

# Current restructuring developments in local government

## *Background paper*

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## Introduction

As European Union Member States begin to emerge from the steepest recession in over half a century, public authorities face the task of having to match contracting resources with a continuously mounting demand for services. Decreases in tax revenue and growing demands in particular on social welfare budgets arising from rising unemployment have contributed to rapidly worsening fiscal situations in many countries. Already, the government debt to gross domestic product (GDP) ratio in the eurozone is six points higher than the 60% threshold – one of the Maastricht criteria for euro entry.

To date, the reactions of the EU Member States to the worsening macroeconomic environment have been quite varied. Some Member States – in particular, the larger ones such as Germany and the United Kingdom – have engaged in large-scale countercyclical intervention to sustain demand. Many smaller Member States – for example, the Baltic States and Ireland – have sought wide-ranging cuts in public spending as a means of adjusting expenditure to the sharp fall-off from previous boom levels of tax intake. The EU has provided financial impetus with its own *European Economic Recovery Plan*<sup>1</sup>, involving investment of up to €200 billion.

Pressures on the working and employment conditions of frontline public services staff have grown. Meanwhile perceptions that public sector employees have suffered comparatively less than their private sector counterparts during the downturn – both in terms of job loss as well as employment and income security in general – has fuelled polarisation of sentiment between private and public sector workers in some countries. Another view is that the crisis has offered governments a pretext to accelerate public sector restructuring already in place in the guise of ‘new public management’ reforms. As indicated in this report, public sector employment levels have generally held up so far. However, this should not deflect from the fact that changes in work organisation, internal restructuring, redeployment and staff reductions, as well as wage freezes and in some cases pay cuts, have precipitated protests and industrial conflict in the state sector of a number of Member States.

This report uses recent findings from two observatories of the European Foundation for the Improvement and Living Conditions (Eurofound<sup>2</sup>): the European Industrial Relations Observatory (EIRO<sup>3</sup>) and the European Restructuring Monitor (ERM<sup>4</sup>) – as well as Eurostat<sup>5</sup> data, to examine trends in compensation for public employees (in particular, local government workers), employment levels and employment relations issues within the state sector. The main focus is on developments over the period of the economic crisis – that is, from 2008 to the present – in the 27 EU Member States (EU27) and Norway, but with reference where relevant to earlier material.

Where possible, the focus is on local government and services. Nevertheless, given the diversity of responsibilities of local – as opposed to central – government across Member States, in practice it is often difficult to isolate the two. Moreover, it is not always possible to distinguish between publicly and privately provided services in the healthcare and

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<sup>1</sup> For full text of recovery plan, see [http://ec.europa.eu/commission\\_barroso/president/pdf/Comm\\_20081126.pdf](http://ec.europa.eu/commission_barroso/president/pdf/Comm_20081126.pdf).

<sup>2</sup> <http://www.eurofound.europa.eu>

<sup>3</sup> <http://www.eurofound.europa.eu/eiro/>

<sup>4</sup> <http://www.eurofound.europa.eu/emcc/erm/index.htm>

<sup>5</sup> <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>

education sectors using the conventional Statistical Classification of Economic Activities in the European Community (*Nomenclature statistique des activités économiques dans la Communauté européenne*, NACE), even at the reasonably detailed two-digit level (60 sectors in NACE revision 1.1). For a short report such as this, it is not unreasonable to assume that the sectors of public administration (NACE 75), health and social work (NACE 80) and education (NACE 85) will provide indicative figures on ‘public sector employment’. They do, in any case, allow for comparisons to be made at country level.

This background report has been written in response to a joint request by the European Public Services Union (EPSU) and the Council of European Municipalities and Regions (CEMR) for a synthesis of recent Eurofound research and data on developments in the public sector in general, and the local government sector more specifically, during the economic crisis from mid 2008 to date. It draws on material from a few principal sources of the EIRO and ERM observatories, namely:

- news updates from the network of 28 EIRO correspondents;
- the EIRO comparative report *Industrial relations in the public sector* (Bordogna, 2008)<sup>6</sup>;
- new ERM restructuring factsheets<sup>7</sup> for the period 2008–2009;
- the *ERM Report 2009: Restructuring in recession* (Hurley et al, 2009)<sup>8</sup>.

## Recent pay developments

Public sector pay is the single largest item in public budgets at the state, regional and local level, and has come under increased pressure as a result of public financing restraints. Public sector employers have drawn attention to the relative security, as well as a historically low inflation environment, in justification of pay freezes and even pay cuts. This section gives an overview of recent developments in public sector pay in local government based on EIRO’s *Pay developments – 2008*<sup>9</sup> report (Carley, 2009). It includes data on agreed pay increases, or some similar indicator, in the local government sector. Table 1 provides an overview of developments from 2004 to 2008. It should be pointed out, however, that more controversial developments in relation to local government pay have largely taken place in late 2008 and 2009, and are not covered in the most recent EIRO annual report on pay developments.

