

***Pay policy reform: Building a foundation for public sector performance through improved public sector pay policy by using a "Single Pay Spine"*<sup>i</sup>**

Appropriate public sector remuneration policies are key for performance. They can motivate staff - to a limited extent by rewarding performance but more generally by eliminating inequities and avoiding frequent and sudden changes in pay. They can also assist in retaining competent staff – one of the most critical drivers of public sector performance.<sup>ii</sup> Developing pay policy in the public sector is complex, administratively and politically. This note analyzes one approach to creating a fiscally sustainable, equitable and performance enhancing pay policy – the single pay spine. It focuses on the single pay spine as a means to help countries achieve four pay policy objectives:

1. Ensuring that public service pay is affordable.
2. Achieving competitiveness with pay outside the public service.
3. Promoting greater transparency in public pay.
4. Ensuring that there is equal pay for equal work (i.e. eliminating inequity).

This note first defines the single pay spine and outlines an approach to designing the pay spine. It then offers ways of estimating its fiscal impact and illustrates the role Central Management Agencies (CMAs) can play in managing the public sector pay policy process. In the conclusion, alternatives to the single pay spine are presented.

### ***Background***

To develop pay policy in the public sector requires first and foremost an assessment of what is both practical and sustainable in terms of budget resources. Beyond that, pay policy is not just a statement of pay principles. Ideally, it consists of the following components:

- *Processes* for measuring the value of jobs, the contribution of individuals in those jobs, and the range and level of employee benefits to be provided. These processes consist of job evaluation, appraisal systems, internal and market rate analyses
- *Practices* for motivating employees by the use of financial and non-financial rewards, (the financial rewards consist of base and variable pay and employee benefits and allowances; the non-financial rewards are provided generally through recognition provided by effective management and leadership, the work itself, and the opportunities to develop skills and careers)

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- *Structures* for relating pay and benefits to the value of the jobs in the organization
- *Schemes* for providing financial rewards and incentives according to individual, group or organizational performance – where this is appropriate, which is not always the case in the public service.
- *Procedures and systems* for maintaining the system and ensuring that it operates effectively (i.e. wage-bargaining).

The development of a satisfactory pay policy depends on there being a clear and comprehensive statement of pay policy objectives couched in terms that reflect the requirements and concerns of employer and employees, but especially including reference to affordability. Box 1 illustrates ‘typical’ comprehensive pay policy objectives that might be developed to guide pay reform.

### *Defining the single pay spine*

A single pay spine is one of a set of management tools that, taken together, may be used by a *single government employer* to establish common pay and grading arrangements for *all employees*, while, at the same time, permitting a high level of flexibility in meeting the different management and organizational needs of different institutions within government. It is normally used as part of single, centralized pay-bargaining arrangements. It is unsuited to decentralized pay-bargaining.<sup>iii</sup>

The focus on *all employees* of a *single government employer* is key. The logic of the single spine is that it establishes a relationship between pay and grading arrangements for all staff who are funded from a common budgetary source – forcing tradeoffs. Staff of subnational governments and arms-length agencies of various kinds can, often with justification, argue that they are employed by a different authority and should be part of separate pay and grading arrangements and as such, be excluded from a central government single pay spine. To the extent that the staff are subject to separate management arrangements and the budgets are prepared separately, with the consequence that remuneration levels set by one "government employer" have only modest consequences for those of other government employers, this is justifiable. However, if for example the additional remuneration costs of pay reforms in the arms-length agencies are automatically transferred back to the central government, then it is detrimental to the single pay spine if these employees are not covered.

