



Remuneration system reform: weak sustainability and limited impact on the causes of problems

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Audit report

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Performance audit “Implementation of the remuneration system reform in state administration”

The audit was conducted based on audit schedule No 2.4.1-76/2024 of the Second Audit Department of the State Audit Office of Latvia of 28 August 2024.

The cover design includes an image generated on 6 November 2025 by using the artificial intelligence tool *Microsoft Copilot*.

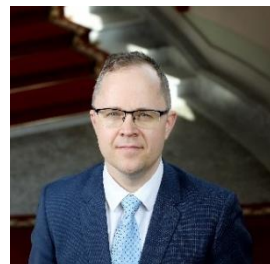
Dear Readers,

In 2022, the reform of the remuneration system was long awaited. The aim of the amendments to the Law on the Remuneration of Officials and Employees of State and Municipal Institutions was to safeguard competitive remuneration in state administration by moving towards a monthly salary level at the midpoint of the monthly salary scale (80% of the monthly salary paid in equivalent positions in the private sector). The basic idea of the reform was clear, a single and transparent framework where the monthly salary is the basis and the variable part is targeted motivational instruments. Therefore, we have assessed during the audit whether the legal and financial prerequisites for achieving the goals of the reform are sufficient and what is its real impact on the competitiveness of remuneration, the use of the variable part, the equality of remuneration funds and the availability of motivating benefits.

The audit conclusion is unequivocal: the intended results of the reform have not been achieved. The audit data raise a fundamental question, is remuneration determined by the value of the position or by the historically established base funding? In 2024, total remuneration expenditure increased by an average of 32%, but the inequality in resource distribution has not decreased because “rich” and “poor” ministries and state institutions remain in state administration. The historically established base funding structure has proven to be resilient to the impact of the reform.

Inequality is clearly measurable: the monthly salary in the same positions with similar work content and level of responsibility in different state institutions can still differ significantly, up to a third. A position in a lower monthly salary group in one state institution may be better paid than a position in a higher group in another institution. For some institutions, the midpoint of monthly salaries is already achievable while others require up to 62% additional funding. This is not a nuance of personnel policy, as it is systemic inequality.

A similar problem is also observed in the application of the variable part. The high proportion of recipients of bonuses and cash prizes in several state institutions indicates the risk that the exceptional instrument is used as a systematic way of increasing remuneration, and the allocation is based on available funding, not performance. In 2024, in 31 out of 40 state institutions included in the audit sample, an average of 31% of employees received a bonus for significant contribution to the achievement of strategic goals and more than 50% in some state institutions, and in some places for a long time.



We also analysed the availability of motivating benefits such as the amount and regularity of health insurance premiums and compensation for vision correction devices. Here too, the differences are obvious: both the amounts and regularity differ, and availability depends on the budget capabilities of a state institution directly. As a result, the government as an employer demonstrates a different level of support and appreciation for equal work in the interests of society in practice. It is, first of all, a matter of human dignity!

The central message of the audit follows from the above: without a review of the base funding for remuneration and the development of an equalisation model among ministries and state institutions, the goal of the reform, a single, transparent and fair remuneration framework, will not be achieved, and the inequality gap will only deepen. By the equalization model, we mean a review of the remuneration fund based on the principles of a zero budget by recalculating the base funding anew according to the structure of positions and the number of positions, linking it to the target remuneration level (the midpoint of the monthly salary scale). It will allow identifying a funding deficit or surplus, determining adjustments and a transition

schedule for the gradual equalization of differences.

Therefore, the situation cannot be changed without a bold and decisive political will of the Cabinet of Ministers and the Saeima. The ability to give up a historically established advantage in one ministry or institution in favour of another is a political test, but crucial for ensuring good governance.

I would like to thank the representatives of the State Chancellery and all institutions included in the audit sample for their cooperation, information provided and support in the audit process, as well as the representatives of “Figure Baltic Advisory” Ltd and Association “Public Policy Centre PROVIDUS” for their cooperation!

Respectfully
Mr Gatis Litvins
Department Director

Summary


Main conclusions


The reform of the remuneration system was justified and necessary; however, its impact on equalizing remuneration among state institutions and promoting competitiveness in state administration has not achieved the expected effect yet.

It is positive that a system has been established for determining the monthly salary of employees in state administration, that is, a new catalogue of positions has been created with current positions and a clearly defined classification where position ratios are expressed in relation to the base monthly salary. Such an approach provides a unified logic for determining the monthly salary, increases transparency and facilitates budget planning. The monthly salary ratios of the top state officials have also been specified taking into account the balance of branches of power and the principle of hierarchy, which strengthens the internal consistency of the system.

For determining monthly salaries in state institutions, a base monthly salary is used whose calculation is based on the increase in the average monthly salary in the country. There are state institutions that use a significantly higher base monthly salary than other state institutions to determine monthly salaries, as they use other indicators specific to the institution's field of activity (finance and insurance, electronic communications and energy) in their calculations.

The reform of the remuneration system, which was initiated with the aim of ensuring single and competitive remuneration in state administration, has stalled currently due to unequal remuneration funds and limited funding. An analysis of the budget expenditure estimates of state institutions shows that total remuneration expenditure increased by 32% on average in 2024 compared to 2022. The diversity of bonuses has decreased; however, their amount is still significant. In 2024, the proportion of the variable part of remuneration in state institutions was 13% of the total remuneration on average. There are also no significant changes in the proportion of planned expenditure in 2025 because the variable portion has been reduced by an average of two percentage points compared to 2024.

The audit results show that some institutions are already able to provide the midpoint of the monthly salary scale within the existing funding framework, 80% of the monthly salary of employees in the private sector; however, there are state institutions at the same time that lack funds significantly to increase salaries, that is, some institutions need up to 62% additional funding. 