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<sup>6</sup> <http://www.eurofound.europa.eu/eiro/studies/tn0611028s/index.htm>

<sup>7</sup> <http://www.eurofound.europa.eu/emcc/erm/index.php?template=searchfactsheets>

<sup>8</sup> <http://www.eurofound.europa.eu/publications/htmlfiles/ef0973.htm>

<sup>9</sup> <http://www.eurofound.europa.eu/eiro/studies/tn0904029s/tn0904029s.htm>

Table 1: Nominal and real agreed pay increases in local government, 2004–2008 (%)

	2004		2005		2006		2007		2008		Total		Average	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
AT	1.9	-0.1	2.3	0.2	2.7	1.0	2.4	0.2	3.3	0.1	13.2	1.4	2.5	0.3
BE	–	–	–	–	–	–	0.0	-1.8	6.1	1.5	6.1	-0.3	3.1	-0.1
BG	8.5	2.2	5.0	0.0	6.0	-1.3	10.0	2.2	10.0	2.2	46.1	5.4	7.9	1.1
CY	0.0	-1.9	0.0	-2.0	2.0	-0.2	0.0	-2.2	2.1	-0.1	4.1	-6.1	0.8	-1.3
CZ	7.2	4.5	5.5	3.8	3.9	1.8	5.2	2.1	4.2	1.2	28.8	14.1	5.2	2.7
DE	2.0	0.2	0.0	-1.9	0.0	-1.8	1.0	-1.3	5.1	2.2	8.3	-2.5	1.6	-0.5
DK	–	–	5.3	3.5	8.6	6.6	5.0	3.2	2.5	-1.1	23.1	12.7	5.4	3.1
EE	8.2	5.0	9.5	5.2	13.8	9.0	–	–	–	–	34.8	20.4	10.5	6.4
EL	4.0	1.0	3.6	0.1	3.0	-0.3	3.5	0.5	4.5	0.3	20.0	1.6	3.7	0.3
ES	2.2	-0.9	2.9	-0.5	4.0	0.4	2.4	-0.4	2.4	-1.6	14.7	-3.0	2.8	-0.6
FI	1.7	1.6	2.5	1.7	2.4	1.1	4.4	2.8	5.1	1.2	17.1	8.6	3.2	1.7
FR	2.1	-0.2	2.1	0.2	2.3	0.4	–	–	–	–	6.6	0.4	2.2	0.1
HU	6.0	-0.7	6.0	2.4	5.1	1.1	2.5	-5.0	5.0	-0.9	27.1	-3.3	4.9	-0.6
IE	11.5	9.0	5.3	3.0	5.5	2.7	3.3	0.4	5.0	1.8	34.4	17.9	6.1	3.4
IT	5.6	3.2	0.5	-1.7	3.5	1.3	0.0	-2.0	5.7	2.1	16.1	2.9	3.1	0.6
LU	4.1	0.9	3.5	-0.3	3.3	0.3	1.9	-0.8	4.0	-0.1	18.0	0.0	3.4	0.0
NL	0.0	-1.4	1.0	-0.5	1.6	-0.1	–	–	–	–	2.6	-2.0	0.9	-0.7
NO	3.8	3.4	3.4	1.8	4.0	1.7	4.8	4.0	6.5	2.6	24.6	14.1	4.5	2.7
PL	–	–	–	–	–	–	0.0	-2.5	37.0	33.5	37.0	30.1	18.5	15.5
PT	2.0	-0.5	2.2	0.1	1.5	-1.5	1.5	-0.9	2.1	-0.6	9.7	-3.3	1.9	-0.7
RO	14.7	2.5	21.9	11.7	40.5	31.8	18.2	12.7	30.8	21.2	203.7	106.2	25.2	16.0
SE	2.6	1.6	2.4	1.6	2.4	0.9	3.3	1.6	5.9	2.5	17.7	8.4	3.3	1.6
SI	2.5	-1.1	2.0	-0.5	1.3	-1.2	1.3	-2.4	2.0	-3.3	9.4	-8.2	1.8	-1.7
SK	7.0	-0.5	5.0	2.1	6.0	1.6	7.0	5.0	4.0	0.1	32.5	8.6	5.8	1.7
UK	2.8	1.5	3.0	0.9	3.0	0.7	3.0	0.7	2.5	0.2	15.1	4.0	2.9	0.8
Local government all countries	4.6	2.4	4.1	1.9	5.4	3.2	3.6	1.3	6.9	3.3	27.5	12.7	5.0	2.4
Total EU27	4.6	2.5	4.9	2.6	5.6	3.3	7.0	4.5	6.6	2.8	32.1	16.7	5.7	3.1

Notes: Due to limited data, consistency and comparability, the numbers above should be read in conjunction with the annex of the respective report.

EU27 figures include only countries for which data are available. The UK nominal increase for 2008 was increased to 2.75% as an additional 0.3% was awarded following arbitration.

Real wage increases are calculated as the nominal wage increase minus inflation. EU27 inflation rates are used for aggregates.

Source: *EIRO annual pay development reports, 2004–2008, author's calculations*

In 2007, the range of nominal pay rises in local government was between 18.2% in Romania and zero in Belgium, Cyprus, Italy and Poland (Table 1). In 2008, by contrast, Poland recorded the highest increase at 37%, set by government decree rather than collective agreement. Slovenia, on the other hand, recorded the lowest increase, at 2%. The average pay increase in local government across the EU27 rose sharply from 3.6% in 2007 to 6.9% in 2008, largely due to the

high rises in 2008 in Poland and Romania. This is 3.4 percentage points below the whole-economy average for the EU27 in 2007, but 0.3 percentage points above the average in 2008.