#### **Box 1: Illustrative pay policy objectives**

- Total public service pay will not exceed [x]% of GDP
- Steps will be taken to ensure that public service pay and benefits are competitive in relevant labor markets, and are not inflationary. At lower wage levels, pay will be competitive with the private sector. At middle and higher wage levels, pay will not exceed [y]% of comparable benchmark jobs in the wider labor market.
- Pay will be transparent, and so far as possible, total compensation will be included in basic pay scales which will be published.
- The use of allowances and benefits-in-kind will be limited, so far as possible to exceptional or temporary circumstances, and will normally be established on a time-limited basis only.
- Pay scales will be designed to provide higher rewards for jobs with greater responsibility, and to provide incentives for suitably qualified and experienced staff to take on greater responsibility.
- There will be equal pay for equal work across the public service.

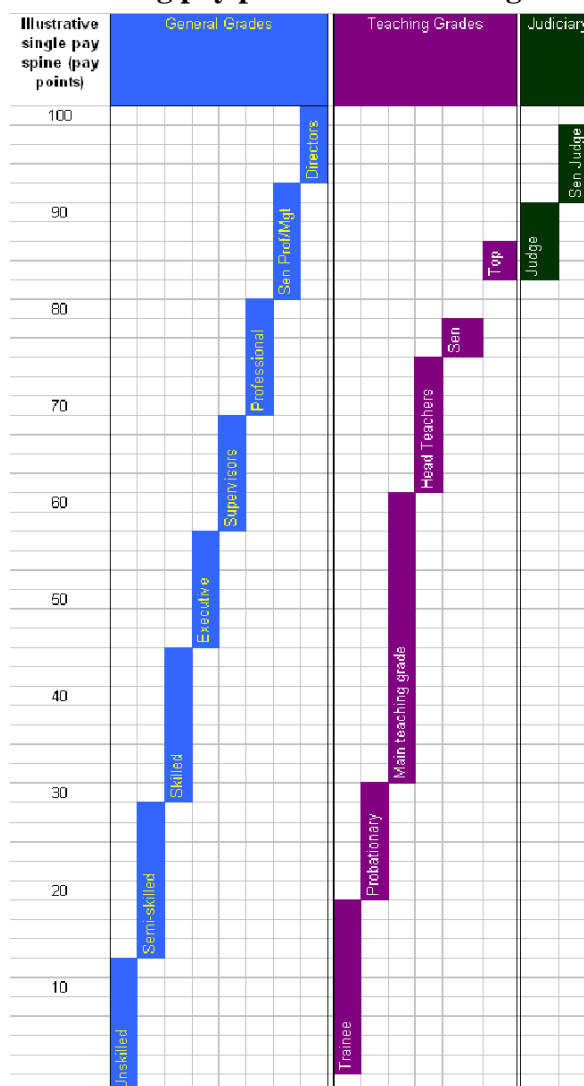
In essence, a single pay spine is an efficient method for assigning common financial values to all public service jobs, regardless of what those jobs are, while recognizing real differences in the content of jobs, and while positioning public pay at the desired position in relevant labor markets. The principal benefits of a single pay spine, when it is used correctly as part of a package of management tools, and within the context of centralized pay-bargaining, are:

- Ensuring equal pay for equal work;
- Promoting competitive pay for government jobs relative to the wider labor market (subject to affordability considerations);
- Helping to ensure that pay is affordable - because budget planning is greatly improved as all pay is controlled through a single set of financial values, making it a simple matter to examine the expenditure consequences of alternative pay proposals; and
- Making the pay-bargaining process itself as efficient as possible, with all wage negotiations centralized on discussing the financial values to be assigned to the single pay spine, thus avoiding the possibility of ‘leap-frogging’ when one employer has to conduct separate pay negotiations with trade unions representing different groups of employees.

An *illustration* of a typical single pay spine in use is given in Figure 1. This shows:

- A single pay spine (on the y axis) that establishes ‘pay points’ (from 1 – 100 in this example, although the actual number of pay points required may vary a great deal, according to requirements).
- Three grades – in this illustration ‘general administrative staff’, ‘teachers’, and ‘judiciary’, with each grade made up of a number of ‘Job Families’ of like jobs e.g. semi-skilled general staff; teachers; senior judges; etc. The design of the Job Families and Grades meets the precise needs of the organization, and the various career paths that

**Figure 1: Illustrative single pay spine establishing pay points for different grades**



different occupational groups are likely to follow.

