



Report of the State Comptroller of Israel |  
November 2022

Systemic Issues

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# **The Salary and Employment Structure in the Public Service**





# The Salary and Employment Structure in the Public Service

## Background

Salary is a key factor in people's decisions to work in a specific position and organization, and changing positions or organizations. From an employer's perspective, the salary is a central tool to recruit and develop skilled and reliable personnel to fulfill the organization's tasks.

In the public service (including government ministries, their auxiliary units, and government health institutions; local authorities; municipal companies; conurbations; government companies; religious councils; statutory corporations; and supported bodies), the overall salary framework was formulated in the 1950s, and since then many of its principles and characteristics were unchanged. The public service detailed salary conditions are set in agreements due to negotiations between the workers' organizations, the employers, and the state.

The Salary and Labor Agreements Division at the Ministry of Finance serves as the Israeli government headquarters, formulating the salary policy in the public service and its implementation within the government's economic policy. Moreover, it formulates salary agreements, working conditions in government bodies, and their supervision in public bodies.



## Key Figures

**NIS  
107 billion**

public service employee's cost in 2019 (not including employment in the defense agencies)

**over 700**

number of salary components in the salary slips in the ministries

**NIS  
700 million**

the annual expenditure for the car expenses reimbursement for ministry workers in 2019

**NIS 179  
million**

the government expenditure on the on-call supplement in the ministries in 2020

**NIS 707  
million**

the government expenditure on reward and motivation mechanisms of employees in the ministries in 2020, of which NIS 667 million is for incentive pay

**only 31%**

the rate of units' managers operating a differential reward method to motivate employees, stated that the method has improved employee productivity to a great or very great extent

**only 16%**

the rate of agreements, 24 out of 150 relevant salary agreements in 2016–2021 that include the promotion of goals set by the Salary Department in the salary structure and employment

**only 2%**


the rate of public service employees for whom the Salary Department set strategic goals in the salary structure and employment within the salary agreements in 2016–2021

**NIS 457  
million**

the government expenditure to cover budget overrun due to the signing of a framework agreement without a balancing action



## Audit Actions

 From May 2021 to January 2022, the State Comptroller's Office audited the public service salary and employment structure, including the determination of the salary policy in the public service and its implementation; budgeting of salary agreements; salary linkages between sectors; the complexity of salaries in government bodies; encouraging productivity by dedicated rewards; salary components that no longer fulfill their purpose; and determining the salary in the IDF. The audit was carried out in the Ministry of Finance – in the Salary and Labor Agreements Division, the Accountant General's Division, and the Budgets Division. Completion examinations were carried out in the Civil Service Commission (CSC) and the IDF.

In January 2022, as part of examining productivity encouragement by salary supplements, the State Comptroller's Office distributed questionnaires to 16 CEOs and government bodies managers employing one of the methods to encourage productivity (differential compensation method, see below). The State Comptroller's Office also distributed satisfaction questionnaires to particular units' managers where the method is employed by the CEOs and the managers of the bodies, examining their position on the method's effectiveness. 16 CEOs and body managers and 81 unit managers responded to the questionnaires.

## Key Findings



### The Salary Policy in the Public Service

- **Government Policy** – over three decades, various professionals, including those appointed by the government, noted the need to address fundamental issues concerning the salary and employment structure in the public service in Israel, including: simplifying employment and the salary structure (which also has about 700 salary components in the ministries), encouraging productivity, reducing salary disparities resulting from seniority, adapting salary conditions to a competitive working world, increasing administrative flexibility and strengthening conflict resolution mechanisms. However, the government did not formulate or approve a salary policy. The Ministry of Finance, through its Minister's authority over the salaries of public service employees, did not propose a government or an overall ministry policy. The present core issues policy is the policy of the Salary Division in the Ministry of Finance, which the other government representatives are not obliged to consider.



