Chapter 2
Getting it right: restructuring the government workforce

At a time of limited financial and human resources, adjusting and reallocating the public service workforce have become policy priorities. Strategic workforce planning and management are crucial here, so that governments are not caught in a purely reactive mode and resort to taking more immediate cost reduction measures that are ultimately detrimental (budget cuts imposed in an undifferentiated way, job cuts, recruitment freezes). Possible paths for reform include shared services, outsourcing, creation of arm's-length agencies, developing a more flexible HRM system, redeployment arrangements, strategic reviews, and movement of staff to sub-national levels of government. But the workforce implications of any *public service reform need to be considered and planned for from the outset, if governments are to secure and build capacity, maintain trust and morale, ensure continuity while meeting changing public service needs, and improve efficiency, productivity and value for money.*

Objectives, scope and approach

Getting the right size and allocation of the public service workforce has become an important issue for governments, because they need to secure and build the capacity for delivery at a time of limited financial and human resources, as well as tough labour market competition for scarce skills. That entails developing a more flexible HRM system, both to organise the workforce around current priorities and to prepare for future challenges.

While for many member countries the economic and financial crisis is the most immediate problem affecting decisions about size and allocation, it is by no means the only issue. Ageing populations are forcing reallocation of resources to services for the elderly, and also affecting the supply of labour and the sustainability of public finances. Another key challenge, given that OECD member country economies are faced with changing global competition, is to make the public sector more competitive, innovative and inclusive. Private sector companies are undergoing enormous changes; public services have to follow suit. New approaches to delivery are taking root, reflecting the demands of public service users, the imperative of securing better value for money, and the possibilities that ICT offers in redesigning services.

All of these factors will have a bearing on policies. Governments will now have to engage in strategic workforce planning and management so that they are not caught in a purely reactive mode, forced to take *ad hoc* measures that relieve fiscal pressures while simultaneously generating other problems. Proper management of the workforce, using an array of instruments, has made a difference in the past in how well governments deal with pressures to make adjustments. In fact, many countries were already embarked on workforce initiatives well before the economic crisis began. According proper attention to this topic is a way to help countries recover from the crisis and prepare the public service to deal with other challenges.

This chapter is an exploratory first step. It looks at ways in which governments are currently dealing with workforce management, and some lessons that can be learnt from previous experience. Based on a request for information sent to OECD member countries in April 2010, the chapter provides an overview of: *i*) the main reforms expected to have an impact on the size of the workforce and/or its allocation across sectors in central/federal government in the near term; and *ii*) reforms that have had an impact in the past 20 years. The discussion focuses on the instruments used by governments and the drivers behind these initiatives. Analysis of workforce data on size and composition is beyond the scope of this initial investigation; future work would benefit from inclusion of some analysis of trends in public employment, particularly data on the allocation of staff among priorities and longitudinal data to see whether workforce adjustments are sustained over time.

The chapter primarily reviews previous OECD work and, to a lesser extent, other relevant literature on the topic,[1] focusing on:

1. Measures to adjust the size of the public service workforce through:
   - regular pressures for efficiency (automatic productivity cuts, performance practices, management accountability frameworks);
   - downsizing, restructuring and general policy/spending reviews.
2. How governments have carried out staff reallocations across sectoral priorities and organisations.

The chapter proposes a classification of the adjustment methods used by governments and explores the successes and failures of different approaches – particularly as regards longer term costs and benefits, the impact on the capacity of the public service, the impact on trust and morale, and the political economy of reform. The second section looks at historical trends since the 1980's, focusing on the context for changes and mechanisms governments have used to respond to pressures for change. Assessment of the results achieved may help to inform current approaches. The following section looks at the steps governments have taken or plan to take to manage the size of the workforce and reallocation of staff since the onset of the current economic and financial crisis, as well as current initiatives that were designed and under way prior to the crisis. The final section concludes with lessons that can be learnt.

Historical background

The question of size

There is no "right size" of the public service workforce. There are large differences in the share of government employment among member countries, reflecting different choices with regard to the scope, level and delivery of public services. The proportion of the labour force employed in general government across a sample of OECD member countries in 2008 ranged from 6.7% in Japan and 7.9% in Greece to nearly 30% in Norway and Denmark. On average, government employment as a percentage of the labour force remained stable between 2000 and 2008 at 15% (see Figure 1.6). However, the available data do not (yet) reflect the potential effects of the financial and economic crisis and/or fiscal austerity measures.

Past policies

Since the 1980's, government initiatives to adjust the size of the public workforce and/or to reallocate staff have been determined by various structural variables. These have included the need to reduce budget deficits, demographic trends, decentralisation to sub-national levels of government and reorganisation of activities in line with changing government views as to the appropriate role and size of the public sector. Other factors have included the changing demands of citizens and businesses, developments in ICT that enabled changes in how government work is performed, and the ongoing pressure for efficiency and value for money.

Budgetary considerations have played a major role in workforce policies. In periods of economic downturn, the need for fiscal consolidation has led governments to seek savings on the cost of the public service. These usually are achieved through a combination of reforms and cuts, although the instruments used have varied from country to country and period to period. Canada's deficit reduction measures in the 1990's involved a 15.5% reduction in the public service workforce. Ireland implemented significant cuts in the 1980's as part of an economic recovery strategy. Sweden laid off around 50 000 employees from government agencies during the recession of the early 1990's; to put that in perspective, the number of employees in that country's central government sector was 355 000 in 1990. Such reduction measures indeed figure among the austerity measures adopted in many countries during the current recession.

Ageing populations are creating pressures for changes in the scope and delivery of public services as well as changes in government's management of the workforce. As noted by the OECD (2007), two main challenges have emerged. First, there is the need to reallocate staff across sectors and institutions within the public service as the demand structure changes. For example, some countries are increasing staffing in health and long-term care while decreasing it in other sectors. Second, there is a need to increase productivity due to the fiscal pressures created by an ageing population. This is prompting cost containment and downsizing measures as increased productivity is pursued through investment in ICT, public sector reforms and other measures.

Public service workforces are ageing more rapidly than the wider labour market in a good number of OECD member countries, many of which face high rates of retirement in the coming years. This creates opportunities for downsizing (by not replacing retiring staff), reorganising, reforming employment conditions and bringing in new skills. It also, however, poses the risk of capacity loss, particularly as a higher proportion of managers rather than other staff are retiring. And that signals the need for better workforce planning in the public service in order to manage the demographic transition. Some public services are concerned about labour shortages and recruitment difficulties; others need to ensure that future hiring policies do not tighten the wider labour market as the overall labour force ages. This is driving productivity measures in some countries in order to create a smaller, more productive public service.

Decentralisation of government. The share of government staff employed at sub-central levels is an indicator of the level of decentralisation of public administrations. Across OECD member countries, the proportion of employees in sub-national levels of government varies significantly (Figure 2.1). While OECD data indicate that the relative proportions of employees at federal/national and sub-national levels have remained relatively stable between 2000 and 2008 (OECD, 2011a), decentralisation has in some countries had an impact on size and allocation. For example, France and Spain have both pursued decentralisation policies, while (as noted below) there are indications that some countries may be moving to decentralise as part of a post-New Public Management trend.

Public administration reforms. Since the beginning of the 1980's, public services in OECD member countries have undergone major changes that have had significant impacts on the size and allocation of the workforce. Three periods of reform can be distinguished in many countries (OECD, 2010b), to varying degrees:

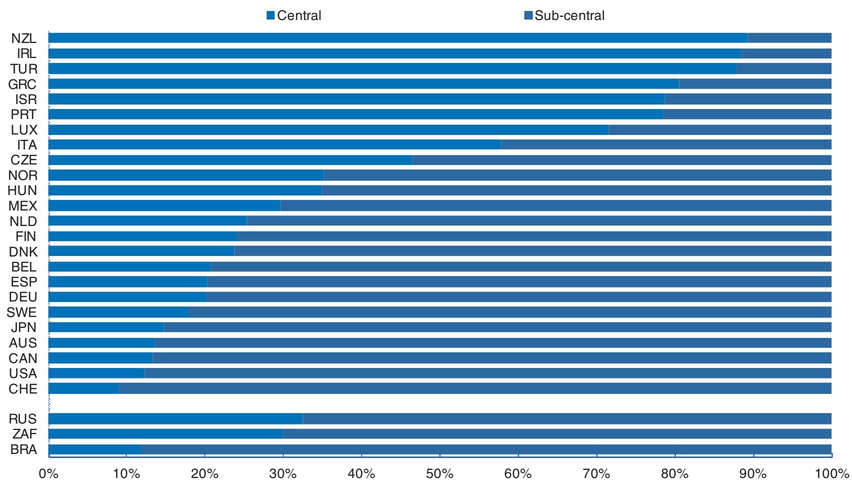
1. A period of "receding government" in the 1980's, during which governments in a number of countries (the Netherlands, the United Kingdom and the United States among others) implemented policies to restructure the public sector, reducing its size (decentralisation, privatisation, outsourcing and corporatisation). This entailed reductions in government employment in some countries as well as moving staff out of central government ministries.

2. The period of New Public Management (NPM) in the 1990's and into the current century, which led to major restructuring of the public service in a number of countries (Australia, New Zealand and the United Kingdom among others). Impacts on the workforce included transfer of staff from core ministries into executive agencies and outsourced entities, significant downsizing in some countries, and reform of employment conditions to make the public service more flexible.

3. Recently there has been some rollback of NPM reforms and new ideas have come to the fore. The latter are aimed at achieving more integrated public services and more value for money – examples include the use of ICT to re-engineer service delivery, shifting the balance of staff in

favour of frontline services and decreasing the number of "back-office" staff, decentralisation to sub-national levels of government in order to bring services closer to citizens, and the establishment of shared support services.

Figure 2.1. **Distribution of employment across levels of government (2008)**



Notes:

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 the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Data for Austria, Belgium, Chile, Estonia, Iceland, Korea, Poland, Slovenia, the Slovak Republic and Turkey are not available.

Data for Australia and United States refer to the public sector.

Data for Austria, the Czech Republic, Italy, the Netherlands, New Zealand and Poland are expressed in full-time equivalent employment.

Data for Hungary do not include other non-profit institutions at the central/sub-central level.

Data for Finland, Israel, Mexico, Sweden and Israel are for 2007. Data for France, Japan, New Zealand and Portugal are for 2006. Data for the Russian Federation are for 2005. Data for Brazil and South Africa are for 2003.

Data extracted on 26 November 2010.

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 Organisation (ILO) data.

Efforts to improve efficiency, productivity and value for money have been central to public sector reforms in past decades and are again at the top of the agenda for many countries. A number of countries (e.g. Australia, Canada, the Netherlands and the United Kingdom) have used spending reviews as a way of reallocating resources to new priorities. Since the 1990's there has been a movement towards measuring public output and productivity gains. Some countries, such as Finland, have established public sector productivity programmes, and a number (e.g. Australia, Denmark, Finland, New Zealand and Sweden) use automatic productivity cuts to maintain efficiency incentives. Several countries have recently initiated "value for money" initiatives (e.g. Australia, the Netherlands, Sweden and the United Kingdom) (OECD, 2010a, 2010b). These types of initiatives require a more flexible HRM system to organise the workforce according to current priorities, and suitable instruments to achieve restructuring of public services and workforce reallocation.

ICT, especially the Internet, offers the opportunity to transform work, enabling organisations to re-engineer processes and redeploy or divest themselves of staff previously employed to carry out paper-based functions. In the public sector there has been major ICT-based reorganisation of revenue services in many countries. Most if not all OECD member countries now have e-government initiatives, although it is difficult to quantify the precise impact on the size and allocation of the workforce. Comparative research undertaken by the French Government (Centre d'analyse stratégique, 2009) provides some examples. In Canada the federal government had 130 administrative services online by 2005 and estimated that the number of clerical and secretarial staff was reduced by a factor of 1.5 between 1983 and 2007 as a result of ICT, while the number of IT staff increased fivefold and the number of economists trebled. In the United Kingdom, 13 500 posts out of a total of 33 000 were redeployed to frontline activities in 2005-07 as a result of ICT.