- Each Job Family of each Grade has a number of incremental steps, and each of these is matched to points on the single spine – thus defining the salaries that will be used for jobs in those Job Families and Grades.

Once a grade structure has been determined, jobs have been classified according to the new structure, and the total resources available have been determined, then actual financial values may be assigned to the spine. The *relative* financial values of the salaries paid at the various levels within these grades are now fixed. Revising pay becomes a simple matter of changing the financial value assigned to any pay point or points.

The particular virtue of the single pay spine system may now be seen: it allows different occupations that have different grade requirements, as is manifestly the case for judges (who come into this work after long legal careers), and teachers (who need extra long grades to allow salary progression whilst recognizing the length of time they spend in the same job), to be accommodated within a simple, universal, mechanism of fixing relative pay for everybody.

To maximize the potential benefits of a single pay spine it is usually necessary to use it as part of a package of management tools, including:

- a rigorous job evaluation methodology that will clearly distinguish between different types of job, and determine the relative worth of jobs, so as to design an appropriate grading system;
- a pay system in which basic pay (as represented by the single pay spine) is the only, or at least the primary, means of compensating employees, with little - if any - use made of allowances or benefits-in-kind
- a systematic survey of pay for comparable jobs in relevant labor markets to help ensure that rates of pay in the public service are competitive, and are therefore set at appropriate levels.

A single pay spine, therefore, can be a useful device for facilitating the implementation of a public sector pay policy that can balance the often-conflicting objectives of improving internal equity within the public sector, locating pay levels relative to external private sector comparators, and framing public sector pay negotiations within an over-arching cap of fiscal affordability.

There are many examples internationally of equivalent devices.<sup>iv</sup> In fact, most countries have either a single spine, or small number of spines, to which all public sector employees are linked. The main exception is in Former Soviet Union countries where pay is often delegated to individual ministries/agencies, which are still regarded as being virtually separate employers, with few developed arrangements for central management of the civil service.<sup>v</sup> Most governments, however, negotiate civil service salaries in a *single wage negotiation*, whether using a pay spine or some other mechanism. The central principle should be re-emphasized: where there is central management of the civil

service with pay being funded from the same single source, there need to be arrangements for setting all pay centrally as well.

There are three key underpinning principles in moving towards a single pay spine that all parties should agree on, or at least be aware of, in considering options:

1. Relativities between pay levels of different occupational groups should be explicit and stable. The intention is to find a framework that, broadly, carries sufficient consensus in government and organized labor to reduce the transaction costs and inflationary tendencies of constant competition between occupational groups.
2. The unit of analysis is the employer. Separate, unlinked pay spines should only be found in public sector bodies that are fully fiscally autonomous and with separate arrangements for ensuring that pay does not become distorted (internal or external relativities) or excessive to those found in the rest of the public sector. In sum, there is potentially some justification for separate spines in bodies that can legitimately claim to be separate employers drawing on separate financial resources.
3. A unified approach to pay determination requires a linked set of pay bargaining arrangements between government and organized labor, leading to linked pay settlements.

### *Technical approach to devising a single pay spine*

As indicated above, a single pay spine is normally used as part of a package of management tools, which should be applied as part of a process of measures to be applied in the correct sequence, as follows:

- 1) There should be the objective of centralized pay-bargaining for all employees.
- 2) There must be an effective and practical government pay policy (separate from the introduction of the pay spine, as discussed above).
- 3) A proper job evaluation process should be undertaken in order to position jobs correctly relative to each other in a grade structure that takes account of the needs of the organization. See Box 2 for various approaches to job evaluations.

#### **Box 2: Approaches to job evaluation**

There are several types of Job Evaluation systems currently in use throughout the world. The system most commonly adopted by public organisations is called ‘points-based.’