- **Dealing with the Fundamental Issues Through Salary Agreements** – the Salary Division partially promoted the fundamental issues and its goals in salary and employment structure within the salary agreements framework – promoting four issues (simplifying the salary and employment structure, encouraging productivity, adapting salary conditions to a competitive work world and managerial flexibility) was achieved to a limited extent, and the changes apply to 0.6% to 10% of public service employees. Strategic changes were promoted on a limited scale in all the fundamental issues. These apply cumulatively to about 2% of the public service employees (for example, on the issue of encouraging productivity – to about 0.2% of the employees and reducing seniority gaps – to about 1% of the employees).



#### **Budgeting of Salary Agreements**

- **Formulating the Numerator Considering Expected Salary Agreements** – it was raised that in July 2021, the Ministry of Finance publicized the multi-year budget plan (the numerator) for 2022 to 2025, assuming that "in 2021–2022, no new salary agreements will be signed with budgetary implications in the entire public sector". Furthermore, a dispute arose between the Salary Division and the Budget Division regarding basing the multi-year budget plan on this assumption. The Salary Division said the assumption was not based on a factual foundation and was not coordinated with the Salary Division. By the Budget Division, the assumption was well-founded. It was found that in 2021–2022 a salary agreement between the government and a representative organization of the social workers, and a package deal including several agreements with workers' organizations were signed, and at the audit end, a labor dispute with the Teachers Union concerning over 100,000 employees (Histadrut) was pending. Regarding the salary agreement between the government and a representative organization of social workers, the Budget Division stated that the budget to finance this agreement was already reserved in 2019; Regarding the package deal, the Salary Division noted that a "cost framework for solving problems" of about NIS 500 million was allocated. Formulating the numerator on the assumption that no new salary agreements with budgetary implications will be signed in the relevant period should also be based on professional consultation with the Salary Division regarding expected salary agreements during the multi-year plan period. Otherwise, the government might exhaust its sources and will not leave adequate sources to finance expected salary agreements.
- **Financing the Postponement of Part of the Salary Supplements in the Framework Agreements from April 2016** – upon signing the framework agreement in April 2016, the government took upon itself a future commitment, but when formulating the 2017–2018 budget (during the second half of 2016), it turned out that the total government commitments for these years are higher than the total expenditure allowed according to the Deficit Reduction and Limitation of Budgetary Expense Law, 1992. Following the agreement signing, the government



did not take a balancing act, as the Budget Foundations Law required. The Ministry of Finance increased in August 2016 the future commitment due to the implementation of the agreement by about NIS 286 million a year starting in March 2019 – a postponement of payment of 1% salary supplement in exchange for 0.25% salary supplement, which is equivalent to a loan from the public at an annual interest rate of about 14%. In January 2018, the Ministry again increased the commitment by NIS 171 million from December 2019, for a total of NIS 457 million per year. The Ministry of Finance's actions to maintain the framework of the state budget for 2017–2018 and for 2019 were necessary as the signing of the original framework agreement in April 2016 was not done according to the principle underlying the numerator, by which an increase in government expenditure causing an overrun from the permitted government expenditure requires taking a balancing action.

- **Implementation of Salary Agreements** – the government signed the framework agreement in 2016; however, NIS 18.4 billion, 65% of the government spending on salary supplements in 2016–2020, was after the end of the agreement period and the "industrial peace" (of which NIS 14.7 billion in 2019–2020, after the numerator period). As a result, most of the payment of salary supplements and the commitment fulfillment were realized due to concerns of organized harm to work procedures and processes. For three years (2018–2020), the annual government expenditure on salary supplements set in the agreement was the highest. Still, the workers' representatives promised not to strike, in full or partially, against any of the employers or their units or to employ any other organized harm to the work procedures and its processes. Similar finding was raised regarding the agreement between the Federation of Local Authorities and the Teachers in the Secondary Schools and Colleges Organization. Regarding the salary agreement of the senior faculty in institutions of higher education – 50% of the salary supplements were during the agreement period and the "industrial peace."

