



After the reform, improving HR management in local and regional governments is relevant

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Audit report

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Performance audit “Challenges in human resources policy of local and regional governments at the end of municipal territorial reform”.

The audit was performed based on audit schedule No 2.4.1-22/2021 of 26 July 2021 of the Fifth Audit Department of the State Audit Office.

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Summary

For ensuring the performance of municipal functions, local and regional governments have access to both property and financial resources and human resources.

Human resources are the most valuable resource of every organisation. The knowledge and skills of employees are an essential prerequisite not only for the high-quality performance of functions, but also for economic handling of material resources.

This is confirmed, for example, by the opinion of the expert engaged in the audit on the safety of buildings¹ after assessing the state of the buildings managed by local and regional governments, *“the level of competence of the individuals dealing with the technical issues of maintaining the housing stock of local or regional government is often low, and as a result, actions with already limited resources are sometimes irrational and ineffective.”*

The insufficiency of budget funds to meet all needs is one of the key challenges of local and regional governments, therefore it is especially important that the amount of limited financial resources allocated for the performance of functions is used meaningfully, which also largely depends on employees.

Therefore, using the administrative and territorial reform as a moment when the newly established local and regional governments have the opportunity to ‘start a new life’ and improve the practice of former local and regional governments in many areas, the audit assessed the opportunities to improve human resources management in local and regional governments, while also paying attention to whether the inappropriate practices of former local and regional governments were not continued in the newly established local and regional governments.

Human resource management is a sequential and strategic approach to the management of an organization’s most valuable resource, that is, people working in the organization, whose individual and collective contribution enables the organization to achieve its goals. It includes several processes, of which the audit assessed:

- **Human resources planning after the administrative and territorial reform;**
It affects the way in which a number of employees needed by an administration is planned in a situation where data on employee activity (productivity) indicators are available that provides an opportunity to make more accurate decisions about the required number of employee workloads;
- **Results management, i.e., planning and evaluation of work performance;**
A process that ensures targeted progress of employees towards the achievement of results for meeting the strategic goals of an institution;
- **Organization of training for professional development of employees;**
Building professional capacity of public administration employees is one of the recommendations made by the Organization for Economic Cooperation and Development (OECD) to Latvia in 2019 to ensure the country’s economic growth and development².

At the same time, the audit has also assessed how former local and regional governments have fared with the compliance of disbursement of various types of compensation such as bonus, cash prize, bonus for additional work, severance pay with laws and regulations. These expenditures constitute a significant part of municipal expenditures, and inappropriate practice

has a significant impact on the municipal budget. In addition, the inappropriate practices of former local and regional governments might also be adopted in newly established local and regional governments by having a negative impact on their budgets in the future.

The audit findings regarding:

- A number of employees (workloads) required for the performance of municipal functions (financial accounting, legal support, registration of civil status records and administration of real estate tax) cover the newly created Aizkraukle and Ropaži Regional Governments included in the audit sample, as well as Augšdaugava, Ķekava, Limbaži, Madona, Mārupe, Saldus, Tukums and Valmiera Regional Governments, where the State Audit Office cooperated with internal auditors of those local and regional governments;
- Results management or planning and evaluation of work performance, organization of training for the professional development of employees, as well as findings on the solidity of compensation disbursements cover the newly created Aizkraukle and Ropaži Regional Governments included in the audit sample, as well as former local and regional governments that constitute these new regions.

During the audit, the representatives of municipal institutions not included in the audit sample also provided information in the form of a survey on various human resource management processes with 36 local and regional governments filling out the survey out of 46 existing. Therefore, audit findings in certain aspects is applicable to a much larger number of local and regional governments than the ones included in the audit sample.

Main conclusions

The deficiencies detected during the audit in human resource management processes in former and newly established local and regional governments show that the understanding of the significance of human resource management in ensuring the performance of municipal functions needs to be improved significantly in local and regional governments.

In the former local and regional governments, the work of employees has not been targeted in order to achieve certain quality of work performance, including there has been no targeted approach to improving the knowledge and skills of employees.