The rate of increase rose between 2007 and 2008 in 16 countries, most markedly in Poland and Romania, while it fell in only four countries – most notably in Denmark and Slovakia – and remained unchanged in three countries. The average overall increase for the EU in local government, based on a varying number of countries in each year, had previously stood at 3.9% in 2003, 3.8% in 2004, 4.1% in 2005 and 5.4% in 2006. There was thus a decline in 2007 following a period of steady increase, but then a rise to a new high in 2008. However, it should be noted that the very high increases in Poland and Romania are responsible for much of the rise in the local government average pay increase in 2008: removing these two countries from the calculations results in an EU27 average pay increase of only 4.2% in 2008.

In 2007, the pay increase in local government was lower than the national average rise for all sectors of the economy in 18 countries – most notably in Bulgaria, Hungary and Poland; by contrast, it was higher in five countries – most markedly in the Czech Republic and Finland. In 2008, the pay increase in local government was lower than the national average increase for all sectors in 12 countries, particularly significant in Bulgaria, Latvia and Poland. Local government pay increases were equal to the average in only one country, while they were higher than the average in 10 countries, especially in Poland and Romania.

Looking only at the 15 EU Member States (EU15) prior to the enlargement in 2004 and 2007 and Norway, average nominal pay increases in local government stood at 2.6% in 2007 and 4.2% in 2008 – this was 0.8 percentage points below the whole-economy average for these countries in 2007, but 0.3 percentage points above the average in 2008. The pay increase in 2007 was around normal levels, while the 2008 rise was the highest increase in the decade that EIRO has been recording data.

With regard to the 12 new Member States (NMS12) that joined the EU in 2004 and 2007, the average nominal pay increase in local government stood at 5.5% in 2007 and 11.9% in 2008 – although, as noted above, the 2008 average is augmented by the very high increases in Poland and Romania. Thus, the 2007 increase in the NMS12 is 2.1 times higher than the average for the EU15 and Norway, rising to 2.8 times higher than the average in 2008. The average pay increase in local government in the NMS12 was 6.1 percentage points below the whole-economy average for these countries in 2007, but 1.8 points above the average in 2008. The NMS12 average pay increase in local government – based on a varying number of countries in each year – had previously stood at 3.8% in 2004, 6.9% in 2005 and 9.8% in 2006, pointing to an upward trend over the period 2004–2008 which was interrupted only in 2007.

In the Baltic States, local government pay has followed a similar trajectory to the national economies, with strong rises through to 2008 followed by severe cutbacks as the economic crisis took hold in 2008–2009. In the case of Estonia, local government pay increased on average by 10.5% (6.4% in real terms) a year. Nevertheless, all state employees – with the partial exception of teachers – were faced with across-the-board pay cuts amounting to 7% of the state budget agreed in February 2009. In Lithuania, after the government had announced public sector pay cuts at different levels in the summer of 2009, the Lithuanian Trade Union Confederation (*Lietuvos profesiniu sajungu konfederacija*, LPSK) called for a hunger strike, forcing the government to abandon its plans (EIRO, 12 August 2008). In Latvia, public spending has been cut by over 20% in the country's education and healthcare sectors, with impacts on jobs and wages.

Although no local government pay freeze was agreed in 2008, almost one third of the countries for which data are available have experienced a real wage decrease in 2008 because of relatively high increases in consumer prices. The highest real pay decreases took place in Slovenia (-3.3%), Spain (-1.6%) and Denmark (-1.1%). Inflation also played a role in the UK's 2008 local government pay negotiations. Trade unions staged a two-day strike, rejecting the local

government employers' offer of a 2.45% wage increase (EIRO, 8 August 2008). Trade union officials argued that the offer implied a pay cut due to the high level of retail price inflation, which amounted to 4.1% at that time.

In some countries, trade unions could only achieve wage increases above the inflation level by making concessions. Germany's local government employees at municipal level, for example, were granted a 5.1% wage increase only under the condition that their working time was increased (in western Germany only) (EIRO, 9 May 2008). In Norway, relatively low salaries in municipalities are seen to account partly for the shortage of employees, particularly of high-skilled workers. Although the 2008 bargaining round only resulted in a slightly higher agreement for local public sector employees in Norway – at 6.34% against 6.13% for those working at the state level – a commission has been set up to evaluate if special pay measures for highly-skilled municipal employees are needed (EIRO, 8 September 2008). Similar arguments about the relatively low pay for municipal employees were raised in Denmark. The 2008 collective agreement only foresees a slightly higher increase at the local level than for the state level public sector in Denmark (EIRO, 11 June 2008).

The principal conclusions of the data on local government pay, based on data from the EIRO network of correspondents, are as follows:

- compared with wage developments in the economy as a whole, local government salaries increased at a slower pace between 2004 and 2007. This trend was reversed in 2008, when private sector wages started to be affected by the economic and financial crisis;
- nominal and real wage increases were greater in the NMS12 countries than in the EU15 countries.

### **New public management type reforms**

'New public management' (NPM) reforms emphasise that the public sector has to borrow more from the model of governance and employment relations that are typical of the private sector. The main elements of such reforms include the following (see also Bordogna, 2008):

- redrawing the 'efficient boundaries' between the private and public sectors, both by transferring services from public ownership to private hands and by subcontracting or outsourcing processes;
- introducing various forms of organisational restructuring seeking to subdivide large, bureaucratic structures into smaller, independent units with devolved managerial authority, in order to make them closer to citizens' demands and more transparent in costs and results;
- making a shift from management by hierarchy to management by contract, through the introduction of market or market-like mechanisms of governance into the financing and provision of public services, such as compulsory competitive tendering, market testing and internal markets;
- strengthening the powers and prerogatives of managers, subject to tighter financial controls and the promotion of management techniques typical of private sector companies;
- reforming personnel policies and labour relations.