## Salary Linkages

- **Linking Salaries in the Defense System to Civil Service Salaries** – the cost of each 1% salary supplement established in a collective framework agreement with the New General Organization of Workers (Histadrut) was about NIS 600 million in 2021. The cost of linking the defense system salaries to civil servants' salaries changes is about an additional NIS 270 million (about 45%).
- **The Financial Expression of the Salary Supplements due to Linkage** – the government has established mechanisms updating the salary of permanent employees, police officers, and prison guards according to changes in the civil servant's salary since they are not allowed to join a representative labor organization and conduct collective negotiations regarding their terms of service. It was found that when the civil servants were given a NIS supplement to reduce



salary disparities, the government calculation consequently increased the discrepancy between the salary of the IDF, the police, and the IPS servants and between the civil servant's salaries.

### **The Complexity of Salaries in Government Bodies**

- **The Complexity of the Salary and its Transparency** – a representative salary slip of a civil servant employed according to an appointment letter is complex and contains considerable data affecting the transparency of the salary and the ability to manage it at the systemic level. The basic component of the combined salary is 28%–73% of the total salary. The complexity of the salary had significant negative consequences for the employment in the public system in several aspects: low occupational mobility of employees and difficulty in recruiting suitable new employees; salary differences between employees without objective justification; the frail relationship between salary and employee productivity; and lack of transparency of the salary.
- **The Expenditure on the Total Salary and Salary Supplements** – there is considerable variation between the government ministries regarding the components of the average total salary for the position. For example, the combined salary tier ranges from 28% (in the salary of the Tax Authority employees) to 73% (in the salary of the Israel Land Authority employees) of the total salary, and the average expenditure on supplement in 2001 ranges from NIS 96 (in the Ministry of Religion) to NIS 12,629 (at the Ministry of the Interior).
- **Publication of the Salary Range in Public Tenders** – nine years since the government adopted a recommendation to publish salary ranges in public tenders, and seven years since the Civil Service Commission (CSC) was obliged to do it, the recommendation has not been implemented. As a rule, the CSC and the ministries do not publish the intended salary range in public tenders due to the salary structure and its complexity and dependence on the specific data of each candidate. At the tender stage, the CSC does not have sufficient information for calculating and publicizing the salary range.
- **Multiple Occupations in the Civil Service** – in December 2021, the CSC compiled a model for the classification of about 11,000 occupations in the civil service into 17 professional knowledge clusters. As of the audit completion, the CSC had not completed analyzing the occupations of any of the 17 clusters and had not formulated a detailed work plan to complete this project.





## Encouraging Productivity Through Dedicated Rewards

- The Effectiveness of the Incentive Pay Mechanism** – incentive pay is the reward and incentive mechanism. It is the highest expenditure in the public service in Israel: in 2020, incentive pay payments to the ministry workers were about NIS 667 million<sup>1</sup>. Despite its high cost, it was found that the salary mechanism is not effective. This is given the high premium exhaustion rates among employees (about 90% of the premium cap on a weighted average in 2020), and that salary methods are not updated as required in most ministries. Under these circumstances, salaries have a supplement nature and do not fulfill their purpose. In addition, there are considerable disparities in the salary payments between employees in the various ministries (for example, NIS 620 per month at the Ministry of Environmental Protection versus NIS 2,040 per month at the Taxes, Customs and VAT Authority), including between employees in the same professional ranking. These disparities are partly due to inequality in the definition of the salary methods indices and their employment.
- The Extent of the Adequacy Between the Salary Indices and the Service Quality Provided to the Public** – there is no correlation between the rating of the ministries' work within the salary indices and the rating of the level of service they provide to the public, according to the service quality report of the Government Service Improvement Bureau at the Government ICT Authority. In 2020, by a central index in salary methods, the level of efficiency of the ministries was consistently higher than 100% and, in most cases, surpasses the upper limit set for this index (142%), and the rating of the level of service to the public in the measured ministries ranges from 53 to 82 out of 100.
- The Effectiveness of the Differential Reward Mechanisms** – the Civil Service Commission (CSC) and the Salary Division operate mechanisms to incentivize employees through financial rewards based on their performance measurement. The Salary Division does not examine the effectiveness of its reward methods mechanism. The audit findings raise doubts about the methods' effectiveness and their contribution to motivating the employees and improving their performance and the quality of their work, and of the tool is used by the ministries according to the established principles: many of the units managers in the ministries employ differential compensation methods, doubt the effectiveness of the method and attribute minimal effect to the methods, including in increasing motivation (17%), improving productivity (27%) and promoting the organization's goals (28%). Many other managers attribute moderate effectiveness to the methods (38%, 42%, and

1 These sums do not include the cost of operating the reward and incentive units in the ministries, the salary payments in the public bodies and the expenditure on consulting services for the purpose of formulating and updating salary methods.



