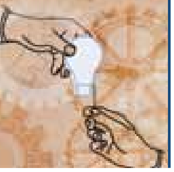

Making Sure Your Government's Personnel Budgeting Is Aligned with Its Goals

By Melanie Purcell

Whether a government's personnel decisions are based on a conscious strategy or a more informal approach, it needs to have a thorough analysis and understanding of its personnel budget.

Most local government budgets are dominated by personnel costs, with total compensation expenses often exceeding 75 percent of resources. Given the amount of money represented and the effect of workforce on the services delivered, governments need to thoroughly analyze and understand their personnel budgets.

GETTING STARTED

The basic terms of compensation are usually outlined in labor contracts and/or personnel manuals, and the human resources (HR) department typically provides interpretation when questions of intent or language arise. HR also manages other elements of compensation that aren't specified in contracts, such as training or development, wellness programs, workers' compensation, and voluntary insurance and savings plans. Accordingly, HR, along with the risk management, labor relations, and executive management departments, is a critical source of information in building the personnel budget and ensuring position control. All of these departments can provide trend information about turnover, vacancies, salary growth, and benefit costs. They can also assist in non-traditional analysis, including productivity, morale, industry trends, and benefits provided by other organizations the government may be competing with for top talent.

Measures of productivity and morale provide some quantitative insight into less concrete influences on the personnel budget, especially over the long term. If the workforce is unstable, there will be increased (but not explicitly identified) costs associated with recruitment, training, and performance. Measures a government can use to provide insight on issues that might be influencing forecasts include retention rates for both seasonal and permanent employees, average and median employee tenure, the number of resignations versus the number of retirements (especially over time), and complaints or morale indicators such as absenteeism, tardiness, late evaluations, and employee surveys.

In forecasting near- and long-term employee costs, determine which positions are likely to be vacated because of retirements, and when. Factors affecting eligibility for retirement typically include age, years of service, vesting requirements, and ability to purchase or transfer prior service. But market conditions also influence an employee's decision to retire; these include inflation, returns on savings and investments, and the availability of other employment opportunities. Predictions of behavior in a large organization rely heavily on retirement eligibility data, while smaller governments or directly engaged departmental managers may be able to identify individual or personal influences.

CONSIDER YOUR IDEAL

The budget process focuses on the allocation of resources and on reporting on the government's plans to deliver goals, objectives, and standards of performance. Building the personnel budget is an ideal time to review the alignment of the organization's goals and organizational structure. Clearly define goals and objectives for each function or service area, not necessarily each organizational unit. Determine the service priorities and expectations for the organization, including at the department and division levels. Each program area should have clear duties and expectations for performance. Without regard to current status, the organization should explore the answers to the following questions:

- What is the ideal organizational structure to achieve the goals identified?
- What are the ideal positions and/or job descriptions?
- What are the optimal qualifications of the personnel in those positions?

Draft an ideal design of positions and reporting relationships to deliver the desired goals — again, without regard for the existing organizational design, personnel implications, or staff qualifications. This is the perfect time to look at industry best practices, other agencies' successful examples, outsourcing options, multi-agency or department partnerships, and other innovations.

Next, diagram the existing organizational structure, including all temporary and consultant roles. Explore all assumptions regarding who does what and what processes exist. Consider writing down information as if you were going to present it to someone who is completely unfamiliar with the organization, or bring an outsider to meetings with departments for more objective observations.

The analysis should include a detailed review of the organizational chart and structure, including how many layers of management exist and how many steps decisions go through before final approval. Ratios such as how many employees per supervisor, how many direct service providers per administrative or support position, how many direct service providers, and how many administrative or support positions per capita provide excellent insight into the efficiency of the organization and how resources are truly allocated. Keep in mind the unique demands of specific services, which may need to be analyzed independently of organization-wide norms. For example, route- or process-driven work such as garbage collection or 24-hour operation public safety have safety and service demands that are best considered within industry standards and community expectations. Other areas that are easily overlooked include seasonal staffing and positions paid by capital and grant funding, which often define required staffing. Evaluating positions and full-time equivalents (FTEs) by goals or priorities also reflects the organization's implementation of goals and priorities.