NPM reforms favour a weakening of the special status of civil servants and public employees in general. Such reforms could include an extension of 'free' collective bargaining, that is, on a voluntary basis, as the main method of regulating the employment relationship; a decentralisation of the bargaining structure to the local level; and, to some extent, an individualisation of pay. These measures were proposed as a means of making pay and employment conditions more responsive to variations in local market conditions, organisational requirements and individual employee performance.

In some cases, the objective of aligning pay between public and private sectors has given rise to new institutions. In December 2000, Ireland's Public Service Benchmarking Body (PSBB) was asked to undertake a fundamental examination of public service employees' pay compared with private sector wages. The body recommended pay increases averaging at 9% across the grades examined and costing €1.2 billion a year. These recommendations were subsequently implemented, despite the controversy that arose when an economist appointed to the PSBB, Jim O'Leary, resigned. Mr O'Leary subsequently co-wrote a paper on private-public sector differentials, concluding that public sector workers in Ireland had enjoyed a pay premium over their private sector counterparts of 13% in 2001. This episode has assumed a special significance in the current context of severe public spending cuts and has been invoked to justify wage freezes as well as public sector pension levies. These freezes, in combination with taxation increases, have already seen the net pay of public servants decline by over 10% in 2009.

Extensive changes in the national labour code concerning public sector employees have taken place in Portugal. Recent reform sets out provisions for the public sector that are similar to those covering the private sector – particularly in relation to dismissals, working time and collective bargaining rights. The plan had been discussed and agreed upon with the trade unions affiliated to the General Workers' Union (*União Geral de Trabalhadores*, UGT), although other public sector unions rejected the proposal (EIRO, 3 July 2008).

The Italian government has launched two phases of reforms for the public sector. The most important proposals include the introduction of performance-related pay, new disciplinary sanctions, and making career advancement dependent on productivity rather than seniority. Trade unions criticised the government for its proposals and the lack of consultation with the social partners prior to the announcements (EIRO, 29 September 2008 and EIRO, 13 February 2009).

The Hungarian government started to change employment relations and to introduce new human resource management techniques in 2006. Despite providing for higher bonuses, the new performance evaluation system was not well received (EIRO, 14 November 2008). This is mainly attributed to the fact that some civil servants had to be categorised as 'poor performers', as the logic of the new system allowed only a certain proportion of employees to be classified as 'high performers' or 'exceptional performers', and the performance of the majority to be labelled as 'satisfactory'. Middle managers in public administration emphasised that very few colleagues could be considered to have given low performance – especially in light of extensive job losses in the previous years which added to the workload of the remaining colleagues, by definition increasing their performance levels.

### Performance-related pay schemes

Over the last 10 to 15 years, forms of variable and performance-related pay have also been introduced for central government, including career public servants. Largely intensive and extensive forms of performance-related pay have been introduced in Denmark, Estonia, Finland, Germany, Hungary, Ireland, Italy, Latvia, Malta (higher grades only), the Netherlands, Slovenia and the UK.

In Denmark, these schemes were first introduced for municipal employees in 1997, but since 2005 about 80% of state sector employees have been covered by performance-related pay. In Germany, in 1997 and then in 2003, the Civil Servants' Remuneration Act (*Bundesbesoldungsgesetz*) was amended in order to introduce elements of performance-related pay for all categories of career civil servants (*Beamte*) throughout the federal administration. However, restrictions were also stipulated relating to the maximum number of beneficiaries (no more than 15%), and on the amount and modes (individual or team level) of payments. In 2005, the bargaining parties agreed to extend performance-related pay to staff under ordinary employment contracts, to be implemented in 2007 and affecting a maximum of 8% of the individual salary.



In Estonia, forms of performance-related pay are regulated by the Public Service Act (*Avaliku Teenistuse Seadus*) and utilised in many ministries. In Finland, an extension of performance-related pay in state government pay policy has been agreed by the State Employer's Office (*Valtion työmarkkinailaitos*, VTML) and trade unions in the collective agreement for 2005–2007, and should be implemented in the next few years. An endorsement of performance-related pay is also expected in Hungary under the 2006 government 'convergence programme'.

In Ireland, the use of performance-related pay is increasing, especially for higher civil service positions, where it affects up to 20% of the basic pay. The measure is administered by a Committee for Performance Awards, made up of two top civil servants and three representatives from the private sector, on the recommendation of the secretary general in each department concerned. The performance-related pay scheme in Ireland was proposed in 2000 by the Review Body on Higher Remuneration in the Public Sector.

In the Netherlands, there is a form of special or extraordinary pay, which in 2005 was received by 25% of civil servants in the central government sector.

