are compulsory for certain issues in Sweden. This does not reflect the underlying legal situation but merely the situation for public budget users when there is a national framework collective agreement in force.

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Annex A
Salary scale

Salary grade	1 January 2011	Salary grade	1 January 2011
1	478.67	34	1 746.39
2	497.83	35	1 816.24
3	517.73	36	1 888.90
4	538.45	37	1 964.45
5	559.98	38	2 043.03
6	582.39	39	2 124.76
7	605.66	40	2 209.76
8	629.90	41	2 298.14
9	655.11	42	2 390.04
10	681.31	43	2 485.66
11	708.56	44	2 585.09
12	736.90	45	2 688.49
13	766.37	46	2 796.02
14	797.03	47	2 907.88
15	828.91	48	3 024.18
16	862.07	49	3 145.15
17	896.56	50	3 270.96
18	932.42	51	3 401.80
19	969.71	52	3 537.87
20	1 008.50	53	3 679.38
21	1 048.85	54	3 826.57
22	1 090.80	55	3 979.62
23	1 134.43	56	4 138.79
24	1 179.81	57	4 304.37
25	1 226.99	58	4 476.53
26	1 276.08	59	4 655.59
27	1 327.11	60	4 841.81
28	1 380.20	61	5 035.48
29	1 435.41	62	5 236.91
30	1 492.83	63	5 446.38
31	1 552.54	64	5 664.24
32	1 614.63	65	5 890.80
33	1 679.22		

Source: Slovenian Government (2002), Public Sector Salary System Act.

Annex B
Salary groups and subgroups

Salary groups		Salary subgroups	
A	Functionaries at state bodies and local authorities	A1	President of the Republic and functionaries of the executive branch of power
		A2	Functionaries of the legislative branch of power
		A3	Functionaries of the judicial branch of power
		A4	Functionaries at other state bodies
		A5	Functionaries at local authorities
B	Management bodies at budget users	B1	Principals, directors and secretaries
C	Official titles in the state administration and local authority administration, and at other state bodies	C1	Officials at other state bodies
		C2	Officials in the state administration, judicial administration and local authority administration
		C3	Police officers
		C4	Military personnel
		C5	Customs officers
		C6	Inspectors, attendants and other officials with special authorisations
D	Positions in the field of education and sport	D1	University-level teachers and university-level associates
		D2	Lecturers at two-year tertiary colleges, secondary school and primary school teachers, and other expert associates
		D3	Nursery school teachers and other expert associates at nursery schools
E	Positions in the field of healthcare	E1	Physicians
		E2	Pharmaceutical workers
		E3	Nurses/health technicians
		E4	Healthcare associates
F	Positions in the field of social care	F1	Expert staff
		F2	Expert associates
G	Positions in the field of culture and information	G1	Artistic professions
		G2	Other professions in the field of culture and information
H	Positions and titles in the field of science	H1	Researchers
		H2	Expert associates
I	Positions at public agencies, public funds, other public institutes and public commercial institutes, and other budget users	I1	Expert associates
J	Auxiliary positions (applies to entire public sector)	J1	Expert associates
		J2	Administrative staff
		J3	Other technical staff

Source: Slovenian Government (2002), Public Sector Salary System Act.

Annex C
Tariff groups and lowest allowed salary grade in each tariff group

Tariff group	Required education or level of training required for performing work tasks	Lowest salary grade
I	– Incomplete first step of basic education – Complete first step of basic education – Incomplete second stage of basic education	1
II	– Complete second stage of basic education	3
III	– Short-term vocational upper secondary education	7
IV	– Vocational upper secondary education	10
V	– Technical upper secondary education – General upper secondary education	12
VI	– Higher vocational education – Short-term higher education (former)	19
VII/1.	– Specialisation after short-term higher education (former) – Professional higher education (former) – Professional higher education – Academic higher education	25
VII/2.	– Specialisation after professional higher education (former) – Academic higher education (former) – Master	29
VIII	– Specialisation after academic higher education (former) – "*Magisterij*" of science (former) – State Lawyers' Examination – Specialisation in healthcare	31
IX	– Doctorate of science (former) – Doctorate of science	36

Source: Slovenian Government (2002), Public Sector Salary System Act.

Annex D
List of country codes

To be used for figures sourced from *OECD Government at a Glance 2011*.

OECD member countries			
Australia	AUS	Poland	POL
Austria	AUT	Portugal	PRT
Belgium	BEL	Slovak Republic	SVK
Canada	CAN	Slovenia	SVN
Chile	CHL	Spain	ESP
Czech Republic	CZE	Sweden	SWE
Denmark	DNK	Switzerland	CHE
Estonia	EST	Turkey	TUR
Finland	FIN	United Kingdom	GBR
France	FRA	United States	USA
Germany	DEU		
Greece	GRC	**OECD accession country**	
Hungary	HUN	Russian Federation	RUS
Iceland	ISL		
Ireland	IRL	**Other major economies**	
Israel	ISR	China	CHN
Italy	ITA	India	IND
Japan	JPN	Indonesia	IDN
Korea	KOR	South Africa	ZAF
Luxembourg	LUX		
Mexico	MEX	**Observers to the Public Governance Committee, OECD**	
Netherlands	NLD	Brazil	BRA
New Zealand	NZL	Egypt	EGY
Norway	NOR	Ukraine	UKR

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Chapter 3. Findings – determining a way forward

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