Compare the ideal organization for service delivery to what exists today:

- What needs to evolve?
- What can be developed?
- What needs to be eliminated or added?

It is possible to begin building toward the ideal organization either through aggressive redesign or through attrition, using the budget process to implement the structure. A regular review also assures elected officials and the public that the government is committed to the most efficient and effective use of human resources.

BUILDING OUT THE BUDGET

Building out the personnel budget can mostly be accomplished through Excel spreadsheets and/or reports generated by the government's enterprise resource program (ERP). Some expenses, including overtime and tuition reimbursement, may have to be estimated, based on experience and service demand. Other factors that influence how closely budget and personnel costs will align include the discretion exercised by the chief executive and the department directors, how much influence the labor unions have over position decisions, and the expectations of the public or an advisory committee regarding transparency and oversight.

In a smaller organization, listing employees by position, department, and labor union, and then tying salaries and specific benefit costs to each person, is a relatively straightforward task. For larger organizations, using average costs and quantities of staff per position is sufficient to generate an accurate personnel budget. Benefits are typically budgeted based on quoted costs from providers (e.g., health insurance, pension, and life insurance). Unemployment and Social Security benefit costs, if applicable, are defined by law, while worker's compensation insurance premiums may be calculated as part of a state pooled insurance or a multi-agency pool. Other benefits such as leave time, tuition reimbursement, and vehicle or uniform allowances can be estimated based on historical experience, labor commitments, and employee population dynamics.

Some agencies budget for an assumed level of vacancies (e.g., 5 percent of salary expenses will not be realized because of vacancies). This can be extremely risky if turnover patterns are not consistent or the government doesn't have the capacity to make up any shortfall later in the fiscal year. Governments have several options for controlling salary expenses, including the following:

- Position control, or restricting the organizations to specific positions.
- Department lump sum accountability, where departments can choose positions as needed within a defined dollar amount.
- Labor hour or FTE control, where costs are not defined; instead, the number of work hours sets the maximum.
- Salary encumbrances, where funding for salaries is locked in the financial accounting system only to be used for salaries; it cannot be moved to other accounts without collaboration.

Each of these methods has advantages and disadvantages, and elements can be combined with other methods to create the most effective control approach for individual governments, depending on size, flexibility demand, job classification diversity, and service demands.

Know Your Government's Compensation Philosophy

Governments' compensation philosophies vary, and, in tandem with service levels, this greatly affects total personnel costs. Some governments choose to set their wage scales for the bottom of the market to employ more of the local population, particularly for roles that require less skill or expertise, while others set their pay at the top of the range to assure their competitive position for attracting top talent. Whether these decisions are based on a conscious strategy or a more informal approach, a government needs to understand how its positions regarding compensation operate in the marketplace.

MONITORING

Another part of the personnel budget is determining the method or methods you'll use for monitoring each component. Before the fiscal year begins, establish protocols that address how often monitoring will occur, what will be monitored, and what questions are being answered through monitoring reports. For example, salary and benefit costs to date by pay period can indicate vacancy savings and how well the agency behavior is modeled by the budget. Year-to-date reporting, however, can mask seasonal fluctuations, lump sum payments, and mid-year service changes. Verify all implications, including vacancies or leave time that may be backfilled with part-time or overtime salaries or with contractors. Similarly, benefit cost monitoring can be complicated by variations in claims; lag time in billing, paying, and reporting of claims; incurred but not reported claims; and rebates.

Avoid the false sense of precision that can be caused by relying on details that can fluctuate over the course of the fiscal year and over which the organization may not have control or significant influence. Instead, consider how flexibility can be achieved, either through control methods or other budget management tools.

CONCLUSIONS

A government needs to analyze and fully understand how its personnel budget works to make sure the organization's goals are being met. To get started, you'll need to look at basic terms of compensation, turnover, and employee satisfaction. Measures of productivity and the likelihood of retirement are also helpful in forecasting the long-term stability of your workforce. The best time to review the alignment of the organization's goals and its organizational structure is when you are building the personnel budget. At this point, you can consider what would be ideal for the government and compare it with the actual personnel situation, considering factors that influence how closely budget and personnel costs will align. Finally, make sure your monitoring is catching the details and fluctuations that could be covering up existing problems or lead to new ones.

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