Performance-related pay is also widespread within the civil service in the UK, operating in different forms across the bargaining units. The UK introduced performance-related pay for teachers in 1999. For this purpose, every teacher is evaluated individually, with pupils' progress being used as one of the main performance indicators. Research on the impact of this scheme provides some evidence that it has helped to increase performance (see Atkinson et al, 2004). In the whole British public sector, however, performance-related pay is more the exception than the rule (see Chartered Institute of Personnel and Development, 2009). Moreover, recent research on the impact of such schemes in the public sector give mixed results. Although financial incentives seem to increase productivity for some groups of employees – in particular, civil servants and teachers – they do not have the same effect on others, especially those working in healthcare (see Prentice et al, 2007).

In Italy, forms of variable pay affecting a significant proportion of the salary have been introduced for managers only and not just for those in central government. For non-managerial staff, on the other hand, such measures are rather modest and not selectively implemented. Nevertheless, the effectiveness of performance-related pay for managers is disputed, not just because of the way it has been implemented, but more particularly because of the weakness or absence of assessment procedures in this area (Bordogna, 2008).

## Employment relations

This section deals with certain current events in public sector industrial relations. It begins with a brief, selective overview of recent industrial disputes in the public sector.

### Industrial conflict

A number of strike and protest actions in the public sector have been recorded by the network of EIRO national correspondents in 2008–2009. Police officers in the Netherlands, for instance, could only achieve pay increases after threatening industrial action and strikes, although there is a statutory strike ban for civil servants in this country. Public debate centred on the legitimacy of strike action (EIRO, 24 March 2008).

A similar reaction occurred in Spain, when about 40% of court judges across the country went on strike over pay and working conditions for the first time in the country's history (EIRO, 14 April 2009). Although the government condemned the strike as illegal, the responsible minister announced a plan to modernise the Spanish justice system. The project included a Social Agreement for Justice and has received a favourable response from the social partners.

Major industrial actions took place in Romania in February 2008, when public sector trade unions demanded wage increases for all levels of the public sector (EIRO, 17 March 2008). Romanian trade unions issued a major threat to call a general strike if the government continued to reject a pay increase of around 20% as demanded by the unions.

In Germany, a prolonged dispute involving childcare workers, which was finally resolved in July 2009, deserves special mention (see box below).

### **Resolution of German childcare workers' dispute in July 2009**

In late July 2009, following months of industrial dispute, consensus was reached on a new package of agreements covering some 220,000 public sector employees working in crèches, day-care centres, as well as the youth welfare service and social agencies. The package was agreed between the United Services Union (*Vereinte Dienstleistungsgewerkschaft, ver.di*), the German Union of Education (*Gewerkschaft Erziehung und Wissenschaft, GEW*) and the Municipal Employers' Association (*Vereinigung kommunaler Arbeitgeberverbände, VKA*). The agreements include provisions on occupational health protection and a grading system providing for higher wages for most employees in what is a largely female-dominated sector where pay has failed to match skills levels.

The settlement followed months of dispute and high-profile strike action involving tens of thousands of child educators, crèche workers and social workers. The agreement was finally accepted on 15 August by ver.di and GEW, following a ballot among their members. A comparatively small majority of 55% of the ver.di members concerned approved the settlement, whereas 84% of GEW members voted in favour of it.

A prominent issue in the dispute was the situation of occupational health in playschools, crèches and day-care centres for children. Noise levels, as well as psychological and physical stress, often related to understaffing, were among the most urgent problems identified by workers in the sector. The new settlement adds special provisions on occupational health protection for workers in social and educational services. These workers are guaranteed an individual right to a health risk assessment for their job.

In March 2008, Flemish civil servants succeeded in obtaining an extra pay rise after going on strike for five days (EIRO, 19 May 2008). In the autumn of 2008, Belgian prison officers went on strike over pay and working conditions (EIRO, 19 January 2009). The disputes are considered indicative of an increasingly tense industrial relations climate in Belgium's prison service. In Greece, the government announced a freeze in public sector wages in 2009, including those of local government employees, in order to reduce public deficits. As a mark of their strong opposition to the wage freeze, trade unions went on a general strike in April (EIRO, 6 July 2009).

Besides the pay issue, working hours and social benefits have been factors behind industrial disputes at local and regional level. In French public hospitals, a decline in employment – combined with measures regarding the reduction of working time which have not been compensated by sufficient staff increases – has led to an increase in the number of hours worked without pay. As a consequence, trade unions threatened unlimited strike action in order to force representatives from the responsible ministry to sign a draft agreement taking into account some of the workers' demands (EIRO, 3 June 2008). Moreover, sensitivity to the dangers of work intensification has been particularly acute in France in recent months, following a string of staff suicides at the still partly state-owned France Telecom.

## Employment trends

### Public sector employment trends

On the whole, public sector employment levels have been more resilient than those in the private sector during the economic crisis of 2008–2009. In the three main public sector branches, employment levels either decreased marginally or increased, thereby rising as a share of total employment in most countries. It should be noted, however, that the data are offered more as a snapshot of current trends: for example, they do not distinguish between employment in local and central levels of government which are difficult to differentiate using the standard NACE sectoral classification.

In the UK, for instance, where public sector employment increased in the second quarter of 2009, a detailed account of employment trends reveals that while central government employment increased by 21,000 persons, employment in local government actually decreased by 5,000 workers (Office for National Statistics). Furthermore, the latest trends do not take account of preceding trends in the period up to 2007: in Hungary, for example, the total number of public service employees declined by nearly 10% between 2006 and early 2008 (EIRO, 14 November 2008).