Perhaps this is also the reason why the State Audit Office finds inconsistencies in the performance of functions, regardless of the field and mostly also of the audited local and regional governments, year after year. This audit is not an exception because deficiencies were found not only in the field of human resources management by disbursing compensations of 277,100 euros, but also in the performance of municipal functions, where a vivid example is the management of buildings. Despite the audit report published by the State Audit Office a couple of years ago about irregularities in this area and organised informative lectures, few local and regional governments have sent their responsible employees to training to improve knowledge and skills for introduction of better building management practices.

The trend towards better human resources management practices is not observed in the newly established local and regional governments either. The results of the surveys of 36 newly established local and regional governments obtained as part of the audit show that:

- Currently, only a small part of the surveyed local and regional governments has a human resources strategy, which would include goals and tasks for the prevention of risks and weaknesses identified in human resources management, as well as the use of strengths and opportunities;
- The HR specialists in 38% of surveyed municipal institutions (out of 36 local and regional governments) do not have education in the field of human resources management, although the professional capacity of those employees is decisive in the creation of appropriate human resources management processes.

When checking the human resources management practice during the audit, one has established that:

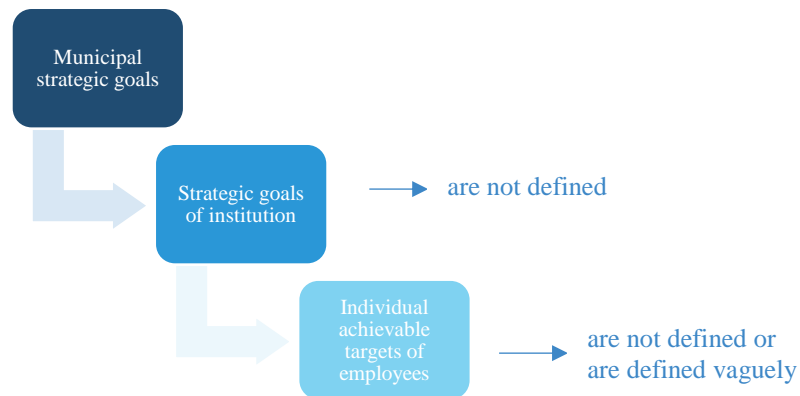
- After the merger of municipal territories, the newly established local and regional governments did not rush to analyze employee productivity trends when making decisions about the required number of employees (workloads). According to the estimate made by the State Audit Office, only 10 local and regional governments could obtain annual savings of up to 1.33 million euros in total only in four areas of their activity in Latvia if the performance (productivity) indicators of employees were used in employee staffing planning;
- Unmeasurable individually achievable goals continue to be set for employees, which, together with the determination of the same competencies for employees in different positions and the lack of specific requirements for the performance of job duties, makes the planning and evaluation of work performance a formal and thus unnecessarily burdensome process that is not directed towards the goal of leading employees to achieve better results.

Lack of management of employee results, including formal performance planning and evaluation existing in local and regional governments

In former local and regional governments that make up the newly created Aizkraukle and Ropaži Regions, planning and evaluation of work performance were not implemented or significant deficiencies were found therein, which shows that planning and evaluation of work performance have been considered a formality, not a prerequisite for the performance of municipal functions and its strategic goals to achieve until now.

The individual goal of an employee is a task resulting from the goals of a structural unit with a certain result, the achievement of which is the responsibility of particular employee³. For example, in the newly established Aizkraukle and Ropaži Regional Governments, individual goals are not set for employees or they are not specific and measurable, but they are not already set at the level of structural units/institutions. Therefore, it is not clear what share of responsibility is assigned to each employee in achieving the planned results of structural units/institutions.

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The formal approach is also confirmed by the fact that in the former local and regional governments that make up Aizkraukle and Ropaži Regions, as well as in the newly established Ropaži Regional Government:

- There were no specific requirements for the performance of the duties of employees set, according to which the quality of performance of the employees' duties could be evaluated, and yet it has been evaluated;
- Competences proposed, which should be specific depending on a position held, are set the same for all employees in most local and regional governments, regardless of whether it is, for example, an accountant or a public relations specialist. This means that an employee is expected to have competencies that are not critically important for effective performance of the duties, while the critically important competencies and their requirements are not set for the employee.