In this system, points are awarded for certain criteria, e.g.: ‘management of resources’, ‘management of staff’, ‘impact of decisions’, etc. The highest number of points awarded generally equals the highest-graded post. When undertaken correctly, the job evaluation system will distinguish between clusters of jobs of different weight, and this can be used to identify relevant Job Families. Once Job Families have been defined, jobs that score the appropriate number of points are allocated to the relevant Job Family.



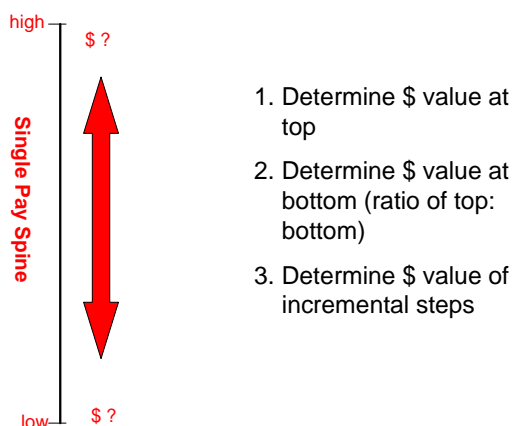
- 4) A single pay spine may be designed and the various grades assigned to it in a way that is right for each grade while ensuring that pay policy objectives are met.

The output of a job evaluation exercise will normally be a classification of jobs into 'job families'. The term 'job families' refers to groups of similar jobs which can be classified under broad headings as they have similar job content and job 'weight', e.g.: 'management', 'administrative', 'supervisory' etc. Illustrations of job families are given in Figure 1, where the Job Families within the General Grade are shown as: Directors, Senior professional/management, Professional, Supervisor, Executive, Skilled, Semi-skilled, and Unskilled. The actual Job Families selected will vary from one organization to another, but, typically, government organizations only require 8 – 12 job families to cover most administrative jobs. In large public organizations, there will also be occupational groups, such as teachers, or nurses, whose job families will be quite different from job families in 'standard' administrative jobs. It is common practice, therefore, to develop a system of several grade scales (as illustrated in Figure 1). Where this is the case, 'benchmark' jobs can be identified in each grade which are then aligned with similar benchmark jobs on other grades, and which are then in turn aligned to a common pay point on the single pay spine. The single pay spine thus serves as a common pay reference for several different occupational grade scales, whilst allowing those separate grade scales to exist to meet the different career requirements of its job families.

This is a sensible arrangement where occupational groups have different career requirements, teachers being an obvious example, since they are likely to remain in a single teaching grade for much of their career, but need to be provided with the opportunity for salary progression without changing grade.

After fixing the relative worth of all jobs in all grades, money values can be assigned to the single pay spine to determine pay for everyone (see Figure 2).

**Figure 2: Allocate monetary values to the single pay spine**



Whenever pay is reviewed in such systems, all the employer needs to do is to change the money values allocated to the single pay spine, and the pay for all levels in all grades will automatically be changed while preserving pay relativities between grades. Pay bargaining, therefore, must also be fully centralized.