ICT is likely to be an important driver of workforce reorganisation in the coming years. As noted in a recent report by the Working Party of Senior Budget Officials (OECD, 2010b) the development of ICT is important because of its potential for improving service quality and expanding choice for citizens and businesses, and also because of its potential for generating large savings through horizontal integration of executive agencies, automatisation of information processing, large economies of scale and electronic communication (e-government). Realising workforce savings as a result of ICT and redesign of work depends, however, on governments having instruments at their disposal to redeploy staff and to separate from surplus staff.

The impact of the changing demands of citizens and businesses is reflected in many of the factors discussed above. Citizens are demanding more integrated, individualised and accessible services, while businesses are demanding that governments become more efficient, agile and innovative. These and other demands will continue to create pressure for a flexible public service workforce.

Policies and instruments affecting size and allocation

While the challenges outlined above are common to most if not all OECD member countries, the instruments used by governments to adjust the size of the public service workforce and reallocate staff vary greatly:

- Some reflect a **passive approach**. These are measures to curb the growth of the workforce, such as natural attrition or a partial or total recruitment freeze. Others represent an **active approach**, e.g. cutting existing staff.
- Some are in place to respond to **regular pressures for efficiency***;* these include automatic productivity cuts, performance management practices and management accountability frameworks. Others are **exceptional measures** – *ad hoc* downsizing of budgets and/or staff numbers, structural reforms, etc.

The choice of instrument(s) to use is shaped by a combination of factors: political views regarding the size and activities of government; expediency (a need to reduce budget deficits rapidly, political economy of reform); reform trends (e.g. NPM, outsourcing); and human resource management (HRM) policies (e.g. employment conditions for public servants, availability of workforce planning tools).

It seems useful for purposes of this discussion to group policies that have an impact on workforce size and allocation into three broad categories, as shown in Table 2.1. The information in the table is based on questionnaire responses received by the OECD Secretariat in April 2010 and on the literature review. It covers instruments used in past decades as well as current and planned measures that are discussed in the following section, and is illustrative rather than exhaustive. The categories are:

1. Structural and organisational reforms:

    - Moving activities out of the public service through privatisation, outsourcing or corporatisation. Although the corporations involved may be fully or partially publicly owned, they operate on a commercial basis according to normal corporate rules.

- Moving activities into arm's-length agencies or transferring them to sub-national levels of government.
- Organisational restructuring or streamlining – for example, the merging or reorganising of ministries, development of shared services, process re-engineering, flatter hierarchies, process automation and teamworking.

2. Budgetary measures:
   - *Ad hoc* budget cuts.
   - Automatic productivity cuts.
   - Programme reviews, strategic reviews, spending reviews.
3. Human resource management measures:
   - Job cuts/redundancy programmes.
   - Early retirement programmes.
   - Recruitment freezes.
   - Redeployment provisions.

Within the three categories, it is possible to distinguish between longer term strategies to change the scope of the public service and the way it operates and more immediate cost reduction measures (e.g. budget cuts, job cuts and recruitment freezes). The remainder of this section reviews the use of each of these groups of measures in past decades and, to the extent information is available, discusses the results achieved.

Structural and organisational reforms

Public management reforms in the 1980's and 1990's (earlier in some countries) involved, among other things, privatisation of government activities, outsourcing of activities to the private sector, and corporatisation of activities. There has also been significant restructuring of functions retained in the public service, involving the transfer of responsibilities to sub-national levels of government and shifting activities into arm's-length agencies of central government, principally in the 1990's and first half of the 2000's (OECD, 2005).

Table 2.1. **Examples of reforms and instruments that have an impact on the size and allocation of the workforce**

	Structural and organisational reforms			Budgetary instruments			HRM instruments			
	Corporatisation, privatisation, outsourcing	Transfer of activities to agencies or sub-national levels of government	Organisational restructuring/ streamlining	*Ad hoc* budget cuts	Automatic productivity cuts	Programme reviews/strategic reviews/spending reviews	Job cuts/ redundancy programmes	Recruitment freeze	Early retirement programmes	Redeployment provisions
Australia	1975 – late-1990's	In an *ad-hoc* manner	1996-99	1996-99	1987 on		1990's	1990's (some depts.)		Ongoing
Austria			Planned 2011-14	Planned 2011-14				1999 on		
Canada	1990's	1989-93	1989 on	2010		1990's on	1990's		1990's	Ongoing
Finland	1986-91, 2003	1986-91 2003	2003 on	1997 on	2006 on		1990's on	2003 on		2006 on
France	1990's	1980's on	Ongoing			2003 on		2007 on		2009 on
Japan	2005 on	2005 on	2005 on			2005 on		2005 on		2006 on
Korea		1993, 2008	2003							
Mexico		2007 on	2010 on	2007 on						
Netherlands	1982 on	1990 on	2007 on	1994 on		1981	2010 on			Ongoing
Norway	1992-08	2006								
Portugal		2005 on	2005 on	2010				2005 on		2006 on
Spain		2000 on	2010 on	2010				2010		
Sweden	1990 on	1988 on	2010 on	1990's	Ongoing		1980's, 1990's			1989, 1994 on[2]
Switzerland		1996 on	1986-95	2003 on			2010			
United Kingdom	1990's	1990's	2004 on	2010		2004 on	2004-08 2010 on		Occasionally	2008

Privatisation and corporatisation

The transfer of activities out of the core public service and into commercial public entities or into the private sector has been a frequent means of reducing the workforce in a number of countries.

The research to date did not reveal much information about what happened to staff when activities were transferred to the private sector or into public corporations. Were staff retained when their jobs moved? And if so, were they compensated for the change of status? Did staff have access to redundancy programmes? Were there changes to HRM policy that allowed staff to move at their own will, or that facilitated a more flexible transition? These aspects are important for harmonious industrial relations and in terms of costs. What were the transfer costs? Were lessons learnt that would lead countries to manage such reforms differently in the future?

An earlier OECD study (OECD, 2005) notes that outsourced government employees are often transferred to the private provider with their working conditions guaranteed – at least for a time – and that there is specific legislation in place for such situations in the European Union (EU) and some other OECD member countries. Some governments (e.g. Australia and the United Kingdom) have developed policies and guidelines for managing the staffing aspects of outsourcing relating to aspects such as negotiation with unions and a "clean break" approach versus a transfer of employees.

Outsourcing decisions should be taken strategically and not simply in order to take staff off the government budget. Experience shows that outsourcing requires significant in-house investments in specialist staff to manage the outsourced contracts. There is a risk that unless outsourcing is accompanied by concomitant changes in the level of public employment and rigorous monitoring of contracts, it may increase production costs rather than producing efficiency gains (OECD, 2010c, 2010d), and lead to a decrease in service quality (OECD, 2010b).

Transfer of activities into arm's-length agencies

A number of countries followed the NPM trend of transferring activities into arm's-length executive agencies. New Zealand and the United Kingdom were early movers in this field; Denmark and the Netherlands also make extensive use of agencies. Transfer is sometimes accompanied by major reforms in the terms of employment of public servants, to bring them more into line with conditions in the private sector (e.g. New Zealand). Other countries such as Canada, Germany and Sweden have a long-standing tradition of central government bodies that are separate from traditionally structured ministries.

Moving activities into agencies was expected to be a more efficient organisational model capable of producing savings in operating budgets, and providing a more flexible framework for managing human resources. However, recent OECD work (2010a) suggests that sustainable workforce reductions and efficiency improvements are by no means a certain outcome. A review of experience in Denmark, the Netherlands and Sweden found that staff numbers in agencies increased, and in some countries there were indications that programme resources had leaked into administrative budgets.

Accountability and management frameworks for agencies are clearly key to efficient, effective workforce management. Sweden offers an illustration of how such frameworks can create ongoing pressure to continuously adapt staffing levels and the allocation of staff to evolving priorities. Each central government agency gets a framed budget appropriation from the government once a year. This is a lump sum that the head of the agency may use for localities, technical equipment and staff at their discretion. Politicians normally do not interfere in these decisions, but there are a number of drivers for increased efficiency. For instance, there is continued dialogue between the agency heads and their ministries about goals, results, new tasks and priorities, and methods for optimising the competence needed for given missions. There are also automatic yearly reductions in appropriations to increase productivity, based on measured productivity development in the private sector. When vacancies occur, agencies consider how to use the newly available resources, and when staff is needed the focus is firmly on the kind of competence needed. In short, the heads of agencies – who are themselves on temporary contracts – are to continuously adapt size, structure, processes and staffing in order to achieve the results needed.

Given the proliferation of agencies of various types in many countries in recent years, one area for further work should be the workforce implications of this trend – not only for individual agencies but also for the government as a whole – in terms of numbers and costs, the impact on the quality of services provided by staff, and the conditions under which staffing can be managed most efficiently.

Achievement of productivity gains is likely to depend to a great extent on the control and management arrangements applying to agencies, outlined below (OECD, 2005):

- Personnel rules:
  - Whether personnel are employed under general civil service rules, under a different framework applying to agencies, or under general employment laws.
  - The agency management's degree of flexibility in fixing grades, pay, bonus schemes, recruitment and promotion systems.
  - The degree of flexibility in adjusting staffing levels and mix.
- Budgeting rules:
  - Output/outcome-oriented budgeting and management. In many cases, contract management (see below) goes hand-in-hand with output/outcome-oriented budgeting and management, with relaxation of controls on inputs.
  - Multi-year budget allocations in exchange for commitment to a range of services and results.
- Management autonomy:
  - Senior management's ability to make decisions concerning the overall organisation and financial and personnel management of the entity without the constant involvement of, or need for approval by, the line minister or ministry or central management agencies.
  - Contract management: the extent to which agencies have a quasi- or fully contractual relationship with their line ministry/minister. An example is whether targets are set jointly by the line ministry and the chief executive and boards (where they exist), and chief executives report on and are accountable for achievement of these targets.

An area for possible further work is assessment of how the tools and degree of flexibility available to agency managers to adjust staffing and manage performance correlates with achievement of greater or lesser efficiencies in staffing.

Transfer of activities to sub-national levels of government

In a number of countries (France, Italy, Japan, Korea, Spain, Turkey and the United Kingdom are examples), there has been significant transfer of functions from central government to regional and local levels. As with the other structural reforms, such changes are not primarily about the size of the workforce and should not be done simply to move costs off the central government budget. A major consideration has been to bring services closer to users and to provide increased autonomy to regional and local governments to deliver those services. Nevertheless, reducing the number of central government employees has also been an explicit objective in countries such as France and, more recently, Japan.

Organisational restructuring/streamlining

Most countries reviewed for this study have taken steps to streamline organisations and processes to improve public services and realise savings. In this regard, services are adopting some of the organisational reforms seen in the private sector over the past two decades or so. Initiatives commonly mentioned include process re-engineering, flatter structures, more use of ICT and redesign of tasks based on teamwork.

Some countries (e.g. Australia, Canada and Switzerland) carried out streamlining operations in the late 1980's or 1990's, whereas others have embarked on organisational streamlining more recently. For example, Austria has launched a major reform of its finance administration, involving merging 80 finance offices into 41, halving the number of hierarchical levels, simplifying processes, reorganising work around teams, and implementing e-government projects.

While these types of measures should be part of the ongoing effort to improve the functioning and accessibility of public services and to ensure that organisations are adopting best practices, they can have perverse effects if not managed carefully. The quality of change management is extremely important for preserving the capacity of the organisation following the changes, as well as for acceptance of the changes by the staff. Poorly managed reforms can result in costly mistakes, loss of talent and depressed morale. For example, a study of the effects of organisational de-layering in the Australian public service in the 1990's found that it did not produce as much as expected in terms of productivity gains, and in fact had a negative impact on the morale of managers (Dunford et al., 1998).

Budgetary instruments

A variety of budgetary measures have been used to manage the size and allocation of the workforce. These include both short-term measures such as *ad hoc* budget cutbacks, and longer term instruments such as programme reviews and automatic productivity cuts.

Ad hoc budget cuts

In periods of economic downturn and fiscal pressure, governments have often resorted to cutting or freezing operational budgets and in some cases budgets for services and transfers, forcing ministries and other public agencies to find savings. Such measures are sometimes driven by political as well as economic pressures, with calls for smaller, leaner government.

Examples of such exercises in past decades have included major cutbacks in Australia in the 1990's; a series of across-the-board cuts to departmental budgets from the second half of the 1980's to the early 1990's in Canada; and severe cuts in Ireland in the 1980's, affecting both services and administration. In Sweden, during the severe economic recession in the first half of the 1990's, around 50 000 employees are thought to have been laid off due to cutbacks in public expenditure.