30%, respectively); Moreover, it was indicated that rewards were set, apparently not according to the quality of their performance.

- **Doubling of Differential Reward** – the CSC and the Salary Division employ the differential reward mechanisms separately and without sharing information. However, the main goals of the mechanisms are similar, and the criteria for calculating the reward are partly similar. 195 employees were entitled to double rewards in 2020, and the expenditure on double rewards was about NIS 2 million. 63% of these employees were rated differently by the CSC and the Salary Division: according to the CSC, they were classified as excellent. In contrast, the Salary Division classified them as medium to low. This inconsistency could adversely affect the employees' trust in the indices underlying the differential reward mechanisms, thereby harming the effectiveness of their employment.




#### **Salary Components no Longer Suited for Their Purpose**

- **On-Call Supplements** – the CSC did not define "on-call" from an operational standpoint, in the Civil Service Regulations (Takshir) when to activate it and the alternative tools for on-call. Moreover, it did not form criteria determining the need for on-call. The average annual government expenditure for on-call supplements in various ministries ranges from NIS 62 to NIS 510 and even up to NIS 14,000. This disparity raises the concern that salary increases are given for on-call, regardless of the need for employees to be on-call during non-regular working hours. The use of this tool in the different bodies and at the different levels of rewards is sometimes not suited to the needs of the various ministries. It is affected by the ability of the bodies to raise budgets.
- **Continued Education Remuneration** – Continued education remuneration is a fixed financial reward paid to civil servants as part of their salary for hours of study they accumulated in continued education courses. It originates from collective labor agreements signed starting in 1979. By a Civil Service Commissioner team report at the end of 2019, the continued education remuneration model encourages employees to quickly complete studies that grant remuneration, regardless of the employer's needs; Moreover, the remuneration creates an expectation that any training will be reflected in the salary, thus reducing motivation for continuous learning, which may affect the quality of work of veteran employees. The team recommended canceling the continued education remuneration and creating an alternative remuneration. It was found that the Salary Division began implementing its continued education remuneration policy in five public bodies. However, about 78% of civil servants were entitled to continued education remuneration at the time of the State Comptroller's report from 2018. The CSC, the Salary Division, and the Accountant General Division did not compile data on the scope of government spending on continued education remuneration.



- **Reimbursement of Vehicle Allowance Expenses** – by the Ministry of Finance data, about 80% of the ministries' employees and 40% of local authorities employees were entitled to reimbursement of vehicle allowance expenses in 2019, and the annual expenditure for the reimbursement of vehicle allowance expenses for the ministries' employees was about NIS 700 million in 2019. It was raised that the Salary Division canceled the reimbursement of vehicle allowance expenses in only one agreement. As for the rest of the civil service employees, there was no change.
- **Increased Benefits and Grants Under the "80 Agreement"** – by the Ministry of Finance, 25 employees who were entitled to increased benefits and grants following the "80 Agreement" (a collective agreement designed to compensate employees whose jobs were terminated following the peace agreement with Egypt) retired after 2005 – i.e., over 25 years after the agreement. Nevertheless, according to the agreement, these employees were entitled to benefits of about NIS 15.4 million. By a judgment verdict in January 2022, an employee whose job was terminated about a month before his retirement date at 67 won benefits over NIS 1 million under "Agreement 80". This raised a concern that benefits are paid to employees under this agreement many years after its execution, even though they no longer fulfill the original purpose.