A final word of caution is that data are only available up to the third quarter of 2009. Public sector employment may, however, have experienced subsequent declines, and many experts predict that it will diminish in line with shrinking state revenues in several Member States. Even in those countries that have pursued fiscal expansion as a measure to counter the effects of the economic downturn, the positive impact on public employment levels may be short lived.

### General employment trends

Overall, nearly one million net new jobs were created in the health and social work sector in the EU between the first quarter of 2008 and the third quarter of 2009 – this amounts to an increase of 4.7% over the 18-month period (Table 2). Health and social work was the sector with the largest number of job gains – although such gains were equivalent to only one third of the net job losses experienced in European manufacturing. In the same period, some 288,000 (+1.9%) net new jobs were added in public administration, while the numbers employed in the education sector declined by 170,200 persons (-1.1%).

Table 2: *Changes in employment levels in EU27, by economic sector, 2008–2009*

	1st quarter 2008	3rd quarter 2009	Change (no. of persons)	% change
Electricity, gas, steam and air-conditioning supply	1,481,100	1,666,000	184,900	12.5
Activities of extraterritorial organisations and bodies	180,300	197,800	17,500	9.7
Accommodation and food service activities	9,109,600	9,898,300	788,700	8.7
Arts, entertainment and recreation	3,342,000	3,520,100	178,100	5.3
Human health and social work	20,890,800	21,881,000	990,200	4.7
Administrative and support service activities	7,906,400	8,222,000	315,600	4.0
Agriculture, forestry and fishing	11,114,200	11,494,000	379,800	3.4
Water supply, sewerage, waste management and remediation activities	1,557,300	1,608,200	50,900	3.3
Professional, scientific and technical activities	10,411,100	10,703,200	292,100	2.8
Public administration and defence; compulsory social security	15,479,100	15,767,100	288,000	1.9
Financial and insurance activities	6,556,400	6,562,100	5,700	0.1
Other services	5,351,500	5,353,900	2,400	0.0
Information and communication	6,151,000	6,132,700	-18,300	-0.3

Table 2: *Changes in employment levels in EU27, by economic sector, 2008–2009 (cont'd)*

	1st quarter 2008	3rd quarter 2009	Change (no. of persons)	% change
<b>Education</b>	15,548,600	15,378,400	-170,200	-1.1
<b>Real estate activities</b>	1,681,100	1,661,100	-20,000	-1.2
<b>Wholesale and retail trade; repair of motor vehicles and motorcycles</b>	31,209,600	30,809,900	-399,700	-1.3
<b>Activities of households as employers</b>	2,481,100	2,435,200	-45,900	-1.8
<b>Transport and storage</b>	11,406,700	11,171,200	-235,500	-2.1
<b>Mining and quarrying</b>	877,900	840,100	-37,800	-4.3
<b>Construction</b>	18,339,500	17,252,500	-1,087,000	-5.9
<b>Manufacturing</b>	37,742,300	34,782,300	-2,960,000	-7.8
<b>No reply</b>	901,400	1,082,000	180,600	20.0
<b>Total – all NACE sectors</b>	<b>219,719,100</b>	<b>218,419,200</b>	<b>-1,299,900</b>	<b>-0.6</b>

Source: Eurostat

### Recent job losses due to restructuring in local and regional government

Although the public sector has been comparatively less affected than the private sector in employment terms, several cases of job losses and restructuring related to the economic crisis have been recorded by the ERM and EIRO. Redundancies have affected both city and county (regional) authorities and mainly result from budgetary pressures. These have been blamed on reduced availability of central government funding arising from decreasing tax revenues, and mounting benefit spending.

In the UK, public authorities have been affected by a substantial weakening of tax receipts in 2009, while demand for public services, especially welfare-related services, continues to rise. The ERM has captured a number of cases of local government cutbacks in the 18 months under examination. Both Peterborough City Council in the east of England and Nottingham City Council in the East Midlands announced that they would cut 400 jobs in order to stay within budget at the end of 2008. The beginning of 2009 brought more redundancies when Plymouth City Council in southwest England decided to shed 200 jobs after it lost much of its financing in Icelandic investments. Coventry City Council in the West Midlands also announced layoffs of 190 workers and Southampton on the south coast of England 128 redundancies. The city councils of Gloucestershire in the southwest, Leeds in West Yorkshire and Stirling in Scotland, all of which received lower government grants than in the previous year, announced the loss of 200, 450 and 170 jobs respectively. In August 2009, North Tyneside Council in the northeast announced 350 dismissals, to be implemented through voluntary redundancies, in order to meet a £14 million (about €16.1 million as at 18 February 2010) budget shortfall. In an effort to avert council tax increases, the Isle of Wight Council off the south coast of England announced 200 redundancies. Both York City Council in the northeast and Derby City Council in the East Midlands announced 200 and 465 dismissals respectively, in order to achieve savings over the next three years. Finally, in November 2009, Stoke on Trent City Council in the west announced that 200 jobs would be cut, mostly through voluntary redundancies.

In addition, UK regional authorities have announced dismissals in their police departments. In February 2009, for instance, the Surrey Police Force in southeast England announced that it would cut the jobs of 144 officers and support staff due to insufficient funding. The Hampshire Police Force in the south also announced a workforce reduction of 100 officers and 100 support positions in order to balance its budget.