The planning and evaluation of work performance implemented in an institution ensures that an employee works in the direction and quality required by the institution, which is achieved by evaluating the results of individual work performance of the employee and agreeing on the goals to be achieved in the next period, the requirements for performance of duties and competencies⁴. An approach that requires employees to fill in documents that they have no understanding of and that have no impact on the employee working in the direction and quality desired by the institution, wastes the time of employees unnecessarily that could be used for meaningful work.

The formal approach to planning and evaluation of work performance have also contributed to the fact that in former local and regional governments that form Aizkraukle and Ropaži Regions, when paying employees the variable part of wages such as bonuses, cash prizes, allowances for personal work investment and work quality, disrespect the Law on Remuneration⁵ or the best practice, which does not contribute to the achievement of the goals of the local or regional government and its institutions.

The most funds for bonuses, cash prizes, and allowances for personal work investment and work quality have been used by the former Garkalne and Stopiņi Regional Governments, which currently form the newly established Ropaži Regional Government. Only in the first half of 2021 alone, the risk of unreasonably spent financial resources is 154,700 euros whereas 47,300 euros were spent opposite to the best practice (202,000 euros).

The formal approach to planning and evaluation of work performance is also continued in the newly established Ropaži Regional Government, where the same deficiencies (in determining

goals, job requirements, and competencies) as in the governments of merged regions have been found. In 2022, Ropaži Regional Government has planned to spend 400,000 euros for bonuses and cash prizes in the budget.

The information provided in the municipal survey also indicates that a similar situation could be observed in almost all (35 out of 36) local and regional governments. A respondent of only one institution, Liepāja City Municipality, stated that concrete and measurable individually achievable goals were set for employees, and also a respondent of only one institution, Jelgava City Municipality, stated that specific requirements for the performance of the duties were determined. The survey also does not show the determination of appropriate competencies as a common practice.

The lack of a targeted approach in the organization of training can have a negative impact on the quality of performance of municipal functions

In former local and regional governments that form newly created Aizkraukle and Ropaži Regions, learning process where activities that should be carried out within an institution to maintain and develop the professional capacity of employees was not defined. Certain responsibilities were defined, for example, in the job descriptions of employees responsible for human resources development to determine training needs and draft training plans, but they were created mainly for those employed in social services and orphan courts, for whom the regularity of training was determined by law⁶.

Where local and regional governments should be interested in investing in employee development to improve the quality of the performance (for example, in property management, where the State Audit Office published information about deficiencies in local and regional governments a couple of years ago), training plans are not prepared and relatively few local and regional governments have sent employees to any relevant training. In former local and regional governments that form the newly created Aizkraukle and Ropaži Regions, this has resulted, for instance, in deficiencies in the management of non-residential buildings and multi-apartment residential buildings in compliance with laws and regulations as well as the best practice.

The State Audit Office pointed out these same irregularities already two years ago in the published audit report at the beginning of 2020⁷:

- Contrary to the statutory requirements⁸ there are no documented management principles and procedures for the management of non-residential buildings, there is no practice in local and regional governments⁹ to draft visual inspection reports and management plans for comprehensive determination and fulfillment of management needs;
- Multi-apartment residential buildings are not managed in accordance with the law¹⁰ because visual inspection reports and maintenance work plans are not elaborated.

According to the State Audit Office, one of the reasons why the employees have not been sent to the necessary training is the already mentioned lack of results management when the institutions have not defined the goals to be achieved, nor have the goals and tasks resulting from them and the requirements for the performance of the duties of the employees been defined. Therefore, former local and regional governments that form newly created Aizkraukle and Ropaži Regions had no information about what the employees' knowledge and skills needed to be improved in order to be able to provide it.

As part of the evaluation of work performance, former local and regional governments that form newly created Aizkraukle and Ropaži Regions have tried to determine the training and development needs of employees, however, they have been either general, for example, “*participating in courses in which there is an opportunity to improve oneself professionally*”, or they have not been met. The above confirms once again the formal approach in planning and evaluating work performance.