 **Different Salary for Similar Work Value** – the transition of employees between similar positions within the civil service (in national occupations where the officeholders carry out work of equal value) from ministry to ministry may lead to a significant change in their salary – increase or decrease. Thus, the principle of paying similar salaries for work of similar value is not preserved. These differences constitute barriers to employee mobility within the civil service. Furthermore, the disparities may make it difficult for ministries where salaries are relatively low to recruit suitable employees, as they will prefer to work in ministries where salaries are higher. Hence, the salary disparities between the ministries may affect the productivity of those disadvantaged due to the low salaries and the quality of the service they provide to the public.

#### **Determining the IDF Salary and its Control**

- **The IDF Salary Policy Determination** – by the inter-ministerial team of the Ministries of Defense and Finance, the determination of salary policy in the IDF is under the authority of the Chief of Staff. This is not consistent with the opinion of the Deputy Attorney General.
- **Disputes Between the Ministry of Finance and the IDF** – even though the Accountant General Division failed to audit the calculations accuracy of most of the IDF salary components (73% of them) in 2016–2017, and even though in the following years it received databases that allowed the completion of the audit, the Division did not conduct another audit, nor complete its audit from those years.



- By the Budget Division data, as of March 2022, there are disputes between the Ministry of Finance and the IDF regarding some of the salary components of the permanent employees, mainly salary components whose annual cost was about NIS half a billion, including tax gross-up for the reimbursement of vehicle allowance, reimbursement of personal expenses, vacation for families, paid retirement leave and various tax benefits.



**The Salary Policy in the Civil Service** – the State Comptroller's Office commends the Salary Division policy formulation of the salary and employment structure and its efforts to promote it, including establishing a unit that deals with it and serving as a knowledge center on the subject.

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## Key Recommendations



It is recommended that the Ministry of Finance propose a comprehensive government policy regarding salary and employment, considering the Salary Division policy, approved by the government and binding government entities, and its units, also for salary agreements negotiations.



It is recommended that the Ministry of Finance, based on an overall government salary policy, incorporate the policy principles in its actions to reach salary agreements, adapt the civil service in Israel to the changing reality, including technological, socio-economic, and demographic changes, and implement linkage mechanisms to their purposes. Including linkages of NIS salary supplements according to their purpose – reducing salary disparities without increasing salary disparities between groups of employees linked to each other. It is also recommended to implement concrete goals to simplify civil service salaries, increase occupational mobility, strengthen the link between salary and productivity, and increase salary transparency. This is while considering employee rights and labor laws.



It is recommended that the Ministry of Finance formulate multi-year plan (the numerator), in consultation with the Salary Division, present the government expected salary agreements included in the multi-year plan and their sources. Moreover, it should present to the various professional bodies in the Ministry of Finance with the salary agreement assumptions used for the multi-year plan formulation. Incorporating the financial cost estimate when formulating the numerator will also enable the implementation of the OECD report recommendation to determine a budget cap even before negotiations with labor organizations, improve the negotiation process and preserve the government's right to allocate public expenditures based on its priorities.