Faced with mounting pressure to control costs and limit the budget deficit, the Irish government introduced a recruitment freeze in the public sector which will last at least until the end of 2010. In line with this policy, no job can be filled by

recruitment or promotion without the agreement of the Department of Finance. The freeze will leave many posts unfilled and concerns have been raised that it might have an adverse impact on the quality of priority public services, such as education, healthcare and the police force. The Garda Representative Association (GRA), for example, claims that the freeze is exerting a highly negative influence on policing because up to 400 police officers who are due to retire in 2009 will not be replaced. Restrictions on staff recruitment also affect the country's Higher Education Authority (HEA). In University College Dublin (UCD), both academic and administrative staff who resign or retire will not be replaced; as a result, students will face larger tutorial and practical classes, and some academic programmes may be in danger.

In Sweden, the municipality of Trollhättan in the southwest illustrates the effect of declining private sector activities on local government budgets. A majority of businesses in Trollhättan operate in the automobile industry, a sector that has been particularly badly affected by the recession. Because of decreased tax revenue, the municipality introduced a savings programme involving the loss of 160 jobs in March 2009.

Danish municipalities are struggling to reconcile employment levels with their budgets. While the country's central government has approved many local investment projects, much of its fiscal expansion has been carried out through income tax reductions aiming to increase labour supply and stimulate demand. In late September 2009, Denmark's Frederikshavns Kommune in the north announced that 200 jobs would be cut due to budgetary pressures. The municipality was obliged to reduce costs by €15 million through job losses when central government did not approve a local tax increase.

Around the same time, Kolding Kommune in southeast Denmark announced a workforce reduction of 410 workers across administrative and service provision departments. The municipality will cut the jobs of some 80–90 teachers, 80 employees in eldercare, 50 early childhood teachers and youth educators, 30–40 technical administrators and around 150 workers in general and social administration. Local authorities expect that this trend will continue into 2010. More than half of Danish municipalities reported that they expect to implement layoffs in the next year, which they claim is the result of the finance minister's refusal to permit tax increases. Local authorities expect that jobs in education, childcare, eldercare and public administration will be most strongly affected, according to articles in the daily newspaper *Avisen*.

ERM reports similar events in the local government sector in many other Member States. The regional government of Noord-Brabant in the south of the Netherlands announced 340 job cuts due to reduced funding from central government in October 2009. In Lithuania, the Vilnius city authorities in the southeast announced the dismissal of 300 employees by the end of September 2009 to help balance the city's budget for 2010. In Latvia, beginning in September 2009, some 570 employees were to be dismissed at the first Riga Hospital in the country's capital because of budget cuts. The redundancies are the result of a 70% decrease in financing. The hospital will cut services by about two thirds – the cuts will include a discontinuation of emergency medical services, which will be replaced by an outpatient clinic.

### Reorganisation plans, flexibilisation and privatisation

With the aim of increased efficiency, public authorities in many Member States have introduced reorganisation plans involving mergers of departments or councils, the reallocation of public provision and, in some cases, privatisation or outsourcing. These measures have led to redundancies as well as the reshuffling of responsibilities between central and decentralised authorities. In some instances, concerns have been specifically raised regarding perceptions of worsening working and employment conditions.

In the UK, several cases of mergers between councils have occurred. In February 2009, Northumberland Council in northeast England announced the dismissal of 800 workers after merging one county and six district councils into a single entity. Elsewhere, Cornwall County Council in the southwest announced 400 redundancies following the amalgamation of several local councils. Similarly, councils in Shropshire in England's West Midlands, Cheshire in the



northwest, Durham in the northeast, Bedfordshire in the east and Wiltshire in the southwest have been subject to rationalisation measures.

Throughout the recession, the French state has proceeded with extensive reorganisation and restructuring programmes. As of 1 January 2009, most of the French state's decentralised services at regional and departmental level have been progressively merged or reorganised, with the creation of regional business, consumer, competition, labour and employment directorates (*Directions régionales des entreprises, de la consommation, de la concurrence, du travail et de l'emploi*, DIRECCTE). The reform aims to bring together state business services at regional level and thereby create 'one-stop shops'. Prior to the reorganisation, numerous separate services were available, including the regional and departmental labour, employment and vocational training directorates (*Directions régionales et Directions départementales du travail, de l'emploi et de la formation professionnelle*, DRTEFP and DDTEFP).

French trade unions have been critical of the reorganisation plans, which they claim have highlighted a lack of dialogue with the unions, leaving civil servants uninformed about the plans since the first circulars appeared in June 2008. There are also concerns about future job losses and the retention of status and entitlements, with the trade unions pressing for guarantees in both areas (EIRO, 11 May 2009).

French President Nicolas Sarkozy came to power partly on a mandate to engage in significant public sector retrenchment, principally by means of non-replacement of retiring workers. Several large-scale public sector restructurings have subsequently been recorded by ERM. In July 2009, the Ministry of National Education (*Ministère de l'Éducation nationale*) announced that it was to cut 16,000 teaching positions in French secondary schools. The country's police force (*Police Nationale*) also announced a reduction of 4,800 jobs, implemented through the non-replacement of retiring and transferring workers. In September, the French government announced the redundancies of an additional 17,749 employees throughout all ministries. In most cases, compulsory redundancies are not foreseen but departing career civil servants (*fonctionnaires*) will not be replaced.