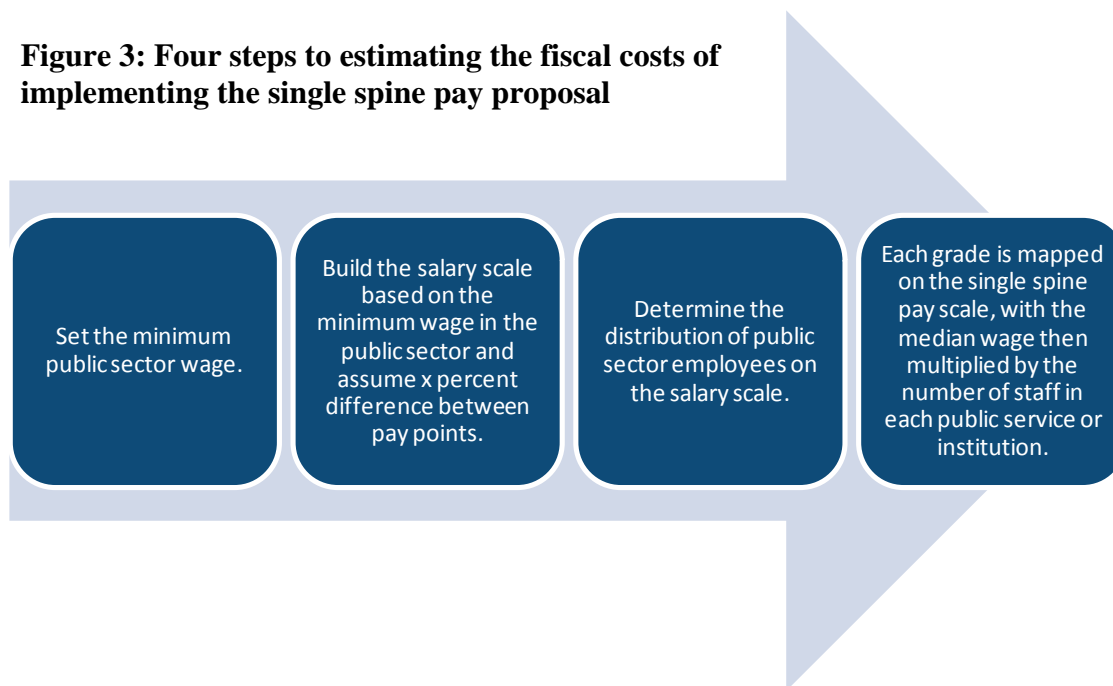
### *Estimating the fiscal costs of a single pay spine*

There are two main modeling approaches for estimating the costs of a single pay spine, namely the so-called top-down approach, which derives its results from aggregate assumptions about numbers of staff in different grades and their proposed wages at these grades. The other modeling approach is the bottom-up approach in which the current payroll is placed into a database, and then manipulated to create alternative scenarios of pay and grading. Both these approaches rely on the available information and require assumptions about the re-grading of public sector employees under the proposed single spine. Therefore, priority should be given to the collection and the continuous maintenance of a database with information on individual wages and allowances and on the distribution of public sector workers across individual public services and institutions.

The results derived from both these approaches are contingent on the quality of the data inputted into the frameworks and the realism of the assumptions. The data requirement for these models include:

- (i) the total number of public sector employees and their distribution across public sector services and institutions; and
- (ii) a complete and updated payroll database from which one can estimate the minimum public sector wage and calculate the weight of public sector allowances in the overall wage bill.

**Figure 3: Four steps to estimating the fiscal costs of implementing the single spine pay proposal**



As detailed in Figure 3, there are four steps in the estimation of the fiscal cost of implementing the single spine pay proposal. Each step is linked to the three exogenous parameters that drive the calculation of the public sector wage bill: (i) the minimum public sector wage; (ii) the relativity of all public sector wages with respect to the minimum wage and amongst each other; and (iii) the distribution of public sector employees across public sector services and institutions.

## *The role of central agencies – selected examples from around the world*

In the Westminster-based public administration systems of Anglophone Africa, the basic structure of fiscal control and the roles of the central agencies in relation to pay policy are:

1. Public sector pay policy is *proposed* by the Ministry responsible for the Public Service after consultations with relevant ministries and, very particularly, the Ministry of Finance in terms of the fiscal sustainability of the overall public sector wage bill in the context of medium to long term estimates, and the Ministry of Labor on the labor market effects.
2. Pay policy proposals are *scrutinized* by the Office of the President/Cabinet Office, and on the advice of the Ministry of Finance, pay policy is *approved* by Cabinet.
3. The Public Service Commission has no direct involvement as it is broadly responsible for the separate questions of merit protection in recruiting, promoting, disciplining and the separation (retirement or dismissal) of staff from the Civil Service.
4. The agency principally responsible for *planning the implementation* of pay reforms is the Ministry responsible for the Public Service as part of its responsibility for developing HR-related legislation and regulations.

