

Asian Development Bank
RETA 6482 - 2009 PPP Updates
Short Guide on Price Collection for Compensation
(Excerpts from Chapter 8, ICP 2003-2006 Handbook)

1. Compensation of Employees (CE) is the largest cost component of government services. It is the only cost component for which separate price collection is required. CE is to be reported for a selection of occupations in general government, public education and public hospitals. The selection of occupations represents various education and skill levels commonly found among employees in government. Regions may, however, make minor modifications to fit particular conditions in their regions.

Box 3. Standard Government Occupations	
Health Services	
1302211101	Doctor, Head of Department
1302211102	Doctor, (20 years of seniority)
1302211103	Doctor (10 years of seniority)
1302211104	Nurse, Head of Department
1302211105	Nurse, Operating Theatre
1302211106	Nurse
1302211107	Nursing Auxiliary
1302211108	Physiotherapist
1302211109	Laboratory Assistant
1302211110	Hospital Chief Executive
1302211111	Secretary (Hospital)
1302211112	Cook (not Head Cook)
1302211113	Community Health Worker
Collective Services	
1302211201	Finance Department Manager
1302211202	Executive Official (skill level III)
1302211203	Executive official (skill level IV)
204	Computer Operator
205	Bookkeeping Clerk
206	Data Entry Clerk
207	Secretary (not Hospital)
208	Telephone Switchboard Operator
209	Messenger
210	Maintenance Electrician
211	Building Caretaker
212	Cleaner
213	Policeman/woman
214	Prison Guard
215	Fire Fighter
216	Social Worker
217	Town Planner
218	Civil Engineer
219	Draughtsman/Draughtswomen
220	Construction Labourer

221	Chauffeur
222	Agricultural Scientist
223	Librarian
224	Data-base Administrator
225	Web Administrator
226	Bodyguard (Protecting Senior Officials)
401	Army: Private of Infantry
402	Army: Commander of Infantry Regiment
403	Navy: Able Seaman
404	Navy: Commander of Frigate
405	Air Force: Airman (Ground Crew)
406	Air Force: Fighter Pilot/Wing Commander
Education Services	
301	Kindergarten Teacher
302	Primary Teacher
303	Secondary Teacher
304	University Lecturer
305	Head Teacher

What to include in Compensation of Employees

2. **For this section, there is a slight deviation from what is defined in Chapter 8 as agreements reached in the 2005 ICP Asia Pacific have been incorporated.** The 2005 ICP Asia Pacific agreed that allowances that were provided to all employees should be included but those that depended on particular circumstances of the employee - e.g. how many children they have, or where they happened to be working, etc. - should be excluded. The participants pointed out that they would need to make assumptions about the employee. Is he married and, if so, how many children? By saying that family allowances are to be excluded, the employee is defined as a single person with no children, and this seemed the most practical way to proceed. Reporting of CE shall include the following:

a. **Salary taken from the government salary** is to be reported before deduction of taxes and social contributions payable by employees. The Box below explains how salary scales are used to obtain basic salaries.

b. **Allowances** consist only of allowances that are paid to all government employees (or to all persons in a particular occupation) regardless of their personal circumstances. These allowances may be either fixed amounts or a fixed percentage of the basic salary.

➤ Include:

- annual bonuses paid to all employees;
- 13 month payment;
- “critical” allowances paid to particular occupational groups such as doctors, nurses, police, fire-fighters to compensate for the fact that they are on call after working hours;
- cost of living allowances;
- passage or leave allowance if these are fixed amounts regardless of the place of origin of the employee;

- medical allowances if they are paid to employees regardless of medical costs actually incurred;
- housing or residence allowance if they are a fixed amount or fixed percentage of basic salary.

➤ Exclude:

- overtime payments;
- family allowances;
- head of household allowance;
- allowances for children's education;
- special duty allowance;
- acting allowance;
- language allowances;
- "hardship" allowances paid to employees working in remote or inhospitable areas;
- "field allowances" or "active service" allowances paid to members of the armed forces serving abroad or engaged in hostilities.

c. **Employers' actual social contributions** are payments made by general government for the benefit of their employees and cover contributions for old age pensions, and for insurance against sickness, accident and disability.

d. **Employers' imputed social contributions** represent the counterpart to social benefits paid directly by general government institutions without participating in, or establishing a fund, reserve or other special scheme for this purpose. Since these contributions do not involve actual cash flows, they have to be imputed. The imputations have to be done in line with the corresponding imputations made in the national accounts. Compensation data should **exclude** any imputation of such benefits as most of the countries could not make any **imputation** of data on social contributions and other benefits such as housing, food and transport allowances.

e. **Income in kind: housing** is the cost to the employer of providing free or subsidized housing to employees.

f. **Income in kind: food and meals** is the cost to the employer of providing free or subsidized food or meals to employees.