New forms of 'flexibilisation' of public service employment have also been recently implemented in France. A law adopted in July 2009 promotes occupational mobility in the civil service by consolidating possibilities of civil servants' secondment, outplacement and integration in jobs unrelated to their previous position. It also increases possibilities to combine part-time jobs, use temporary agency staff, as well as recruit employees under private law employment contracts. Trade unions have been particularly critical of provisions which may compel civil servants being reassigned to new responsibilities to accept management proposals with the risk of reduced pay or losing their *fonctionnaire* status if they refuse three times. The law extends the recruitment of temporary agency staff to the national civil service and local authorities, an option that was previously only possible in public service hospitals (EIRO, 2 December 2009).

In September 2008, the management of Prague Airport in the Czech Republic announced that it would decrease the number of employees by 150, constituting about 10% of the total workforce, with generous severance packages. The reductions came as the state prepares to privatise the airport.

In Ireland, over 28,000 members of the Irish Municipal Public and Civil Trade Union (IMPACT) employed by the Health Service Executive (HSE) have been campaigning against public service modernisation plans proposed by the government (EIRO, 19 June 2008). The workers involved ranged from health professionals, therapists and social care workers to administrative and managerial staff. IMPACT's General Secretary, Peter McLoone, argues that most management initiatives have focused too much on internal organisation, resulting in little real change for public service access. Mr McLoone commented: 'This is because government and management-led modernisation programmes have focused on attacking working conditions and introducing private provision, rather than improving public services or responding to the real needs and experiences of the people who depend on them.' IMPACT warns that it will be pushing

for ‘bargaining on the nature of modernisation programmes, rather than simply negotiating about the implementation of plans’. The trade union observed that this approach is not unique in Europe, citing the example of Norwegian trade unions that put forward detailed proposals, ‘which have been largely adopted as official policy’.

### Cases of employment expansion in public sector

While many cases of public sector job losses have been reported in the ERM, some public authorities have expanded employment to meet increased pressure on their resources. In many instances, this involves the creation of jobs in employment service provision, while in some cases it entails job creation directly for unemployed individuals.

The Swedish Public Employment Service (*Arbetsförmedlingen*), for instance, will be employing an additional 2,000 workers, due to extra funding granted to handle the recession’s impact on demand for the authority’s services. Half of the new staff will provide job search assistance, and the other half will be charged with integrating people on long-term sick leave back into the labour market. At the same time as it announced collective redundancies, the French Police Nationale also announced the creation of 1,400 jobs as ‘*adjoints de sécurité*’ – that is, law-and-order personnel who are generally recruited from the ranks of long-term unemployed individuals.

In a measure to combat unemployment, the Estonian municipality of its capital city Tallinn in the north of the country announced the creation of 400 social jobs in the Tallinn Tram and Trolleybus Company (*Tallinna Trammi- ja Trollibussikoondise AS*). Positions will involve cleaning vehicles and tramways, selling tickets and assisting passengers. The temporary positions will be paid for by the city, rather than the company, and job candidates must be registered as unemployed.

In March 2009, Germany’s Federal Employment Agency (*Bundesagentur für Arbeit*, BA) announced that it would create 5,000 jobs. The plan was a response to rising unemployment and the increased need for employment services.

Some of these employment creation measures are clearly a spontaneous response to growing unemployment. In the medium-term – with Member States confronting large current account deficits and rapidly rising public debt levels – it appears likely that there will be pressure to curtail growth in public service employment.

### Conclusions and policy pointers

Based on the report’s findings, the following conclusions and policy pointers can be made.

- Experiences at country level appear to be divergent – in some Member States, there is evidence of employment hoarding in the public sector, while in others there is evidence of cuts in jobs and/or wages.
- Overall, public sector employment has held up during the downturn with notable increases at aggregate EU-level in healthcare and education.
- As the recession fuels demand for the resources and services of local authorities, there may continue to be short-term support for public sector employment. However, the medium-term prognosis may not be so positive, as fiscal pressures will impact on budgets in the coming years.
- There are trends towards alignment with private sector conditions, although problems in the implementation and lack of evidence on the outcomes of ‘new public management’ type reforms are starting to emerge.

- Despite an increasing incidence of variable and performance-related pay in the public service, employers cite problems in attracting and retaining qualified staff and point to inflexible remuneration as one contributing factor.
- Pay freezes have been in force in many Member States along with effective pay cuts in some of the countries worst affected by the recession – such as Ireland and the Baltic Member States. In 2008, pay levels in local government were higher than in the economy as a whole, after years of below-average increases.
- In a context of rationalisation and privatisation of some public services, trade unions and employers are increasingly alert to the dangers of work stress and work intensification in the public sector.

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## Annex: Country codes

Country code	Country name	Country code	Country name	Country code	Country name
AT	Austria	ES	Spain	MT	Malta
BE	Belgium	FI	Finland	NL	Netherlands
BG	Bulgaria	FR	France	PL	Poland
CY	Cyprus	HU	Hungary	PT	Portugal
CZ	Czech Republic	IE	Ireland	RO	Romania
DE	Germany	IT	Italy	SE	Sweden
DK	Denmark	LT	Lithuania	SI	Slovenia
EE	Estonia	LU	Luxembourg	SK	Slovakia
EL	Greece	LV	Latvia	UK	United Kingdom

John Hurley with Stuart Craig, Magdalena Bober, Sebastian Schulze-Marmeling and Sara Riso

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