Attention should also be paid to the fact that the majority (648 out of 747) of employees in the former local and regional governments that form newly created Aizkraukle and Ropaži Regions have never been sent to training, although training should be regular, at least 24 hours a year, according to best practice¹¹ so that it has an impact on maintenance and improvement of employee competence. Mandatory training in information technology security, personal data protection and prevention of conflict of interest has also not been provided in all former local and regional governments.

From the information provided in the State Audit Office survey by local and regional governments not included in the audit sample, it follows that planning of training is not a common practice even in newly established local and regional governments. Out of 36 local and regional governments, the training program is being drafted in only eight local and regional governments¹². However, assigning employees to training when training offers appear, rather than based on specific goals to be achieved and improvements needed, creates a risk that the funds spent on training will be used irrationally, and instead of employees devoting time to work, they spend it training that does not benefit the better performance of duties.

In the former local and regional governments that form the newly created Aizkraukle and Ropaži Regions, the inconsistencies of remuneration with the laws and regulations have been established

In addition to the already indicated 202,000 euros, which the former Stopiņi and Garkalne Regions have paid out to employees in bonuses, cash prizes and allowances for personal work investment and work quality in the first half of 2021, the audit also found the awarding of special allowances and other general allowances and severance benefits in the amount of 69,123 euros that do not comply with the Law on Remuneration¹³, including:

- Special bonus, which is determined for work related to a special risk¹⁴, was granted in the former Stopiņi Regional Government, although no council decision has been made about the employees¹⁵ entitled to this bonus, taking into account the risk assessment of work environment in the current year and whose job duties are related with a special risk is questionable (13,899 euros in total). The special allowance continued to be paid to employees of the former Stopiņi Regional Government by the newly established Ropaži Regional Government for several months after 1 July 2021 until 1 October 2021¹⁶, when the new Remuneration Regulations of Ropaži Regional Government¹⁷ were approved;
- General allowance was granted without documentary (local and regional governments could not submit orders for granting an allowance¹⁸) or legal (paid for fulfilling the duties of a vacant position when the position was no longer vacant¹⁹) justification and exceeding the limit of the allowance for additional work allowed in the Law on Remuneration²⁰ (28,780 euros in total);

- Severance benefits have been granted to councillors of local or regional government²¹ after they have ceased to perform their salaried duties in the council with the expiration of the mandate, although the other conditions for the payment of the allowance provided for by the law have not been established (9,974 euros in total);
- Severance benefits have been granted to employees²² following part five, Section 100 of the Labour Law, although there is no indication in the employees' notices²³ of the termination of legal employment relations in connection with the conditions provided for in the law (16,470 euros in total).

The lack of a human resources strategy after the administrative and territorial reform and the missed opportunity to save budget funds by making a decision on the number of employees (workloads) required for the performance of municipal functions

After the administrative and territorial reform, the newly established local and regional governments had to decide²⁴ on the administrative structure of a local or regional government, including setting strategic goals of human resources management, determining the amount of human resources necessary for the performance of functions.

The survey of 36 local and regional governments (including 5 city municipalities) conducted during the audit on the development of human resources management in local and regional governments shows that the strategic goals of human resources management are currently clear only to a small part of the newly established local and regional governments (9 municipal institutions of 36 surveyed local and regional governments stated that the strategic goals were documented).

On the other hand, the adopted decisions of local and regional governments on the number of employees required for the performance of municipal functions show the possibility of **saving budget funds** if the opportunities provided by the reform to compare and take into account the performance indicators of the employees of the combined local and regional governments were more widely used in their adoption.

During the audit, the required number of employees was calculated in the four municipal work areas of 10 newly established local and regional governments based on the average best performance (performance) indicator by obtaining measurable and mutually comparable data on performance results according to a certain methodology²⁵. As a result, it has been estimated that the local and regional governments of the newly created regions included in the audit sample could plan 89 employee workloads less in total than at present, thus annually saving budget funds for gross salaries of 1.33 million euros in total (see Figure 1).