Source of data

3. CE should not be extracted from government payrolls. Dividing the total CE paid to employees in a selected occupation by the total number of employees in the selected occupation gives an average that is representative of the country, but it does not give an average that is comparable across countries because the distribution of the employees in the selected occupation over the various grades, categories and steps that make up the pay scale for the occupation will differ from country to country. CE should be derived by a less representative but more comparable approach that involves working from government salary scales directly.

4. To determine the CE for the selected occupations, countries have first to locate the basic salary or wage for each selected occupation in the government salary scales. The procedure to be applied is described in Box 5.

Box 5: Determining the basic salary for a selected occupation using a salary scale

Grades &Categories	Steps						
	1	2	3	4	5	6	7
P4	88,900	91,400	93,900	96,400	98,900	101,400	103,900
P3	76,800	78,800	80,800	82,800	84,800	86,800	89,000
P2	66,100	67,900	69,700	71,500	73,300	75,100	76,900
P1	53,600	55,000	56,400	57,800	59,200	60,600	62,000
T4	47,900	49,500	51,100	52,700	54,300	55,900	57,500
T3	41,200	42,600	44,000	45,400	46,800	48,200	49,600
T2	35,500	36,700	37,900	39,100	40,300	41,500	42,700
T1	31,100	32,100	33,100	34,100	35,100	36,100	37,100
W4	34,700	35,700	36,700	36,800	36,900	37,000	37,100
W3	31,300	32,300	33,300	34,300	35,300	36,300	37,300
W2	28,400	29,200	30,000	30,800	31,600	32,400	33,200
W1	25,700	26,500	27,300	28,100	28,900	29,700	30,050

a. Employees in public administrations are usually paid on the basis of a salary scale such as in the table shown above. The scale is divided into *grades* – P, T and W. Grades generally correspond to levels of education or skills.

b. Within grades there are four *categories* and each category is itself divided into *steps* - 1 to 7 in this example. Each step is usually 12 months, though steps of 18 or 24 months are not uncommon. For each selected occupation the category that is most representative in each country is to be identified. Representative here means the *modal category* associated with the selected occupation. The appropriate step within the category is determined by the seniority specified for the selected occupation.

c. For example, a *Draughtsman*—occupation number 219 in Box 3. If the distribution of Draughtsmen is 15 per cent T1, 25 per cent T2, 35 per cent T3, 20 per cent T4 and 5 per cent P1, then T3 is selected as the modal category. If 5 years seniority has been specified for this particular occupation and if each step is 12 months, the salary for category T3 with five years seniority will be 46,800 (equivalent to five steps). But if each step was 18 months or 24 months, five years seniority would be equivalent to four steps and a salary of 45,400 in the case of 18 month steps and to three steps and a salary of 44,000 in the case of 24 month steps. **Five years of seniority in the position refers to the salary given to the government employee who has served five years in a particular grade (for the modal class).**

d. It can happen that the distribution of employees over the categories associated with a particular occupation is bimodal, or approximately bimodal. In such cases the salary of both categories should be determined and an arithmetic average taken of the two. For example, if in the distribution of executive officials in the previous paragraph categories T2 and T3 were both 30 per cent, the salary – assuming steps of 12 months - would be 40,300 for T2 and 46,800 for T3. In this case the basic salary for an executive official with skill level III would be the arithmetic average of the basic salaries established for these two categories – which is, $(40,300 + 46,800) / 2$ or 43,550.

5. CE reported for each selected occupation must be **annual**. Salary scales usually show annual amounts and any revisions that take place during the reference year are relatively straightforward to accommodate. When there are revisions, a weighted average needs to be calculated. This can be illustrated by returning to the example of the Draughtsman in Box 5. If a five per cent increase in salaries came into effect in October of the reference year, then for the first nine months the salary for category T3 would be 46,800 and for the last three months it would be 49,140. The weighted average of the two – $([46,800 \times 9] + [49,140 \times 3]) / 12$ – provides the basic salary required, namely: 47,385.

6. CE should also be the **national average** taking into account the differences in compensation which may arise both between various levels of government – that is, between central, regional, state and local governments - and within the same level of government – that is, between different ministries and departments of central government or between different regional governments, state governments or local governments. Unless there are national salary scales, this can be a problem because information on the various salary scales that need to be consulted may not be readily available. Even if it is available, there is still the question of how to combine them. In principle some form of weighted average should be used.

7. One solution that may be used in the absence of national salary scales is to use only the salary scales of central government. Some adjustments may be necessary to make them more representative such as excluding the allowance paid to compensate for the higher costs associated with working in the capital city. But it is not a complete solution because there are occupations – such as teachers or doctors in some countries – that are only employed by regional, state or local governments and not by the central government. For the selected occupations that fall into this group, the need to refer to the salary scales of the appropriate level of government remains.

8. For international comparisons, the CE reported for the selected occupations needs to be adjusted for differences in the numbers of hours actually worked in the different countries. In addition to CE, countries are therefore required to report the number of hours regularly worked per week – excluding overtime – and the number of weeks worked per year. The latter is obtained by deducting all paid holidays including annual leave and public holidays.