Beyond the administrative traditions of Anglophone Africa, in the Presidential public administration systems of Latin America, the basic structure of fiscal control and the roles of the central agencies in relation to pay policy are somewhat fluid, and may vary significantly from one country to the next. Two general variants are described here:

### Executive-led model (e.g., Brazil, Chile)

1. Public sector pay policy is *proposed* by the Executive Branch in the annual budget process. This proposal may reflect open or behind-the-scenes negotiations with employee unions and/or legislators promoting the interests of employee groups. The Ministry of Finance is consulted in terms of the implications for fiscal sustainability of the overall budget. Consultations with other ministry personnel are less significant.
2. Pay policy proposals are *scrutinized* by the Office of the President/Cabinet Office as part of the budget preparation process.
3. Pay policy is *approved* by the Legislature. In the executive-led model, the legislature has no authority to increase expenditures (including salaries) beyond the proposal submitted by the executive unless countervailing budget reductions are identified elsewhere. In addition, in some more extreme cases of the executive-led model (Colombia, Peru) pay policy is approved through a decree by the executive with no participation by the legislature.



Legislative-led model (e.g., Paraguay and to a lesser extent in El Salvador and Honduras)

1. Public sector pay policy is set through the annual budget process, but an annex on personnel expenditures is included in the package submitted to the legislature. This annex specifies the compensation for each of the categories or subcategories in each ministry or agency.
2. The executive branch can influence the content of the personnel expenditures annex in the context of debate and negotiation concerning overall public expenditure levels. However, by lobbying legislators, public employees may have just as much influence over pay levels for narrow employee categories (as small as a single category for a single employee but also for specific regimes such as teachers, for employees of a particular ministry or for employees in a specific salary range), or the public service as a whole.

There are cases in Latin America that bear some resemblance to the Westminster Model. In Ecuador, for instance, an organization in the President's Secretariat is explicitly responsible to analyze compensation levels and *propose* any changes to the structure of public sector salary scales or the values assigned to each grade level (as part of its responsibility for developing HR-related legislation and regulations). This technical proposal, based on an assessment of salary equities and competitiveness, is then *scrutinized* and must be approved by the Ministry of Finance, which examines the fiscal sustainability of the proposal. With the sanction of the Ministry of Finance, if the President agrees, he may authorize the salary changes by presidential decree. However, in most Latin American countries the weight of the central human resource management agency in pay determination is low and it is the Ministry of Finance that is the main actor in charge of defining pay policy.

In countries in Latin America with a Public Service Commission, it has no direct involvement as it is broadly responsible for the separate questions of merit protection in recruiting, promoting, disciplining and the separation (retirement or dismissal) of staff from the Civil Service.<sup>vi</sup>

The role of central agencies in managing pay in Laos is presented in Box 3. In the Europe and Central Asia region, the way pay policy is managed also varies significantly. In many countries, public sector pay policy is proposed by an agency or department of public administration which is an executive authority (e.g. Agency of Public Administration in Bulgaria, State Chancellery in Latvia, Civil Service Council in Armenia,

**Box 3: Case Study on Role of Central Agencies in Managing Pay in Laos**

Overall responsibility for civil service management and policy is vested in the Public Administration and Civil Service Authority (PACSA), the ministerial-level central civil service authority situated in the Prime Minister's Office.

Each fiscal year, the Ministry of Finance Fiscal Policy Department proposes pay increases by proposing an adjustment to the multiplier applied to the salary grid, having itself scrutinized the fiscal implications. These annual pay increases are then scrutinized and the Government presents the pay policy reform, as part of the budget submission, to the National Assembly.