These types of cuts have often been imposed across the public service in an undifferentiated way, forcing all areas to reduce their operating budgets equally. In contrast, however, to direct staff cuts (discussed below under human resource management measures), budget cuts typically allow the individual ministries or agencies to decide how to achieve the necessary savings, typically ruling out only the use of programme resources for administrative tasks. Line managers are free to fill their budget reduction target in different ways (OECD, 2010a).

Across-the-board cuts are a relatively crude measure and difficult to manage smoothly in terms of the workforce aspects, as shown in a number of negative reviews (see e.g. Dunford et al., 1998; Rusaw, 2004; GAO, 1999). For example, an assessment of the Canadian experience concluded that:

> Across the board cuts and freezes that affect programs and services in an undifferentiated way have significant perverse effects. Such cuts erode the quality of public services, reduce the quantity of available services for the same level of taxpayer contribution and affect morale in the public service. Over time, they erode citizens' confidence in government, in the public sector and in public organisations. (Bourgon, 2009)

An OECD report (OECD, 2010c) warns that across-the-board cuts and freezes that affect programmes and services in an undifferentiated way have generally not helped reduce deficits in a sustainable way. On the other hand, the Swedish experience in the 1990's points to ways of managing workforce adjustment and restructuring that can help reduce the negative impacts (OECD, 1998).

Some countries have sought to mitigate the effects of cutbacks by applying them in a differentiated way, for example by applying less severe cuts to areas such as education and health. The current round of cuts in the United Kingdom, announced in the 2010 budget, exempts health and development aid, while education and defence will receive smaller cuts than other areas of spending. Austria has exempted education, the judiciary and the police from cuts. In Norway in the 1990's, staff reductions were specific to defence-related agencies and public companies. In Denmark, the decrease in the public workforce has been especially significant in the armed forces. In Sweden, the police force and the universities have grown in numbers in the past ten years, while the public service as a whole has decreased its workforce by approximately 9%, with general administration and defence shrinking most.

More needs to be known about the effects of differentiated approaches. For example, if some sectors are protected from cuts, has this resulted in proportionately larger cuts to other sectors, and what has been the impact in terms of the capacity of organisations to absorb these cuts? How have smaller organisations coped? Has it been possible to redeploy staff from sectors that are being downsized to sectors that are protected from cuts?

Automatic productivity cuts

A number of countries (e.g. Australia, Denmark, Finland, New Zealand and Sweden) use automatic productivity cuts (APCs), sometimes called "efficiency dividends", which function on the assumption that the public service can deliver the same output with fewer inputs each year, including staffing levels. As noted in an earlier OECD report (2009a), when properly focused, APCs can not only reduce public expenditure, but also force ministries and sub-units to think more strategically about their workforce allocation and to plan for the future.

Countries that do not use this approach emphasise that productivity gains differ among policy areas, and that if a single productivity estimate is used for the entire government sector or for central government, sectors with relatively low productivity growth suffer. They also claim that productivity growth percentages cannot be determined objectively. However, these risks can be mitigated: first by flexible reallocation rules and the second by choosing a low productivity gain percentage that in the long run can still lead to savings (OECD, 2010a).

If a stable regime of APCs is put in place, this can lead to greater predictability of budgets and might reduce the need to resort to *ad hoc* budget cuts (OECD, 2010a). In terms of the impact on workforce size and allocation, it seems reasonable to hypothesise that APCs would lead to better results when combined with instruments such as performance management, flexible allocation of human resources within and between organisations, and workforce planning. Nevertheless, it does not appear that APCs are very widely used. This is an area that merits further investigation from the viewpoint of workforce management.

Programme reviews, strategic reviews, spending reviews

The use of reviews to inform restructuring of government activities and to identify opportunities for efficiency and savings is indeed widespread (OECD, 2010a). Some countries use forms of policy evaluation in the context of performance-based budgeting (e.g. "strategic policy reviews", Australia; "strategic reviews", Canada; "general review of public policies", France; "interdepartmental policy reviews", Netherlands; "spending reviews", United Kingdom – see OECD, 2010a). Reviews can be occasional (e.g. Ireland's Special Group on Public Service Numbers and Expenditure Programmes, set up in 2008) or regular (e.g. the Netherlands' periodic reviews, conducted since the 1980's).

These types of reviews typically analyse not only the effectiveness and efficiency of current programmes but also the likely impact on outputs and outcomes of different resource allocation scenarios. As such, they offer a more strategic and sustainable way of driving efficiency and reallocating resources among priorities than *ad hoc* budget cuts, although the resulting workforce reductions could affect the morale and capacity of the public service. The lessons learnt in the United Kingdom show how review processes can be combined with specific measures to address workforce capacity (Box 2.1).

It is important to note that the efficiency programmes in the United Kingdom civil service are not stand-alone measures. Productivity measurement techniques are being refined in order to provide more accurate assessments of productivity movements. (Developments in this area are mentioned in UK Civil Service, 2010, which refers to Phelps et al., 2010). Initiatives are also being taken to assess the capability of the civil service to meet current and future challenges, with the launch of a series of departmental Capability Reviews (UK Civil Service, 2010). The United Kingdom has, since 2007, moved to a process of spending reviews as part of a wider set of reforms to modernise public spending and the performance management framework (OECD, 2010a).

Box 2.1. **Review of the United Kingdom's Efficiency Programme 2004-08**

In the United Kingdom the spending review process started in 1998. In 2004 the government accepted the recommendations of a report on public sector efficiency by Sir Peter Gershon. As a result, each department was set a series of efficiency targets to be achieved by March 2008, including:

- GBP 21.5 billion of annual efficiency gains;
- a staff reduction of 70 600 persons;
- 13 500 reallocations of posts to the "front line" of public services.

A progress review carried out by the National Audit Office found that the Efficiency Programme resulted in:

- greater focus on value for money issues among senior staff;
- improvements in the way public services were delivered;
- good progress in addressing efficiency measurement issues although problems persisted, which created a degree of uncertainty about some of the efficiency gains that were reported.

The workforce reduction target was exceeded, with a net reduction of 86 700 achieved by late 2008 compared to the targeted reduction of 70 600.

The review concluded that the headcount reductions reported were broadly robust but that reported reallocations of staff were found to be less reliable, partly because reported figures include projected rather than actual numbers of staff transferred, and partly because there was no overall agreed definition of what constituted a "front-line" role.

The review identified some issues with the transparency of headcount reductions reported by departments. In some cases, reductions made prior to the start of the Efficiency Programmes were included in departmental figures, there was not full disclosure of expansions in headcount, and staff reductions may have been counterbalanced in some cases by agency staff or outsourcing of staff to the private sector, thereby reducing the efficiency gains.

Source: National Audit Office (2007), "The Efficiency Programme: A Second Review of Progress", report by the Comptroller and Auditor General, The Stationery Office, London, 8 February; and United Kingdom Civil Service (2010), "The 21st Century Civil Service". Cabinet Office, London.

Programme reviews such as the United Kingdom's appear to offer a robust framework for identifying opportunities to adjust and reallocate, provided they are accompanied by workforce planning frameworks and that the public service employment framework facilitates redeployment and mobility, as well as separation of excess staff. As discussed in the following section, OECD member countries are at different stages in terms of developing workforce planning; only a minority appear to have reached the stage of integrated frameworks capable of bringing together budgeting, business and workforce planning.

The workforce management aspects of these instruments should be investigated more thoroughly in order to gain insight into how HRM policies and tools may influence outcomes, in terms of both workforce adjustment and medium- to longer term impacts on the performance and capacity of the public service. Experience to date suggests that the following aspects are important:

- Strategic reviews are likely to lead to significant reallocation of staff and/or changes in the size of the workforce (usually reductions). Human resource management aspects should therefore be treated as an integral part of such reviews and planned for from the outset.
- Workforce planning should be integrated with the strategic review and the medium-term budget framework.
- Strategic reviews should duly consider the capacity of the public service to meet current and future challenges, including matters such as leadership, skills and flexibility of the workforce and likely needs to renew the workforce in the medium term, for example through recruitment and staff development.
- Specific measures should be in place to support mobility and reallocation of staff if these do not already exist, and assessments should be made of the success in reallocating staff.
- Reviews could usefully seek to assess the impact of performance management arrangements on productivity, and to identify opportunities to improve these arrangements.
- Particular attention should be paid to the impact of reviews on the morale of the public service and on retention of key staff, and to change management aspects.

Human resource management measures

The scope for using different types of human resource management tools to adjust the workforce size and allocation depends partly on the employment framework applying to public servants, e.g. statutory provisions and/or collective agreements relating to matters such as job security, tenure in a particular position and provisions for dismissal. A key consideration affecting the measures available to governments in their role as employers is whether there is provision for voluntary or involuntary redundancy in the public service, and under what conditions. Provisions relating to mobility and redeployment of public servants are also critical.

Job cuts/redundancy programmes

Job cuts, in the sense of setting headcount reduction targets, do not appear to have been widely used in the past, the preferred approach being to implement budget cuts and leave managers to decide where to achieve the required savings. Canada implemented significant job cuts in the 1990's in the context of the Programme Review. As mentioned above, the United Kingdom's Efficiency Programme in 2004-08 set targets for headcount reductions as well as monetary savings. Some countries have set staff reduction targets in the past few years and there are indications that fiscal pressures may be leading to more widespread use of this approach (see Table 2.2).

In the past, countries with position-based employment systems have found it easier to use redundancy measures to reduce staff than countries with career-based systems, because the legal obligations to maintain employment tend to be more restrictive in the latter. However, this may change as career-based employment frameworks become more flexible in a number of countries.

Most countries have provisions in place for redundancy with leave allowance and/or reallocation assistance for the dismissed employee. This gives governments a wider range of options to manage downsizing and workforce restructuring. However, few countries regularly devise plans to encourage voluntary redundancy, and it seems that in general efforts are made to avoid compulsory redundancies, although these are not ruled out. It also seems that public service redundancy provisions are often more generous than those applying to private sector employees, although this would need to be verified on a country-by-country basis.

Redundancy provisions clearly favourable to the employee can help manage the political economy of downsizing in terms of avoiding industrial unrest. However, they do not avoid the problems associated with downsizing (effects on morale, capacity and trust) that have been mentioned above in the section on budget cuts and that are discussed in more detail later on. One important aspect of redundancy programmes is how employees are selected, as this directly affects the capacity of organisations following a downsizing exercise. If there is a voluntary redundancy programme with employees self-selecting, or a "last-in-first-out" policy, this can lead to loss of staff that the organisation would have preferred to retain. An approach based on decisions about restructuring work and identification of surplus positions or staff is likely to provide more scope to manage the process smoothly. However, staff and unions are likely to oppose compulsory redundancies.

Early retirement measures

Few countries have used early retirement incentives to downsize (see Table 2.1). Presumably one of the reasons for this is the cost involved, given the relative generosity and structure of public service pensions in many countries. Indeed, the trend now is to reform public service pension schemes to bring them closer to private sector provisions, and to raise the retirement age.

For a limited time in the 1990's, Canada introduced two incentives to encourage departures from the public service:

- An Early Retirement Incentive – a three-year programme for permanent employees who were declared surplus from any department or organisation where the Treasury Board was employer. Employees who took early retirement within 60 days of being declared surplus would not have their pension reduced as a result of retiring early.
- An Early Departure Incentive – a three-year programme for permanent employees who were declared surplus from departments most affected by downsizing (where the employment impact was beyond what could be managed through existing methods). The employees affected received a cash payment if they resigned from the public service, which varied based on salary, age, years of service and pension eligibility.

Over a four-year period, 1995-99, some 60 000 staff took advantage of early retirement programmes. The assessment was that the programmes enabled the public service to accomplish substantial personnel reductions with few involuntary departures and without labour unrest or service disruptions (Bourgon, 2009). However, it was a costly exercise: the cost significantly exceeded what was forecast and also seems to have exceeded the permanent salary savings achieved (CAD 4.2 million as opposed to the projected CAD 2.3 million and permanent salary savings of CAD 3 million) (Centre d'analyse stratégique, 2009).