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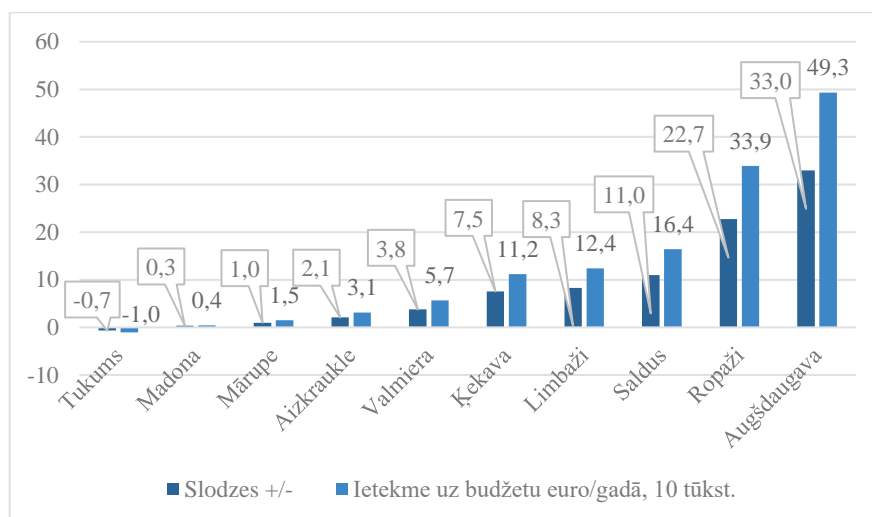


Figure 1. Impact of excess (+) or shortfall (-) of planned workloads in local and regional governments on the budget according to the average best performance indicator from the best indicators of all regions (in all functions together) /workloads +, impact on budget in euros/year, 10 thousand/.

The absence of a human resources strategy, the unused opportunities, as well as the above-mentioned shortcomings in the planning and evaluation of work performance and the organization of training indicate that local and regional governments should promote the understanding of the importance of human resources management in achieving the goals of the local or regional government. The fact that those employed in the field of human resources do not have education in the field of HR management in 14 local and regional governments out of 36 local and regional governments surveyed does not facilitate the latter although the knowledge and skills of these employees are decisive in ensuring appropriate human resource management processes.

Employees who are knowledgeable and able to implement changes, whose work is purposefully managed and where the local or regional government prioritises taking care of them, are the guarantor of the municipal development. Therefore, the State Audit Office invites not only the local and regional governments included in the audit sample, but also those local and regional governments that were approached as part of the survey to review the current practice in human resources management not to repeat the mistakes of the former local and regional governments, as well as to use the opportunities that have arisen after the administrative and territorial reform.

Key recommendations

Based on the audit findings and the conclusions of auditors, local and regional governments have been given recommendations in human resources management that will facilitate the performance of municipal functions and the achievement of goals, including:

- Review the planned amount of human resources for the performance of municipal functions;
- Ensure the determination of individually achievable goals, requirements for the performance of job duties and specific competencies for the position or groups of positions corresponding to the achievement of an institution's strategic goals;
- Implement the process of organizing training and development activities aimed at achieving the institution's goals.