The monthly salary of employees in the same positions with similar work content and level of responsibility can differ by up to a third in different institutions, which threatens fair and equal treatment of employees in state administration. The wide monthly salary ranges and their overlap as well as unequal remuneration funds have created a situation where a position in a lower monthly salary group in one state institution can be paid better than a position in a higher monthly salary group in another state institution. Thus, competitive remuneration is provided only in some state institutions and competition for qualified specialists can arise mainly among those institutions that have access to larger remuneration funds. It encourages internal competition within state administration for the same specialists and deepens inequality among institutions in terms of both remuneration and capacity. 

The high proportion of recipients of cash prizes and the amount of bonuses in several state institutions indicate that the main factor in their awarding is available funding rather than significant work input and results.

- ❖ Institutions understand the Remuneration System Reform differently. While some focus on increasing monthly salaries and simplifying the system, other institutions still use bonuses as the main tool for increasing remuneration. The management of some institutions has not understood or has not wished to comply with the essence of the reform, *id est*, safeguarding a competitive monthly salary by refusing bonuses. In 2024, in 31 out of 40 state institutions included in the audit sample, an average of 31% of employees received a bonus for significant contribution to the achievement of the strategic goals of the relevant institution, the bonus was granted to more than 50% of employees in nine institutions and the aforementioned bonus was granted for six months or longer in five of them, namely, the Ministry of Finance, the Ministry of Smart Administration and Regional Development, the Ministry of Economics, the Procurement Monitoring Bureau and the State Chancellery.
- ❖ Over the three-year period (from 2022 to 2024), the proportion of cash prize recipients exceeding 70% of the average number of employees was in 10 institutions out of the 40 institutions included in the audit sample: the Ministry of the Interior, the State Treasury, the Information Centre of the Ministry of the Interior, the Nature Conservation Authority, the State Agency of Medicines, the National Archives of Latvia, the Health Inspectorate, the Ministry of Culture, the Financial Intelligence Service and the State Centre for Defence Logistics and Procurement.

Such a practice of awarding cash prizes and bonuses in state administration does not ensure horizontal fairness and stability in the remuneration system, as the same work is remunerated differently in various state institutions. It weakens the internal logic of the remuneration system because unjustified differences arise between equivalent positions. In the long term, such a practice threatens the ability of state administration to attract and retain professional employees in all sectors. At the same time, legal and reputational risks increase, as transparency decreases, compliance control becomes difficult, and the possibilities of subjectivity and conflict of interest increase, which undermines trust in remuneration policy in general.

Motivating employees and promoting work performance are an essential part of effective state administration, and motivating elements of remuneration play an important role in this process. However, they should be equally available to all institutions and not based on the amount of budget funds historically available to each state institution. Furthermore, this principle must be followed consistently for those elements that are of an exceptional nature such as bonuses for contributions to the achievement of the institution's strategic goals and cash prizes in order to ensure a fair, transparent and single remuneration system throughout the state administration.

Differences in the amounts and regularity of compensation for health insurance premiums and vision correction devices also indicate that their availability depends on the financial capabilities of each institution. For instance, six institutions can provide their employees with a maximum health insurance premium of 750 euros while they do not even reach half (less than 375 euros) of the maximum amount in three institutions. In most institutions, the purchase of vision correction devices

is compensated once a year from 50 euros to 250 euros, but there are institutions where their purchase is compensated once every three years. In order to ensure fair and equal treatment of employees, these motivating instruments should be equally available in all institutions regardless of their budget.

The data analysis conducted in the audit clearly shows that without a review of the base funding of the compensation fund, inequality among state institutions that have received larger budget funds historically will continue to exist, the inequality gap will only deepen and the goal of the reform, a single, transparent and fair remuneration system, will not be achieved.

Key recommendations

To facilitate a fair and motivating remuneration policy, the State Audit Office of Latvia has made five recommendations, calling on the State Chancellery to:

- ❖ Implement measures to ensure the publication of aggregated information on the average monthly salary of officials (employees) employed in state institutions by monthly salary group against the midpoint of the monthly salary scale and wages (monthly salary and bonuses) against the midpoint of the scale;
- ❖ Set limits for state institutions on the number of recipients for granting cash prizes and bonuses for significant contributions to the achievement of the institution's strategic goals, monitor them systematically and strengthen the understanding of institution managers about the role of the permanent part of the salary;
- ❖ Implement measures to ensure a single and fair approach throughout the state administration to the compensation of vision correction devices and health insurance policies, as well as the amounts and regularity of other additional motivating instruments;
- ❖ Assess and review the methodology for determining the amount of the base monthly salary in order to ensure a single methodology for calculating the base monthly salary throughout the state administration, based on the increase in the average salary and inflation in the country;
- ❖ Take measures to promote compliance of the performance evaluation process and results with best practice and that the scores "exceeds requirements" and "exceeds requirements partially" would be awarded exceptionally (no more than 20%) for special achievements rather than as the everyday norm.

Taking into account the irregularities and inequalities in the state administration remuneration system identified in the audit, **the State Audit Office of Latvia shall call on the Cabinet of Ministers to:**

- ❖ Establish a goal-oriented budget planning principle so that additional funding is first directed towards increasing the fixed part (monthly salary) to the level of the midpoint of the monthly salary rather than increasing its variable part;

- ❖ Decide on the review of the base funding for remuneration and the development of an equalization model among ministries and state institutions in order to safeguard the achievement of the goals of the Remuneration System Reform and the right of employees in positions of equal value to fair and equal remuneration in state administration, both direct and independent and for employees in other state institutions.