The fact that early retirement measures have not been used on a wide scale probably reflects the fact that such measures are costly in terms of both the immediate departure benefits and higher pensions costs over the long term. Moreover, as with voluntary redundancy, early retirement programmes do not give managers much control over who leaves and who stays, and therefore risk causing the departure of experienced staff whom managers might prefer to retain.

Freezing recruitment

Recruitment freezes, leading to downsizing by natural attrition as existing staff retire and resign, have been used to reduce public employment mainly (although not exclusively) in countries where there is no provision to make public servants redundant. A recruitment freeze can mean stopping all external recruitment or placing a limit on the percentage of vacant positions that can be filled. A freeze may be applied across the board, or certain sectors may be exempted, typically front-line staff in areas such as education, health or the police. In public services where large numbers of staff are to retire due to the ageing of the workforce, there may be scope for substantial reductions in staffing over a relatively short period by freezing recruitment.

These types of measures, while able to stabilise or reduce employment, do not facilitate active restructuring of the workforce. Indeed, recruitment freezes tend to create problems with the structure, allocation and skills base that can take a long time to repair. And like job cuts, they tend to depress the morale of remaining employees who have to take on additional work; indeed, because they are long-drawn-out, they may have a more detrimental effect on efficiency and morale than staff cuts, which are accomplished more rapidly. The nature of attrition and non-replacement of departing staff is such that organisations cannot control which posts will be left vacant and which organisations will be most affected. That depends largely on the organisations' age structure and previous recruitment patterns. Moreover, unless there is flexibility to redeploy or reassign staff (something that is still problematic in many public services despite reforms for more flexibility), a recruitment freeze can cause severe problems in the organising of work with remaining staff. As there is also generally a restriction on internal promotions to vacant posts, management structures may be affected. Finally, total or partial recruitment freezes restrict the injection of new skills into the workforce and so create skills gaps that will have effects elsewhere unless remedial action is taken sooner.

The impact of downsizing

Previous experience in a number of countries shows that job cuts (whether resulting from workforce reduction targets, redundancy programmes, large-scale early retirement programmes, recruitment freezes or budget cuts) have tended to have serious detrimental effects on the public service in terms of morale, capacity and trust, and can almost never be implemented smoothly (OECD, 2010a). Moreover, personnel reduction targets were not always achieved (although in some cases, as with the UK Gershon Review, they were exceeded). For instance, the various personnel downsizing operations that took place in the 1980's, and in the Netherlands in the 1990's (OECD, 2010a).

In Canada in the 1990's, the human resource aspects of cutbacks were not given sufficient attention and significant efforts were needed to restore morale and capacity. Similarly, in Australia in the 1990's, large-scale staff reductions were assessed to have had negative effects on the surviving labour force in terms of low morale and loss of expertise (Dunford et al., 1998). This was also the experience in the United States, where a number of factors, including workforce reductions in the federal public service in 1970's and 1980's, led to concerns in the 1990's and 2000's about loss of human capital, in turn leading to an emphasis on renewal of the public service. One of the assessments in this context was that many agencies did not strategically assess their HR requirements before downsizing and as a result lost some of their best talent (Soni, 2004). Another review in the United States found that a lack of adequate strategic and workforce planning during initial rounds of downsizing by some agencies may have affected their ability to achieve organisational missions. Some agencies have reported that downsizing in general led to such negative effects as the loss of institutional memory and an increase in work backlogs (GAO, 1999).

Concerns have also been raised that downsizing has reduced the capacity for organisational learning and knowledge management. Referring to the experience in the United States, Rusaw (2004) contends that "downsizing has eroded individual and organi[s]ational knowledge bases on which capacity for future operations rest" and that it "harms the capacity for individuals and organi[s]ations to tap information, develop long-term change strategies, and cultivate a climate for continuous learning and growth".

A recent OECD report (2010c) cautions against *ad hoc*, arbitrary staff cuts for a number of reasons:

- Arbitrary staff cuts have generally been restored within five to ten years if the public's demand for services was not reduced or if no change in the operational delivery modes was undertaken.
- Even in the cases where there were successful cuts, the impacts have been limited, as compensation of government employees generally represents only about a quarter of government expenditures.
- Some staff cuts are in fact the result of "hidden" institutional changes, in which government entities are transformed into other types of organisations that may have some sort of hybrid status but are still funded by government or mandatory fees, or are at best semi-public organisations.
- Staff cuts tend to produce a huge level of anxiety. During implementation, employees tend to focus on saving their jobs and careers rather than on the delivery of public services.
- The best staff members tend to leave first, and the public sector ends up with the least productive people. In addition, when the government starts hiring again, it has to train people and devote scarce resources to hiring procedures.
- Politically driven staff cuts may also affect continuity in policy implementation by diminishing the professional culture of some organisations, a culture that can provide the values, capacity, knowledge, and memory necessary for effective service delivery.
- Many countries have ageing public services (older than the rest of the population) and are looking to retirements to cut staff. This can be less disruptive than across-the-board cuts, but if combined with incentives for senior workers to retire, it can lead to higher pensions. And if increased rates of retirement are combined with across-the-board cuts, there can be a significant impact on the ability to provide public services.

The Swedish experience with carrying out major staff reduction and restructuring programmes in the 1990's suggests that while cuts are never the ideal approach, there are steps that can be taken to lessen the negative impact. While the measures taken reflect Sweden's highly decentralised HRM system and strong tradition of union-employee relations, there are nevertheless important general lessons that are worth considering and still likely to be relevant, as outlined in Box 2.2.

Box 2.2. **Lessons and promising practices from the Swedish experience of staff reduction and restructuring in the 1990s**

Agency executives and leadership should increase their visibility and availability to staff during periods of staff reductions and restructuring.

Encourage innovative thinking from agency staff involved in staff reductions with regard to seeking and evaluating outplacement strategies. For such a focus to be successful, however, it pre-supposes substantial delegation of authority and streamlined channels of clearance for staff to develop action plans, commit resources, and even enter into agreements with other institutions or prospective employers.

Provide staff with continuous information on the status of and strategy for reductions and reorganisations. Work on the principle that one can never provide too much information.

An outplacement programme should seek to "activate" every individual in taking responsibility for finding their own new employment. To this end, each employee should be required to work out a personal development and strategy plans based on careful assessment of their particular situation conducted with the guidance and support of trained staff. The process of "activation" should include attention from management and human resource staff and a structured programme that includes regular activities, counselling, and follow-up.

In agencies engaged in large-scale staff reductions, one individual in the organisation should have full-time responsibility for co-ordinating the operations of the activity, and serve as a central point of information and expertise. Moreover, the responsible individual(s) must have secure employment, and not themselves be in fear or position of layoff or transfer.

There may be merit in removing redundant workers from the regular workplace and housing the downsizing organisation in a separate location, both to allow time and space for redundant workers, and to maximise opportunities for a new culture and positive environment to grow in the new organisation.

Provide managers (particularly mid-level managers) with training and support for managing reductions among their staff. Recognise the personal difficulties and stress involved in firing and reorganising staff.

Provide support and counselling for staff that are remaining with the organisation to ensure that they are both technically and emotionally prepared to deal with their new roles in the new organisation.

While staff reduction programmes should decentralised, it is important to have some central mechanism for sharing expertise and best practices across government.

Box 2.2. **Lessons and promising practices from the Swedish experience of staff reduction and restructuring in the 1990's** *(cont'd)*

Human resource management staff should work to express the costs and benefits of staff reductions in quantitative financial terms. This is particularly important in maintaining credibility, accountability and control. Staff reduction programmes could include innovative features such as making financial deals with private sector employers and providing costly training and development that might lead to new jobs. It is possible to show that where these programmes are carried out well, the agency can save money or break even again severance costs while, at the same time, securing employment for redundant workers.

Source: OECD (1998), "Public Sector Workforce Adjustments in OECD Countries: Interim Report", PUMA/HRM/RD(98)1, pp. 56-57, OECD, Paris.

Redeployment provisions

Box 2.3 shows examples of redeployment provisions applying to surplus staff. Redeployment measures are important tools for employers to manage staff reductions and reallocations, and for retaining the skills and experience needed to deliver services. They are also important in terms of supporting surplus staff and managing change smoothly. Some of the measures outlined below are very recent, and it seems that governments are trying to do more in this area. It is interesting to note that some career-based public services that do not have provision for redundancy have recently introduced statutory measures relating to redeployment of surplus staff (Portugal in 2006; France in 2009), or concluded collective agreements providing for more flexibility to redeploy staff so as to facilitate restructuring of public services (Ireland in 2010).

While surplus staff in some countries have a right to seek redeployment (statutory rights or guarantees under labour laws or provisions in collective agreements), in other countries there is no such automatic right and redundant staff are supposed to seek work on the general labour market (Sweden, where a special job security arrangement provides support for this).

Box 2.3. **Examples of redeployment provisions**

Australia: Excess public service employees are given two options: *i)* termination of employment with receipt of a retrenchment benefit (based on years of service and capped at a maximum of 48 weeks pays), or *ii)* retention in employment for up to 7 or 13 months, depending on the employee's age and length of service, during which time the employee seeks to be redeployed elsewhere in the Australian Public Service (APS).

There have been a variety of arrangements to deal with redeployment in recent years. In 2008, a Career Transition and Support Centre was established for two years within the Australian Public Service Commission to assist excess and potentially excess employees with redeployment in the public service. It provided career guidance to employees before and after restructuring operations. In 2011, at the government's initiative, a register was set up to assist excess and potentially excess APS employees seeking redeployment to another APS agency.

Canada: Laid-off employees have a right to priority placement in the public service for one year (6 months paid surplus, 12 months unpaid surplus status, and 12 months following the layoff). After a deputy head informs an employee that s/he will be laid off and before the layoff becomes effective, the Public Service Commission may appoint the employee before all other persons to another position under the deputy head's jurisdiction if the Commission is satisfied that the employee meets the required qualifications. Transition services such as career counselling, job search assistance, and financial and employee assistance counselling are provided for surplus employees.

Finland: Redundant civil servants have a right to priority redeployment in their own agency; there is no right to priority placement in the state sector generally. A 2006 government resolution on the arrangement of government staff positions in the event of an organisation's restructuring presents a framework and general outline of ways to find new tasks for government employees at risk – firstly, within the same government unit; secondly, within a government unit operating in the same administrative branch; and thirdly, within a government unit operating in a different administrative branch in the employee's commuter area.

The Civil Service Act allows employees to transfer to another agency or employed for a fixed-term in order to improve their skills before being let go completely. During this period the employee remains employed by their "home" agency. An agency reduction staff is responsible for putting a support scheme in place.

Redundant staff may partake in short-term development and vocational training courses arranged by their agency. With their consent, staff may be transferred to another agency permanently and can get training for their new tasks funded by the "home" agency. There is no central inter-governmental mobility programme.

Box 2.3. **Examples of redeployment provisions** *(cont'd)*

France: A law adopted in 2009 promotes geographical and occupational mobility in the civil service by consolidating possibilities of secondment, outplacement and integration of civil servants in jobs unrelated to their previous position. It increases possibilities to combine part-time jobs, use temporary agency staff and recruit staff under private law employment contracts. After drawing up an occupational plan with their line managers, employees whose position is abolished or changed have to engage in occupational guidance, training and validation of their work-based experience. Their department must propose redeployment solutions in line with their pay grade and personal career plans, which take into account where the employee lives and their family situation. The law provides more possibilities for civil servants to combine part-time jobs and makes it easier to recruit staff on private law employment contracts – that is, without civil service status. Moreover, the law extends the recruitment of temporary agency staff to the national civil service and local authorities – this option was previously only possible in public service hospitals.

Japan: A programme launched in 2006 to reduce personnel and costs has necessitated a redeployment programme, the aim being to avoid dismissals. Redeployment, rather than new recruitment, is the preferred option. The government has set up a Headquarters for Redeployment of National Civil Servants under the Cabinet. The headquarters is supported by a secretariat and regional promotion councils. The functions of the secretariat include providing information for target staff; collecting their wishes, with regard to redeployment matching between staff and new employer ministries; matching by regional level, a task co-ordinated by regional promotion councils; and providing training for redeployed staff as well as HR managers in the new employer ministries.