References

- ¹ Audit report “The safety of buildings: are we doing enough?” of the State Audit Office of 3 December 2019. Available at: <https://www.lrvk.gov.lv/lv/revizijas/revizijas/noslegtas-revizijas/vai-tiek-izpilditi-prieksnoteikumi-pasvaldibu-parvaldisana-un-kontrole-esosu-ekspluatacija-pienemtu-eku-atbilstibai-drosuma-prasibam>.
- ² OECD. 2019. “OECD Recommendation on Public Service Leadership and Capability”. OECD/LEGAL/0445. Translated by the State Language Centre, 2019. Available at: <https://legalinstruments.oecd.org/api/download/?uri=/public/62d23dc8-b613-4001-8236-77c452de5561.pdf>.
- ³ Performance Planning and Evaluation Guide for use by NEVIS users, p. 6. Available at: <https://nevis.mk.gov.lv/Uploads/EvaluationManual.e2754c1ba99d4480a522f515f9e07ba2.pdf>.
- ⁴ Performance Planning and Evaluation Guide for use by NEVIS users, p. 7. Available at: <https://nevis.mk.gov.lv/Uploads/EvaluationManual.e2754c1ba99d4480a522f515f9e07ba2.pdf>.
- ⁵ Law on Remuneration of Officials and Employees of State and Municipal Institutions.
- ⁶ Article 9 of Cabinet Regulation No 338 “Requirements for social service providers” of 13 June 2017; Article 2 of Cabinet Regulation No 984 “Regulations on the curriculum content and training procedures of Chairperson, Deputy Chairperson of Orphan’s Court and Member of Orphan’s Court” of 5 December 2016.
- ⁷ Audit report “The safety of buildings: are we doing enough?” of the State Audit Office of 3 December 2019. Available at: <https://www.lrvk.gov.lv/lv/revizijas/revizijas/noslegtas-revizijas/vai-tiek-izpilditi-prieksnoteikumi-pasvaldibu-parvaldisana-un-kontrole-esosu-ekspluatacija-pienemtu-eku-atbilstibai-drosuma-prasibam>.
- ⁸ Part three and three prim, Section 6² of Law on Prevention of Embezzlement of Financial Resources and Property of Public Entity.
- ⁹ Sub-section 4.2 of Cabinet Regulation No 934 “Rules on the principles and procedure of state real estate management, as well as the procedure for collecting information on state real estate management and real estate used by state institutions” of 6 December 2011; Paragraph 10, Sub-section 4.1 of Cabinet Recommendation No 2 “Recommendations for ensuring unified management of state real estate” of 6 December 2011.
- ¹⁰ Sub-section 2.2 of Cabinet Regulation No 408 “Rules for calculating residential house management and management fees” of 11 July 2017 and Annex 2 thereof “Residential house maintenance work plan”; Article 6, 11-13 of Cabinet Regulation No 907 “Rules on residential house inspection, technical maintenance, regular repairs and minimum energy efficiency requirements” of 28 September 2010.
- ¹¹ Plan “Learning and development plan for employees in the public administration 2021-2027” (approved by Cabinet Order No 562 “On learning and development plan for employees in the public administration 2021-2027” of 13 August 2021). Available at: <https://likumi.lv/ta/id/325395>.
- ¹² See Annex 1 of the Audit Report - responses of local and regional governments to questions 37-45.
- ¹³ Law on Remuneration of Officials and Employees of State and Municipal Institutions.
- ¹⁴ Part one, Section 15 of the Law on Remuneration of Officials and Employees of State and Municipal Institutions.
- ¹⁵ In Stopiņi Regional Government, a special allowance was paid to cash keepers, accountants, maintenance managers, secretaries, a Deputy Head of Financial Management, Analytics and Accounting Department and Deputy Head of Stopiņi culture, for whom such a special allowance has not been documented, but has been paid.
- ¹⁶ Order No RN/2021/4.1-8/24 of Ropaži Regional Government “On determination of bonuses” of 30 July 2021.
- ¹⁷ Regulation of remuneration of officials and employees of the institutions of Ropaži Regional Government (approved by the decision of the meeting of the Ropaži Regional Council on 29 September 2021, minutes No 12/2021, p. 72).
- ¹⁸ Former Stopiņi and Garkalne Regional Governments.
- ¹⁹ Newly created Ropaži Regional Government.
- ²⁰ Former Aizkraukle, Stopiņi, Garkalne Regional Governments.
- ²¹ Chair of former Koknese Regional Council, Chair of former Pļaviņas Regional Council, Deputy Chair of former Pļaviņas Regional Council, Chair of former Jaunjelgava Regional Council.
- ²² Order No 2-27/67 of Garkalne Regional Government of 18 May 2021; Order No 2-27/68 of Garkalne Regional Government of 18 May 2021.
- ²³ Application of Chief Accountant of Garkalne Regional Government of 16 April 2021 with a request to fire her from work.

- ²⁴ Article 23 of Cabinet Regulation No 671 “Procedures for redistribution of municipal institutions, finances, property, rights and obligations after amending or dividing the borders of administrative territories” of 10 November 2020.
- ²⁵ Expert consulting service report of Limited Liability Company Latvia-Great Britain Joint Venture “Zygon Baltic Consulting” on the analysis and improvement of the unified workload assessment methodology in the merged regions of 20 December 2021.