Source: Contributed by Naazneen Barma and Saysanith Vongviengkham

Department of Public Administration within the Ministry of Interior in Albania). This is done after consultations with relevant ministries as well as the Ministry of Finance in terms of the fiscal sustainability of the overall public sector wage bill, and the Ministry of Labor on the labor market effects. It should be noted that the mandate of such civil service or public administration agencies does not in most cases cover the whole of public sector employment, if - as is the case in most ECA countries - the scope of the civil service is more narrowly defined than that of public employment. In those cases, other categories of public employees (e.g. teachers, health workers, police) are defined by separate salary scales, which are typically revised on the initiative of the responsible line ministries with the approval of the Government.

Pay policy proposals are then generally scrutinized by the Cabinet/Office of the Government and approved by Government. Planning the implementation of pay policy is the responsibility of the authority which had proposed the pay policy, and which is generally responsible for HR related legislation and regulations.<sup>vii</sup>

As can be seen from these examples, pay policy and reforms are principally developed by the HR management agency/Executive/Legislative branch and the MOF. They then go through administrative policy filters in the Office of the President or Cabinet Office and political filters in the government before being implemented. However, despite the importance of other agencies, the fulcrum of the central agencies is the MOF. It has a legal identity distinct from that of all other central agencies, and enjoys strong legal and administrative powers over central government expenditure. It also has the central role in linking the political to the administrative facets of government through the revenue and expenditure processes it controls.

### *Alternatives to the Single Pay Spine*

The main alternative to a single pay spine is where governments wish to establish decentralized pay-setting with individual ministries or agencies having delegated authority to determine pay, resulting in multiple pay-bargaining. In such circumstances each agency may develop its own pay structure. Governments normally develop such decentralized approaches in response to pressures to respond much more flexibly to pay requirements. This typically occurs when government agencies have very varied employment requirements, or are recruiting in very specific labor markets. With decentralized pay arrangements it is essential that pay-bargaining is entirely separate from budgeting, with those responsible for pay-setting having clear budget parameters established before they agree to pay settlements. Decentralized pay can only be introduced where the different pay-setters have the competence to determine and negotiate pay.

The main purpose of decentralized pay is to give managers discretion to organize operations as they think best to produce higher performance: it follows that decentralized pay normally takes place within organizations which have established performance management frameworks to hold managers accountable. There will normally also be arrangements for monitoring pay settlements across government. It follows that the

necessary financial management arrangements must also be in place to permit this sort of system to operate.

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<sup>i</sup> This note builds on analytic work undertaken by the PSP GET in Ghana and other settings. It draws on material developed by Carlos Cavalcanti, Malcolm Green, Nick Manning, Ross Worthington, and Joanna Watkins. The detailed description of single pay spine arrangements was developed by Malcolm Green.

<sup>ii</sup> Performance-based Arrangements for Senior Civil Servants OECD and other Country Experiences, Anne Ketelaar, Nick Manning, Edouard Turkisch, OECD, 2007, <http://www.oecd.org/dataoecd/11/40/38990099.pdf>

<sup>iii</sup> Governance of Decentralised Pay Setting in Selected OECD Countries, Knut Rexed, Chris Moll, Nick Manning, Jennifer Allain, OECD 2007, <http://www.oecd.org/dataoecd/1/18/38487114.pdf>

<sup>iv</sup> There is no comprehensive survey data available, but World Bank staff identify the following countries as having, or in the process of implementing, Single Pay Spines:

- Africa: Liberia (under development), Sierra Leone, Rwanda, Uganda and Zambia
- South-east Asia: Cambodia, Hong Kong, Indonesia (under development), Philippines, Thailand.
- South Asia: Afghanistan, India and Pakistan
- South America: Ecuador
- Eastern Europe: Tajikistan

<sup>v</sup> Cooper-Enchia, Victoria J (2008). “Pay Reform in Ghana,” CoEn Consulting. African Association for Public Administration and Management

<sup>vi</sup> The section on administrative tradition in Latin America was contributed by Jeffrey Rinne and Mariano Lafuente.

<sup>vii</sup> This section was contributed by Kathy Lalazarian and Clelia Rontoyanni.