Netherlands: When a reorganisation occurs, an action plan must be drawn up; the plan should include the measures to be taken in respect of individual civil servants whose jobs have disappeared or who have become supernumerary. A placement and redeployment committee is established and an individual counselling plan drawn up for civil servants who are being redeployed. The basic principle of redeployment is that candidates should be moved to another position within the central government sector. The ministry or agency has to offer the employee an appropriate job within its own organisation or elsewhere in the central government sector within 18 months, and candidates are obliged to accept the "appropriate job" when it is offered. During the 18 months, employees receive full salary.

Redeployment candidates post their details on a *Civil Service Mobility Database*. Candidates and their employers search the database for suitable vacancies. If necessary, the employer brings the candidate to the attention of another ministry that seems to have a suitable vacancy.

Box 2.3. **Examples of redeployment provisions** *(cont'd)*

New Zealand: The government believes that a whole-of-government approach for redeploying surplus staff with the state services will improve the quality of change management processes used by agencies, and help to:

- retain the skills, experience, institutional knowledge and specialised competencies of public servants;
- ensure that state services agencies are good employers throughout any change management process;
- reduce the financial cost of redundancy compensation payable;
- increase the pool of credible candidates for vacancies in the state services.

A "redeployment pool" of redundant public servants has been established to retain and redistribute talent. The redeployment process is also available for non-public services departments and Crown entities both within and outside "core government administration", should they wish to participate.

Portugal: A law passed in 2006 establishes a common mobility regime for the public administration, covering both civil servants and contract employees. Those affected by organisational restructuring or rationalisation may be offered mobility within their employing service, or placed in a "special mobility situation".

Staff members placed in a special mobility situation go through a procedure that includes:

- A transition phase of up to 60 days, intended to allow the person to continue their functions without the need to attend vocational training initiatives. Staff members continue to be paid their monthly basic remuneration during this phase.
- A re-qualification phase of up to ten months after the transition phase is complete. This is designed to strengthen professional abilities. Staff members are paid five-sixths of their monthly basic remuneration during this phase.
- A compensation phase that runs for an indefinite period, intended to support the civil servant/employee to take on new functions.

Two special mobility methods exist:

- reassignment to another service, on a transitional basis or for an indefinite period of time;

Box 2.3. **Examples of redeployment provisions** *(cont'd)*

- resuming of functions in any service, also on a transitional basis or for an indefinite period of time.

A key tool has been the retraining and support to assist staff as they move on to activities in other sectors.

Departments and ministries can send surplus employees to a central pool; managers from other departments are required to recruit from this pool first. The pool provides a mechanism for dealing with workers who are no longer required, but who have been nominated as civil servants for life, and therefore cannot be made redundant. In the employment pool, employees are paid a percentage of their former salary that diminishes over time, until two-thirds after one year for an indefinite period. Staff members retain their rights to vacation and special leave since the period in the pool counts for retirement entitlements, and there is an obligation to attend training.

Source: OECD (1998), "Public Sector Workforce Adjustments in OECD Countries. Interim Report", PUMA/HRM/RD(98)1, OECD, Paris; New Zealand State Services Commission (2009), "Government Expectations for Redeployment in the State Services", Government of New Zealand, *www.ssc.govt.nz/redeployment*; presentations by national delegates to the OECD Employment Working Party 15-16 December 2009.

Summary of experience with past approaches

While the historical review has provided a great deal of information on the types of measures that have had some impact on the size and allocation of the workforce, there appears to be much less information on the precise impact, isolated reviews aside. The results of many of measures are unclear, in terms of effects on the size and reallocation of public service employment, and effects on matters such as capacity, morale, performance, service quality, continuity of service and efficiency. Scarcity of information suggests a lack of evaluation – and if that is the case, it is a serious shortcoming that could eventually force governments to deal with unplanned and unanticipated consequences.

This review has not turned up much information about managing the political economy of reforms. The only evidence to emerge is that in Australia and Canada, redundancy packages and an early retirement programme respectively have helped achieve large staff reductions without industrial unrest, and in Sweden measures to support reintegration in the general labour market and careful management of the human aspects of downsizing helped win acceptance for restructuring the public service.

Large-scale workforce reductions have been achieved through structural reforms of the public sector – involving, for instance, privatisation and outsourcing of activities, or their transfer to public corporations – although those reductions were not the primary aim of the reforms. Such exercises need to be accompanied by effective change management arrangements for staff – transitional terms and conditions of employment, redundancy and redeployment arrangements for surplus staff, and consultation or negotiation with unions are examples. These arrangements are important for avoiding industrial unrest and forecasting and managing the costs associated with the HRM aspects.

Small-scale staff reductions have been achieved by efficiency measures such as organisational streamlining (use of IT, delayering, etc.) or restructuring of organisations (merging ministries, shared services, etc.). Such measures improve productivity, but they require redesign of work, reskilling staff and managers, and the flexibility to redeploy staff.

Apart from restricting the scope for workforce planning and restructuring, *ad hoc* downsizing exercises could generate substantial longer term negative effects on public services in terms of loss of capacity, depressed morale, and loss of trust between staff and the employer. All of these are likely to reduce staff performance, and so place continuity of service and the reputation of the public service in jeopardy. Downsizing has often been conducted across the public service in an undifferentiated way, rather than being targeted on lower priority areas. Furthermore, in countries where redundancy provisions are not available to achieve more rapid staff reductions and restructure the workforce, the recourse to natural attrition has had a suffocating effect on the public service. As a result, any entry of new talent is stymied, there are difficulties reorganising services, and it takes managers that much longer to rebuild morale. These are critical issues requiring close attention and careful management. For public services, continuity of service is a core value and a structural requirement for maintaining the trust of citizens in government. Once weakened or lost, trust can be very difficult to rebuild.

If undertaken, downsizing should be part of a broader strategy to improve efficiency and service delivery; that strategy should include measures to safeguard morale, trust and capacity. Also, it should be undertaken within a framework of strategic workforce planning aimed at minimising adverse impacts and optimising decisions about the reduction and reallocation of staff. Although used in only a minority of OECD member countries, automatic productivity cuts (APCs) – combined with greater flexibility and autonomy for managers – appear to be useful in managing the size of the workforce in a more sustainable (orderly and cost-effective) manner over the longer term. Programme reviews or spending reviews are seen by the countries that use them as a better way to find savings or reallocate resources than across-the-board cuts (OECD, 2010a). However, experience has shown that unless the workforce aspects of the resulting initiatives are well analysed and carefully implemented, the results can be just as detrimental for the capacity of the public service as *ad hoc* across-the-board cuts.

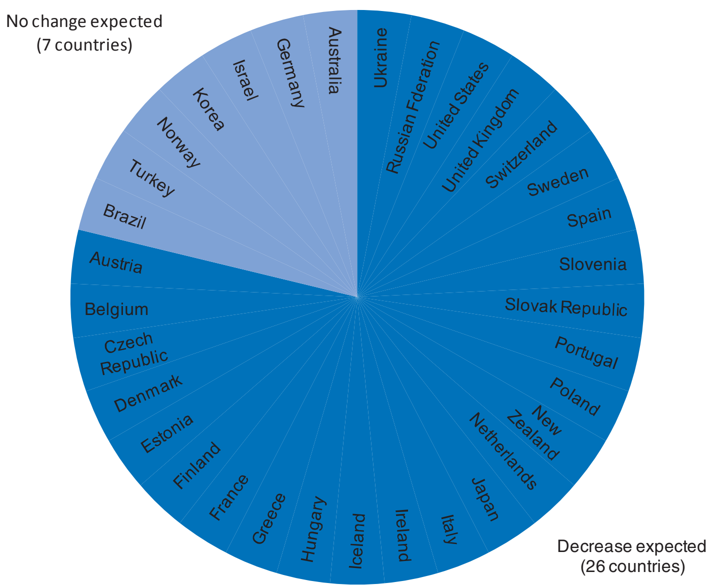
Current workforce initiatives

Measures to adjust size and allocation

The need to reduce budget deficits is driving cuts in public spending in many countries, with concomitant pressures on public employment (both the size and the allocation of the workforce), as well as salaries and pensions of public servants. At the same time, many governments are committed to ongoing investment in reforms of the public service designed to address issues of productivity, quality, ageing populations and other longer term challenges. Reforms of the public service are viewed by many governments as essential for coming out of the recession. The problem for governments is how to balance these objectives so that cutbacks do not undermine reforms.

Countries' responses to the OECD 2010 HRM survey indicate that over three-quarters of the countries that responded are planning reforms that will decrease the public workforce in more than half of the agencies and ministries within central government. In addition, while seven countries have indicated that they do not plan to decrease workforce levels, none plan to increase workforce levels.

Figure 2.2. **Anticipated changes in employment levels in more than 50% of agencies and ministries (2010)**



Note: Data are not available for Canada, Chile, Luxembourg, and Mexico.

Source: OECD (2010), "2010 Survey on Strategic Human Resource Management in Central/Federal Governments of OECD Countries", GOV/PGC/PEM(2010)2, OECD, Paris.

Based on information provided by a selection of countries in late 2009 and April 2010, Table 2.2 provides examples of measures recently launched or planned in a cross-section of member countries. It is important to note that most of these initiatives were designed and had begun to be implemented before the crisis, although they have been supplemented by additional cost-cutting measures in some countries.

Table 2.2. **Examples of measures to adjust the size and/or the allocation of the workforce in central/federal government currently and in the next few years**

Country	Type of measure implemented or planned
Austria	The number of permanent posts on the federal level will be reduced by 2 900 through an increase in productivity in the period 2011-14. The replacement ratio for staff leaving through retirement is one to two. Occupational groups such as police and judges as well as teachers and administrative staff in schools will not be affected by these savings.
Canada	Budget 2010 – restrain overall federal spending: freeze departmental operating budgets, that is the total amount spent on salaries, administration and overhead; launch a review of administrative services to improve their efficiency and eliminate duplication; closely review all departmental spending to ensure value for money and tangible results.
Estonia	In April 2008, the government instructed ministers to keep the personnel costs of their ministries at that year's levels. In July 2008, the government instructed the ministers to reduce their operational costs for 2009 by 8%. As of 2010, the personnel costs were approximately 15.5% less than in 2007. In spring 2010, the national retirement age was increased.
Finland	A number of structural measures were implemented in 2009 and 2010, including merging agencies (e.g. in the fields of health and welfare, transport and police); a major university reform and a regionalisation programme that will transfer 4 000 to 8 000 government jobs out of the capital city region by 2015. The regional state administration is being reorganised to enhance services for the citizen and customer, as well as to increase efficiency and productivity in its functions. All state provincial offices, employment and economic centres, regional environmental centres, environmental permit agencies, and occupational health and safety districts were phased out, and their functions and tasks reorganised into two new regional state administrative authorities from the beginning of 2010: the Regional State Administrative Agency and the Centre for Economic Development, Transport and the Environment. The Ministry of Finance is continuing to redesign administrative and HRM processes across the government. A combined, fee-based Administrative and Human Resources Management Service Centre for central government began operating at the beginning of 2010.
France	The General Review of Public Policies (RGPP) which took effect in 2007, aims to rationalise costs and improve the quality of public services. About 400 decisions have already been taken during this process, and a new step was launched in 2009 (RGPP2). HRM is a key aspect of the reform, with the goal to only replace half of the retired state administration agents. The effect estimated since the launch of the reform is a reduction of about 100 000 agents in the state administration. HRM processes, e.g. recruitment and training, will be reviewed in the RGPP2 framework. The review will be extended to state agencies.

Table 2.2. **Examples of measures to adjust the size and/or the allocation of the workforce in central/federal government currently and in the next few years** *(cont'd)*

Country	Type of measure implemented or planned
Greece	Since the end of 2009, there has been an effort to substantially decrease the number of employees in public administration. Starting from 2011, the replacement rate for staff leaving through retirement will be set at 20%.
Hungary	Reorganisation of public administration is a strategic goal of the government, the long-term goal being the implementation of "one-stop" services. The government has been restructured, with fewer ministries. The number of local councillors has been halved and from 2014 the number of MPs will be 200 instead of 386. Administrative authorities have regained the right to examine the legal functioning of local councils within their areas, a measure intended to combat corruption. The administrative authorities are state institutions with wide-ranging jurisdiction; from 2011 they will have stronger rights, becoming government offices. With a view to renewing the public administration with a young, professionally qualified generation with foreign language abilities, the government has announced a programme unique to Hungary called Government Career Expo with the slogan "Re-Generation", aimed at professional graduates and career starters. The government wants to develop the recruitment of leaders with experience and talent in administration. A new programme, the Hungarian Scholarship in Public Administration, provides 300 career starters with the opportunity to gain experience by spending several months in the public administration system of another EU member state, and then in the Hungarian system.
Iceland	There has been considerable restructuring in the public sector as a result of the financial crisis that Iceland has faced since October 2008. There have been major changes within agencies and hiring freezes. Some agencies have wanted changes to their retirement age, and agencies have carried out a full-scale needs analysis to find out which, if any, assignments they can either contract out or halt. There has also been a degree of delegation to other public or semi-public organisations. Major changes in the structure of ministries was planned for fall 2010, which were to be decreased in number and combined.
Japan	Net reduction of staff by more than 5% since 2005. In 2006, net reduction was set at 5.7%, or 18 900. Natural attrition will afford a 1.5% reduction, while structured review of specific sectors is expected to result in reduction of the remaining 4.2%. In the sectors reviewed, no new recruitment shall be carried out to replace retirees. In addition, an estimated 2 900 staff will be redeployed among ministries over four years, with a commensurate decrease in new recruitment.

Table 2.2. **Examples of measures to adjust the size and/or the allocation of the workforce in central/federal government currently and in the next few years** *(cont'd)*

Country	Type of measure implemented or planned
Netherlands	Differentiated approach to staff reduction. Targets set for 2008-11: policy staff -20%; support staff -20% to - 30% (establishment of shared services); implementation staff -5% to -10%; inspection staff -20%. The Budget for 2010 focuses on central government reform by reducing the size of the civil service. By the end of 2011, the number of civil servants is expected to have been cut by 12 800 full-time equivalents. Half of this operation was expected to be complete by the end of 2010.
Norway	No major reforms planned. Two major structural reforms that had an impact on the size and allocation of the workforce were carried out in 2002 and 2006. In 2002, hospitals owned by the government and the counties (municipality sector) were transformed into 100% state-owned companies with about 100 000 employees the majority of whom came from the municipality sector. In 2006, two government agencies – the Norwegian Directorate of Labour and the National Insurance Service – were fused to establish the Norwegian Labour and Welfare Administration, which also took on the responsibility of the municipalities for social (financial) help.
Portugal	In 2000-05, employment in the central government administration grew at an annual average of 1.6%. In 2005, the government introduced the Programme of Reform of the State Central Administration (PRACE); its aim was to cut costs and increase efficiency by simplifying and modernising public administration, and streamlining its structures through reorganisation of ministries and their duties. As a result, there has been a 26% reduction of general management bodies and public agencies as well as a 24.5% reduction in managerial positions. In the PRACE, the current duties of central government were reassessed to establish which should be maintained, ended or transferred to other public or private entities, as well as the decentralisation of duties to local authorities (in the areas of public service delivery). The restructuring was followed up by a staff rationalisation process. The government set up a new "Special Mobility System" (SME) to deal with redundant staff. Staff linked to public administration or in a Special Mobility System are given preference in recruitment. The government has brought the social protection scheme for public sector workers more into line with the general scheme, with the double objective of extending the working life of the workers and ensuring the future financing of the pension system. Several measures were introduced: *i)* raising of the legal age of retirement progressively to 65 years; *ii)* change in how pensions are calculated; *iii)* introduction of a sustainability factor that takes account of the increasing average life expectancy; *iv)* introduction of a pension bonus for each additional year worked beyond the legal retirement age; *v)* limitation on the conditions of access to early pension and an increase in the penalty amount for early retirement.

Table 2.2. **Examples of measures to adjust the size and/or the allocation of the workforce in central/federal government currently and in the next few years** *(cont'd)*

Country	Type of measure implemented or planned
Spain	In 2010, the Spanish Government approved a plan of immediate action for 2010 and a plan of economic austerity for the general administration of the state during 2011-13. The government's short-term goal is to restructure the volume of public employment, reducing recruitment of new personnel in areas not considered priorities while at the same time maintaining the quality of services offered to the public. In the 2010 plan, efforts to reduce personnel costs were focused on reducing the public employment offering to 10% of cash replacement value and in not hiring interim staff. The replacement rate is higher in priority areas such as health, education and security forces. The 2011-13 plan includes a 3-point reduction of state costs in GNP. In order to reach this objective, a policy will be implemented for controlling personnel costs, including a considerable moderation of salaries and a strategy for restricting offers of public employment (practically freezing recruitment, with a global replacement of only 10% of positions).
Slovenia	Since 2004, the government has decreased the number of employees in public administration bodies by 1% each year. The same target is set in the "Common Staff Plan" for the years 2011-12.
Sweden	The tax administration has been merged into one body, as has the social insurance administration. As of 1 April 2010, a new agency – the Swedish Transport Administration – was formed by merging the former Road Administration and the Rail Administration into a single body, whereas the construction divisions of these two agencies have become companies.
Switzerland	A consolidation programme for 2011-13 aims to reduce the budget of the Confederation by CHF 1.5 billion per annum. Current estimates indicate that this will be sufficient to meet deficit reduction targets over the current financial plan period. The programme will enable rapid implementation of budget cuts and reforms resulting from a review of functions, as well as suppression of some functions.

Table 2.2. **Examples of measures to adjust the size and/or the allocation of the workforce in central/federal government currently and in the next few years** *(cont'd)*

Country	Type of measure implemented or planned
United Kingdom	Significant investment since 1997. However, the impacts of the current recession and the commitment to halve the current deficit over the next four years have forced a review of the public sector pay bill. Efficiency Programme implemented in 2004-08 generated GBP 21.5 billion of annual efficiency gains, reduced head count by 70 600, and led to 13 500 reallocations of posts to front-line services. Most recent announcements have focused on a leaner central government and protecting the front line, as well as reducing the cost of redundancy (with reform of the Civil Service Compensation Scheme). Measures include merging or abolishing arm's-length bodies, integrating back-office functions, selling off government assets, streamlining the senior civil service, and reducing management layers and cost. Workforce productivity improvements that recognise the balance between costs and quality.

Source: Information provided by governments in response to a request for information issued by the OECD Public Governance and Territorial Development Directorate to national delegates to the Public Employment and Management Network in April 2010; presentations by delegates to the OECD Public Employment and Management Network, 15 December 2009 on "Recent Experiences in Government Downsizing and Reallocating", as well as additional research undertaken while preparing this paper; and responses to OECD (2010), "2010 Survey on Strategic Human Resources Management in Central/Federal Governments of OECD Countries", GOV/PGC/PEM(2010)2, OECD, Paris.

Longer term strategic actions vs. *shorter term reactive measures*

The measures shown in Table 2.2 fall into longer term strategic actions to restructure the workforce and shorter term reactive measures designed to help restore fiscal balance.

Longer term strategic restructuring:

- productivity improvements (Austria, Finland and the United Kingdom);
- efficiency/value-for-money measures (Canada, France, Japan, the Netherlands, Switzerland and the United Kingdom);
- process re-engineering/shared services (Finland, France, the Netherlands and the United Kingdom);
- structural reforms (Japan, Norway, Sweden and the United Kingdom).

Shorter term cost reduction measures:

- freeze on departmental operating budgets (Canada);
- downsizing operations (Finland, the Netherlands and the United Kingdom);
- partial or total recruitment freeze (Austria, France, Greece, Ireland, Italy, Japan, Spain, Portugal).

Governments continue to engage in reforms aimed at improving productivity, efficiency and value for money, as well as structural reforms of the public sector. For example, Finland expects to achieve staff reductions through productivity measures and rationalisation of support services; Norway and Sweden continue to implement structural reforms that have an impact on the size and allocation of the workforce, such as merging agencies and transforming government entities into companies; and the United Kingdom is using a combination of structural reforms, efficiency and productivity measures, and staff reductions.

Some countries have imposed ceilings on staff numbers through the budget, as a device to control the size of the workforce. This may be done in a centralised or decentralised way. In the Netherlands, staffing ceilings, which are set by the budget law, are decentralised to ministries and agencies. In New Zealand, a global cap currently applies to the size of the core government administration. Applying a global cap is intended to allow for greater flexibility in rebalancing staff numbers and resources between and within organisations to focus on front-line service delivery. Crown entities and non-public service departments excluded from the "core government administration" are expected to exercise restraint in back-office staffing and focus on front-line service delivery.

The current economic crisis has seen a return to *ad hoc* budget cutbacks in many countries, as part of a package of measures intended to rapidly reduce budget deficits, as noted earlier. The recent budgets in Germany, Spain the United Kingdom and a number of the smaller euro area countries have included significant cuts in public spending as well as measures targeted specifically at reducing the . Australia has increased the rate of the efficient dividend to the operation expenditure of the public service agencies from 1.25% to 1.5% in its 2010 - 2011 budget. Canada's 2010 budget has frozen departmental operating budgets as well as launching a review of administrative services to improve their efficiency and eliminate duplication. Poland's new Act on Rationalisation of Employment will mean a 10% cut in ministries. In Portugal, recruitment restrictions in place since 2006 mean that only 50% of retired public servants are replaced. In Italy, the replacement rate for 2010-11 is set at just 20% (see Box 1.1 for further examples).

Where countries already have budgeting and performance management tools in place that create regular pressures for efficiency, along with strategic workforce planning frameworks and flexible tools to reallocate staff, it might be expected that they would have less recourse to reactive measures. However, this is not always the case. Countries such as Canada, the Netherlands and the United Kingdom that have invested extensively in planning, budgeting and workforce management tools as well as HRM reforms have opted for cutbacks as well as longer term strategic measures to restructure the workforce and improve productivity.

It is important to note that in most cases, cost-cutting measures are not being taken in isolation. There seems to be an appreciation that sustainable savings require sustainable reforms. For example, Portugal implemented major reforms of public service employment and human resource management policies starting in 2005. Ireland has recently concluded a collective agreement with public service unions to transform working practices and make redeployment more flexible in the public service. Canada's latest measures to restrain spending come against a background of strategic reviews of public service activities, significant investment in public service renewal, and human resource management reforms. In other countries, such as Finland, the Netherlands and the United Kingdom, there is significant restructuring of the public service going on, including for example, shifting more staff into front-line services and achieving staff reductions and savings on administrative budgets through setting up shared services. In Belgium, where all ministries are obliged to cut expenses and there are restrictions on recruitment, ageing is expected to result in an overall exit of 40% of the workforce in the next ten years, and this is viewed as an opportunity to free up funds for more selective recruitment.

Some countries evidently have longer term workforce strategies in place that seek to balance fiscal discipline with responses to demographic pressures and ongoing improvements aimed at improving capacity, but it is not clear that governments everywhere are focusing adequately on these matters in the current context of cutbacks or indeed that there are adequate workforce planning frameworks in place.

While countries may opt for short-term cuts to deal with their budget crisis, and indeed may have little choice but to do so in some cases, they face the problem that (based on past experience) this risks impairing the capacity of the public service to meet longer term challenges. However, at least in some countries, current cutbacks appear to be combined with a range of other instruments, which may help to mitigate damage to the capacity of the public service. Factors that may affect the medium- to longer term outcomes include:

- whether budget cuts are applied in a selective way or imposed to the same extent across-the-board;
- whether the cuts are combined with programme reviews or spending reviews that identify opportunities to improve efficiency and to target cuts in ways that avoid priority areas;
- whether budgetary mechanisms such as rolling expenditure frameworks and medium-term planning will make it possible to manage cutbacks more smoothly;
- whether workforce planning systems are used, so as to avoid cuts that would in the medium- to longer term damage capacity in terms of staff numbers and competencies;
- whether there are selective redundancy tools that enable cuts to be applied in ways that avoid the loss of talented people;
- whether, in addition to cutting budgets, governments are reforming public services to improve performance and efficiency, eliminate hidden costs, and introduce more flexibility in human resource management;
- whether the age structure of the workforce offers the possibility to target cuts in ways that make it possible to renew the skills base by bringing in new talent – for example early retirement.

At the same time, the current pressures may offer the opportunity to renegotiate work practices in order to increase flexibility, thereby laying the basis for improvements in efficiency and service delivery. The crisis also offers the opportunity to reform public service pension schemes so as to prepare for the ageing of the workforce.

It is essential that governments make the most of these opportunities to protect capacity and increase flexibility in order to place public services on a sound and sustainable footing for the coming years. A core aspect that should be at the top of the agenda in this context is maintaining the trust of citizens in public administration. This is something that can easily be weakened if the quality and continuity of public services are perceived to be damaged by cutbacks. Trust also depends on maintaining high standards of ethics and integrity in the public administration and in government generally. It is most important, therefore, that the search for increased efficiency and flexibility in the public service does not lead to any weakening of strict HRM rules that prevent patronage and corruption. Citizens' trust is likely also to be affected by their perception of fairness in how cutbacks are allocated between employees in the public and private sectors, so governments need to consider carefully which aspects of public service employment conditions are necessary to protect integrity and ethics, and which should be reformed and brought more into line with conditions in the private sector.

Shared services

As noted in a recent OECD study (OECD, 2010a), before 1990, support services such as human resources, internal audit, procurement, and accommodation and facilities tended to be managed by central offices for the national administration as a whole. However, with the establishment of arm's-length agencies and loosening of central controls in order to give line managers more flexibility, centrally managed support services were broken up in a number of countries. More recently, the assessment in some countries is that this approach has led to inefficiencies and there is a trend towards establishing shared services among ministries or across central government in areas such as finance, HRM, ICT, procurement and other such support functions.

This trend does not simply represent a return to the past, as the shared service models that are being put in place now benefit from the experience of the private sector, where such models are used extensively. If implemented well, the streamlined processes, client-provider relationships and extensive use of ICT that are features of shared services have the potential to produce significant savings, as well as sustained improvements in the services concerned. (For some examples of recent shared services initiatives, see OECD, 2010a.)

Realising the potential benefits of shared services is not, however, a given. Factors that appear to be important for efficiency and savings (OECD, 2010a) are:

- the willingness of ministries and agencies to transfer tasks to service centres;
- concentration of responsibility for organisational policy and standard setting in one ministry (e.g. the Ministry of Finance);
- imposition of savings targets to be achieved in the context of expenditure frameworks.

Other factors that are likely to affect the success of such initiatives are:

- the capacity of managers in both the shared services and the client agencies to negotiate service agreements and monitor the quality and cost-effectiveness of the services provided (skills development may be required);
- careful selection of the work that is transferred into shared services (not all work is suitable for this model);
- careful selection and training of staff;
- the quality of the ICT used in providing services (there may also be issues with standardising ICT systems if services have previously been decentralised to ministries and agencies);
- how well rules and procedures are redesigned to enable services to be offered on a shared basis (rules and procedures may have diverged if services have been run on a decentralised basis; redesigning is a critical task, particularly in areas such as HRM, and should not simply be delegated to external consultants or ICT experts).

HRM reforms to increase the flexibility of the workforce

HRM reforms to increase the flexibility of the workforce began to be adopted in the late 1990's in many OECD member countries (OECD, 2008a). Indeed, a few countries, including Canada, New Zealand, Sweden and the United Kingdom, introduced provisions for more flexibility earlier. These developments are analysed in detail in other OECD reports (OECD, 2008a) and need not be repeated in detail here. However, it is worth mentioning a few developments. Those that are particularly relevant in terms of managing the size and/or allocation of the workforce include:

- alignment of the government employment framework with general labour laws and weakening of the traditional job security applying to public servants;
- delegation of responsibility for HRM and financial management;
- reforms to career structures and job classification systems;
- more open recruitment in career-based public services;
- recruitment of contract staff.

Job security and changes to the employment framework

Public servants have traditionally enjoyed stronger job security than private sector employees and this, along with career structures (e.g. corps) and job classification systems, has often made it difficult to restructure or reduce staffing. Public service statutes, regulations and collective agreements (depending on the country) have typically contained strong protection against loss of employment.

The situation regarding employment security is changing as governments seek to gain more flexibility in managing public service employment. This is reflected in reforms of employment frameworks to bring them more into line with private sector labour laws. In Italy for example, Legislative Decree No. 29/93 and successive laws have introduced so-called privatisation of the civil service: the special statute based on administrative law, which governed the majority of public sector employees including senior civil service officials, has been abandoned and the law in force for the private sector is now applied to working relations of public employees. In Portugal, most government positions have been placed under general labour law, except for positions related to sovereignty (foreign affairs, armed forces, justice and inspection). And with the exception of a very few positions, all lifelong employment in the Swedish Government administration has been replaced by employment on a permanent contract basis. This means that government employees work under the same legislation as any employee in Sweden (OECD, 2008a).

Delegation to managers

Giving managers more freedom to adjust the size and composition of their staff has been one of the features of reforms in many countries. However, this has to be part of a coherent employment framework (OECD, 2008a): the framework needs to be sufficiently flexible to enable managers to use this freedom, and a sound performance and accountability framework is needed.

In the context of this chapter, the questions to be asked are whether delegation of HRM is being used to best effect to adjust and reallocate the workforce, and whether managers (both line and HR managers) have the right tools (e.g. workforce planning systems, competency frameworks and training) and the necessary skills.

Reforms to career structures and job classification systems

Reforms in this area can be important for increasing workforce flexibility (ability to redeploy staff, reorganise work and increase mobility) as career structures and job classification and grading systems can set up barriers to the movement of staff as well as increasing the transaction costs associated with managing employees in different groups. Examples of reforms include creating broader occupational groups (Canada), merging professional corps (France and Spain), reducing the number of separate career structures and pay scales (Portugal), and developing standard competencies for jobs across the public service (France, Ireland and Japan).

More open recruitment

Career-type public services have traditionally recruited at entry-level grades, with higher level positions being filled through internal promotion. However, this is changing in a number of countries in order to provide more flexibility and to bring new skills into the workforce at higher levels. Flexibility, combined with competency-based recruitment and a focus on increasing the diversity of the workforce, is necessary for public services to renew their skill base to meet changing service needs and as their workforce ages.

As countries come out of the current recession, labour markets will get tighter and public services will have to compete for talent once more. It is essential therefore that public services plan for future workforce needs even during the current cost reduction phase. Recruitment freezes should not prevent planning for future recruitment, and attention must be paid to retaining key skills during staff reduction exercises. Also, maintaining trust and morale is essential to the reputation of the public service as an employer and its ability to attract good people.

Recruitment of contract staff

Changes to the employment framework of public services have also included removing restrictions on employing staff on fixed-term contracts, in order to have a more flexible workforce. However, most countries appear to make limited use of contract staff. Data collected by OECD for the 2006 "Survey on Strategic Human Resources Management (HRM) in Government" indicate that the number of staff employed on contracts ranged from 2% in the United Kingdom to 22% in Finland and was below 10% in most of the countries that provided data (OECD, 2008a).

Data collected by the OECD in the latest "Survey on Strategic Human Resource Management" in 2010 suggest a continuation in the increase in the number of employees under fixed-term contracts in most OECD member countries, such as Australia, Chile, Denmark, Israel, Italy, Mexico, Portugal, Slovenia and Switzerland. Canada and Finland reported decreases in the number of contracted staff. In some countries the increases were considerable. For instance, in Chile, fixed-term employees (88 069) outnumbered employees under open-term contracts (67 517) in 2009. In Denmark, the number of fixed-term staff passed from 200 (full-time employment numbers) in 2000 to 1 235 in 2009. The objective is to achieve greater mobility and flexibility, with a broader basis for recruitment, particularly in management level positions.

Workforce planning

While the OECD has not conducted an in-depth study of workforce planning, the available information suggests that most member countries engage in some form of workforce planning, and that in a number of countries its effectiveness has been reinforced by:

- Linking it to the strategic planning of organisations, including business forecasting and planning, budgeting, accountability and reporting mechanisms for managers and strategic human resource management.
- Making it an integral part of the performance management framework of organisations, which seems to have taken root more quickly in countries with more decentralised human resource management systems than ones with more centralised public services.

- Increased use of competency management and development of strategies to close identified competency gaps.

Integrated planning is, for example, one of the core pillars of the Public Service Renewal in Canada, where it is maintained that good planning allows for a better sense of organisational strengths and of the gaps that need to be filled, whether through recruitment or development or by bringing in specialised skills at mid-career. There are five steps to integrated planning at the departmental level: *i)* determining organisational business goals; *ii)* analysing the organisational environment to see if there is the right mix of skills and people to meet current and future needs of the organisation; *iii)* assessing the gaps or surplus in the organisation's workforce – what is missing or what is no longer required from an HR perspective in order for the organisation to achieve its goals; *iv)* setting priorities and taking action – initiating strategies to close the gap and help get the quantity and quality of the resources required; and *v)* reviewing, monitoring and measuring whether efforts were successful.

Workforce planning is an essential tool for anticipating possible future developments and maintaining a well-structured workforce of an appropriate size, which is able to meet the changing needs of the public service in a cost-efficient manner. It appears that a systematic approach to workforce planning continues to be a challenge for public services in many countries, and exchange of information and mutual learning in this domain would prove helpful. For example, the OECD study on *Ageing and the Public Service* (OECD, 2007) found that only a few countries had devised strategies that take advantage of the opportunities created by an ageing civil service. Some OECD member countries, especially those worst affected by the recession, will also have to contend with loss of skills as a result of rising levels of emigration.

While several countries – for instance Canada (Carpentier, 2009), Denmark (Plannthin, 2009), the United Kingdom (McDonald, 2009) and the United States (Mahoney, 2009) – are taking steps to plan for ageing public services (e.g. focus on skills, recruitment strategies and pension reforms), this still seems to be an area where governments need to focus more attention and develop their strategies. The risk is that current cost-cutting measures will overshadow the need to plan ahead for ageing workforces and also to adapt to other demographic changes such as loss of skills through emigration and more diverse workforces.

Focus on future capabilities and human capital

The OECD study *Government at a Glance* (OECD, 2009) notes that while measures to cut the number of public service staff and limit recruitment and promotion may create opportunities to lose unproductive staff, administrations need to ensure that they are not losing the best of their staff to the private sector, or creating "generational gaps" or future skills shortages that will affect their capacity to address long-term challenges. That study underlines the need for the public services to pay attention to their future skills requirements and for governments to integrate workforce and human capital considerations into broader policy changes that could impact on service delivery.

A step that most OECD member countries have taken is to develop competency management frameworks**,** a practice described in detail in Chapter 3 of this volume. These frameworks identify the capabilities needed in the workforce and link together a number of human resource management activities (recruitment, staff development, performance management) to enhance capacity.

The majority of the OECD member countries are focusing on improving training and knowledge management. However, longer term assessments of capability requirements are required and public services need to put in place strategies to ensure that they will have the necessary capabilities in the future. Capabilities will depend both on having the necessary human capital and on having the requisite leadership, management and organisational capacity. While a few countries are focusing on longer term capability strategies, it would appear that many have yet to develop their workforce strategies in this area.

The United Kingdom has developed, as part of its strategy for the 21st Century Civil Service, a system of departmental Capability Reviews. These reviews aim to present an honest and robust assessment of future capabilities and to identify the specific measures that are needed if central government departments are to play their part in enabling the United Kingdom to meet the considerable challenges of the future. They focus on cross-cutting aspects such as service delivery, innovation, working across organisational boundaries, identifying weaknesses as well as strengths, and pointing to what needs to be done to strengthen capabilities. With regard to action that could be taken, the latest Capability Reviews suggested basing choices on evidence, setting direction, and taking responsibility for leading delivery and change. Areas for development included building capability and developing clear roles, responsibilities and delivery models. The next phase of reviews will put more emphasis on innovation, collaboration and value for money (UK Civil Service, 2010).

The United States federal Government has taken several initiatives to address human capital requirements. Centred on strategic workforce planning and organisational performance management, these initiatives cite specific action to improve managerial competence and leadership skills (Soni, 2004). Reforms implemented since 2002 aim to improve the capacity of public agencies to deploy and adapt their workforces quickly to meet changing needs. Measures include the following:

- workforce planning and restructuring is undertaken as part of the strategic management of human capital, defined in terms of each agency's mission, goals and objectives;
- agency restructuring is expected to incorporate organisational and staffing changes resulting from "competitive sources" and expanded e-government;
- agencies are expected to identify statutory impediments to good management;
- agencies are instructed to strengthen and make the most of the knowledge, skills and abilities of their people.

The United States Government has implemented a Human Capital Assessment and Accountability Framework to enable federal agencies to formulate, implement and assess their human capital strategies and make the investments necessary to achieving their missions. A key feature of the approach taken is that a set of common standards has been developed jointly by the central management and oversight agencies, providing a common language for agencies and all interested stakeholders to assess progress on the strategic management of human capital, and on a common framework for action.

While this approach and the United Kingdom's Capability Reviews initiative differ in many respects, they share some important themes:

- They both emphasise the need for forward-looking assessment of organisational capabilities, with a strong focus on aspects such as delivery of services, working across organisational boundaries, value for money and innovation.
- Both have developed rigorous frameworks with a strong emphasis on implementation, designed to drive a common approach in public services in which management decision making is decentralised.
- They link what might be termed the "macro" aspects of organisational capability with the "micro" aspects of human resource management and human capital development.

It would be of interest to know whether other countries are developing similar or any different approaches to human capital and organisational capability, and how this might be affecting their management of the workforce.

Performance measures

Most OECD member countries have moved towards measuring performance of their organisations using financial or non-financial measures and targets. Performance measures are used internally by ministries and agencies to set programme priorities and allocate resources (including staff), and also for purposes of budgeting and public accountability (OECD, 2010d). As noted by the OECD (2009), performance information can help improve decisions on staffing levels and allocation; depending on the quality and scope of the information which varies considerably between countries (see OECD, 2009).

What lessons can be drawn from past experience?

The economic crisis may have focused attention on costs, but investment in the skills, leadership and management capacity of the public service is even more important for dealing with current and emerging challenges. A key issue for governments is how to maintain and improve the capacity of the public service while at the same time producing savings.

The review of current and past measures that have had an impact on the size and allocation of the workforce points to a number of lessons, although the workforce impacts of many structural, organisational and budgetary measures remain under-analysed.

1. The workforce implications of any public service reform or innovation need to be considered and planned for from the outset, both in terms of any anticipated staff reductions or redeployment and in terms of managing the change so as to minimise disruption, protect capacity and continuity of service, and avoid to the extent possible depleting trust or eroding morale.

2. Workforce reduction and reallocation measures should not be stand-alone but part of broader reforms. There appears to be scope for making better use of a combination of instruments to manage the workforce, particularly through better integration of HRM instruments – such as workforce planning, skills strategies and redesign of work – with budgeting instruments such as automatic productivity cuts, performance management and programme/spending reviews.

3. Using a combination of instruments can help reduce the disadvantages associated with any one instrument. For example, spending reviews can help target cuts, instruments that drive ongoing productivity improvements may reduce the need to resort to *ad hoc* cuts, investment in skills renewal and support for redeployment of staff can help preserve capacity and maintain the trust and morale of employees.

4. While countries appear to be continuing with reforms aimed at improving the productivity and capacity of the public service even while implementing cutbacks, this will in fact be a difficult balance to achieve. There is a risk that the focus will shift to seeing staff as costs rather than as assets. The challenge is to implement workforce productivity improvements that recognise the balance between costs and quality and continuity of service. For government services, continuity of service is a core value related to citizens' trust in government and the public administration.

5. Countries need to plan better for dealing with the impact on the public service of ageing populations and other demographic developments, and to pay more attention to future skill needs. Planning can be part of a coherent set of productivity-focused reforms aimed at reshaping the public service.

6. Workforce planning remains an underused instrument in many countries, although some have developed sophisticated systems to link workforce planning and management with strategic planning, budgeting and public policy evaluation.

7. Other instruments that remain underused include assessment of future capacity and human capital requirements and development of strategies and instruments to address future needs (e.g. skills strategies, recruitment strategies, competency management, HRM policies that will support innovation, development of leaders).

8. There appears to be considerable scope for some countries to make HRM and employment provisions in the public service more flexible in order to support the adaption of the workforce. The economic crisis may offer a window of opportunity for reforms. Governments have to make sure, however, that when pursuing flexibility they do not undermine HRM rules that prevent patronage and corruption.

9. There needs to be better evaluation of how structural reforms such as outsourcing, creation of arm's-length agencies, movement of staff to sub-national levels of government and privatisation or corporatisation have affected the size of the workforce and production costs of publicly funded goods and services over the long run, and how the workforce

aspects of such reforms can best be managed. Keener insight into these aspects is especially necessary given that governments in some countries are now embarking on further rounds of privatisation and corporatisation.

10. The use of automatic productivity cuts to drive more efficient staffing (not only staffing levels but also redesign of work and other changes in how services are delivered) remains under-analysed. More needs to be known about the advantages and disadvantages of this approach and how it can be integrated into workforce planning and management.

11. Large-scale downsizing is the most problematic option for workforce adjustment. Assessments have highlighted a variety of negative effects on the capacity of the workforce as well as on trust and morale, and questioned the longer term sustainability of staff reductions achieved in this way. Citizens could also lose trust if downsizing undermines the continuity of services. If governments feel they have no option but to embark on such programmes, they need to be aware of these risks and take steps to minimise the adverse effects. Experience suggests that close attention to managing the human aspects (for remaining staff as well as those leaving) and use of strategic planning to assess workforce requirements in advance of implementing cuts are essential elements in this regard. A differentiated approach to staff reductions appears preferable to across-the-board cuts.

12. Recruitment freezes are probably the most detrimental approach to downsizing, because they are indiscriminate and limit the ability of organisations to restructure and reskill. Moreover, as they tend to be protracted, the negative impact on the morale of staff and managers and on the capacity to deliver services is likely to be significant.

13. Redeployment arrangements in the context of staff reductions can help retain skills and experience, and moreover help manage the industrial relations aspects of downsizing. More needs to be done also to break down barriers to redeployment and mobility, in order to support the restructuring of services and optimal use of skills.

Notes

1. While an attempt has been made to identify general literature on this topic, little recent work was found and the analysis relies mainly on OECD studies.
2. In Sweden, the approach is to support redundant staff in finding employment on the general labour market rather than redeploying them within the public service.

Annex 2.A1
Provisions relating to termination of employment of public servants in situations of workforce reduction*

Australia: The Workplace Relations Act 1996 establishes common provisions for the private, voluntary and public sectors, regarding an employer's power to hire and fire staff. The employment of ongoing Australian Public Service (APS) employees may be terminated if the agency staffing levels are beyond the requirements of the agency. Termination may be voluntary or involuntary. Employees may receive a redundancy benefit based on their years of service in the APS. The amount of that benefit is capped across the APS by limiting the amount that can be negotiated in an industrial agreement. Data on redundancies are available in the *Australian Public Service Statistical Bulletin 2008-09: www.apsc.gov.au/stateoftheservice/0809/statistics/index.html*.

Canada: Authority lies with the deputy head of a department (Public Service Employment Act – PSEA). The fundamental principle is that declaration that an employee is surplus will be linked to the discontinuation and elimination of that employee's function or position. If several employees occupy similar positions and perform the same function, the identification of staff as surplus is based on the "reverse order of merit" process. The PSEA has been complemented by the Public Service Modernization Act (2003), which contains significant reform of federal HRM, and by the Public Service Labour Relations Act.

As regards provisions for involuntary layoffs, the first responsibility of the employer is to attempt to relocate affected or surplus employees. If placement is not possible or is an uncertain option, the employee is then (and only then) given options that include a departure package negotiated with the unions. If the surplus employee chooses to waive the monetary package and hold out for placement, the government will attempt to place the employee for a period of 12 months. The employer may lay off the employee if no placement occurs in that period or sooner if the employee turns down a reasonable job offer.

Finland: The job security provisions in the State Civil Servants Act correspond to the provisions of the Employment Contracts Act applying to other employees with regard to the grounds for terminating an employment relationship. Employment may be terminated if the whole agency or the unit in which a civil servant is working is closed down or when the measure is due to production-related or financial reasons and the employee cannot be relocated or trained for new duties in the same agency. Under such circumstances, the employee may also be laid off for a fixed term or until further notice.

New provisions to facilitate management of change were introduced by the government in 2007. These made it possible to offer compensation for resignation, equivalent to up to ten months' salary, in situations where a civil servant's job has already ended or will clearly end soon and the employer has not been able to redeploy the person. The employee must have at least five years of service in the state civil service and must not have refused an offer of redeployment. Approval from the Ministry of Finance is required.

Netherlands: The terms and conditions of Dutch civil servants are to a large extent harmonised with the private sector as a consequence of the government policy of "normalisation" of labour relations and employment conditions. The last remaining step in that process, replacing public labour law by private labour law, is currently under consideration. Civil servants do not have a contract of employment, but are employed on the basis of a (unilateral) public appointment from the government body that employs them. They can be laid off on grounds of redundancy.

In the framework of social dialogue, measures are agreed with unions as regards regulating priorities in the sequence of termination of contracts (e.g. last-in-first-out) and compensation for loss of employment. Dutch civil servants possess a differentiated level of unemployment benefits: older generations possess more statutory benefits and younger generations are more or less harmonised with market terms and conditions, thus with less supplementary benefits.

Portugal: When posts filled by staff through a public employment legal relationship and for an indefinite period of time are abolished due to restructuring, there is a selection procedure to determine who among holders of similar posts will lose their jobs. Well-defined rules regarding the selection criteria are applicable here – for example merit appraisal– to safeguard transparency and fair treatment. There is no individual negotiation, such as in the private sector. At the end of this procedure, two situations may occur depending on the staff selected to leave. Appointed staff and staff under a public employment contract for an indefinite period, who held an appointment before 1 January 2009, are placed on a special mobility situation; staff on a public employment contract admitted to public administration after 1 January 2009 terminate the public employment legal relationship, and an unemployment allowance may be granted within the scope of the social protection general scheme.

Sweden: The Swedish public sector is governed by labour law, and there is no lifelong employment guarantee in central government posts. Conditions of employment are governed by collective agreements concluded between the Swedish Agency for Government Employers and unions. The rules applicable to public sector employees are nearly identical to those applicable to private sector employees; there is no specific civil servant status. Every agency is its own employer.

Employees may be dismissed only on "objective grounds", including scarcity of jobs stemming from (for example) agency reorganisations and general reductions in the workforce. Dismissals are according to a seniority-based (last-in-first-out) system.

Dismissed employees have the right to a minimum period of notice of 2 to 12 months (based on age and seniority); full pay during the notice period; and free time during the notice period for activities related to finding a new job – including, for example, seeking professional or vocational training or trying out temporary jobs.

A Job Security Agreement negotiated with unions (that applies to the state sector only) contains three parts: *i)* an agreement of job security that regulates the measures and benefits for an employee who is given notice of dismissal for structural reasons; *ii)* a job security foundation that from state-funded money is able to support these individuals when reorienting themselves on the labour market; and *iii)* a special agreement regulating how to identify people to be made redundant.

United Kingdom: Working conditions in the public service and the rules regarding HRM were codified in the Civil Service Management Code in 1996. Most public servants are employed on a contractual basis and as such are subject to general labour code legislation. Employment conditions vary among public employers. Each ministerial department or agency is responsible for its own rules of recruitment, deployment and redundancy.

Priority is given to limiting involuntary redundancy by emphasising redeployment within a department, retraining for redeployment, placing temporary restrictions on recruitment or promotion, allowing redundant workers to temporarily fill vacant posts at lower grades, and encouraging eligible staff to accept early retirement.

Civil servants are not legally entitled to redundancy pay provided by law to other workers; however, it is common practice for departments to follow the statutory provisions regarding termination affecting other sectors. The period of notice is six months if appointment is terminated compulsorily.

The Cabinet Office and the Council of Civil Service Unions have agreed on protocols to ensure that best endeavours are made to avoid recourse to compulsory redundancies for those who want to continue their civil service careers and to ensure that opportunities for redeployment are maximised, both within and across departmental boundaries. The process applies prior to issuing any compulsory redundancy notice. In situations where jobs may be transferred out of the civil service (as a result of outsourcing or privatisation), there is separate guidance on good practice, contained in an agreement between the Cabinet Office and the Council of Civil Service Unions, that departments should follow.

Note

*. Information is drawn from the country profiles prepared as part of this project, and results from OECD (2010), "2010 Survey on Strategic Human Resources Management in Central/Federal Governments of OECD Countries", GOV/PGC/PEM(2010)2, OECD, Paris.

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