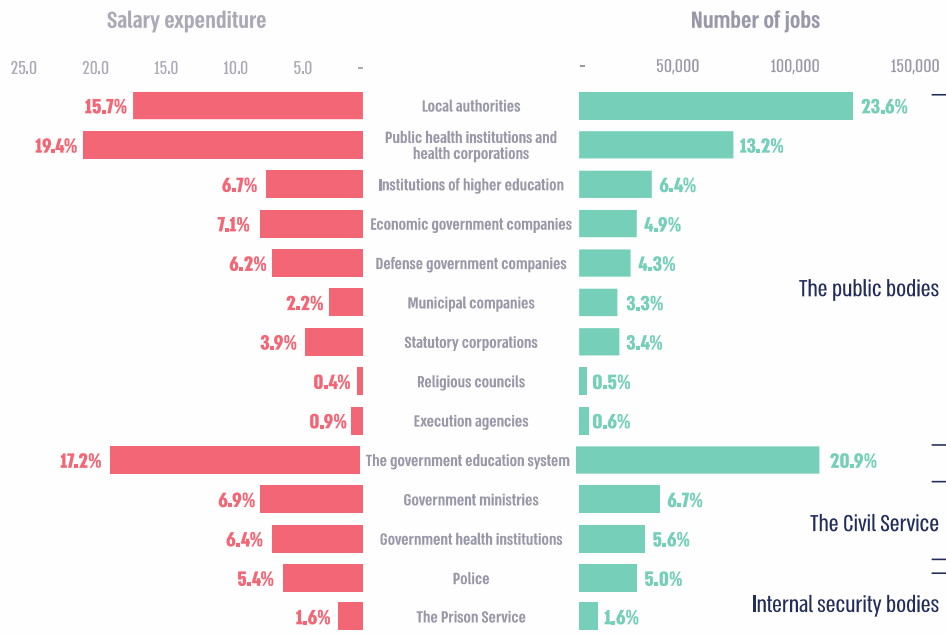
- 💡 It is recommended that, as part of the formulation of a government salary policy, the Ministry of Finance discuss the government's future obligations to implement salary agreements, after the agreement periods, on its various aspects, including an increase in salary supplements when there is no commitment to industrial peace, and including acting ahead of time to formulate salary agreements. This is to formulate a government policy on this matter and implement it in salary agreements in the future. It is also recommended that the Ministry of Finance formulate salary agreements whose costs will be spread over the periods of the agreements, to the extent possible, with the period of the numerator, considering the totality of the government's obligations during the years in which the salary supplements are given, so industrial peace will continuously prevail in the civil sector.
- 💡 It is recommended that the CSC formulate a suitable tool to calculate salary ranges in tenders, publish them, and complete analyzing the occupations of the jobs in the government bodies.
- 💡 The Salary Division should ensure that the incentive pay methods it employs are periodically updated, incorporate indicators from the civil service, and are effective in their contribution to increasing productivity and efficiency.
- 💡 It is recommended that the Salary Division, in collaboration with the ministries where the differential reward is practiced, systematically check the effectiveness of the methods for differential reward, including the distribution of the rewards in "rotation," and if necessary, update the methods in the units and ministries where the reward is implemented. It is further recommended that the Salary Division consider the findings of the effectiveness test when approving the use of differential compensation reward methods in other units and ministries.
- 💡 It is recommended that the Salary Division and the CSC, as two executive branches of the government, coordinate and share information, establish rules regarding double differential reward and prevent giving an employee ranked in a medium or low-quality group a reward for excellence, and apply them to all ministries, this, when considering efficient use of the tool and public resources.
- 💡 It is recommended that the CSC, in consultation with the Ministry of Finance, define what operational on-call is and when it is needed and formulate binding standards for the assignment of on-call, considering the governmental body tasks and the situations that require employees to be placed on-call qualifying them for financial rewards. It is recommended to establish all of these in binding rules, for example, in the provisions of the Civil Service Regulations, and to monitor the ministries' compliance.
- 💡 It is recommended that the Ministry of Finance include in the government salary policy the goal of the Salary Division and the recommendation of the team for examining the training structure in the civil service – to cancel the reward for continued education in the civil service and to untie the connection between a direct salary benefit and participation in training and formulate alternative encouraging managers and employees to study and participate in training activities throughout their employment time.



- 💡 It is recommended that the Ministry of Finance change the method of rewarding civil service employees for private vehicle allowance to reduce the use of private cars and road congestion. If the action meets opposition from any government ministries or the IDF, it is recommended to bring it to the government's decision.
- 💡 It is recommended that the CSC and the Salary Division determine a similar salary for employees in each national occupation in the ministries where employees do similar work. This encourages recruiting quality employees for all ministries and allows for more effortless employee mobility.
- 💡 The disputes between the Ministry of Finance and the IDF about specific salary components in the IDF and the extent of government spending over it require examination, decision-making, and implementation, and if necessary, bringing the dispute before the government for a decision. The responsibility for this rests upon the Accountant General Division, with the assistance of the Salary Division if necessary, and upon the Ministry of Defense and the IDF.



### The Number of Jobs in the Civil Service, the Expenditure on Salary, and Their Rate out of the Total Number of Jobs and Salaries in the Civil Service, by Types of Entities, 2019 (in NIS Billions and Percentages)



According to the Salary Division report on public entities and the Salary Division report on government entities, 2019, processed by the State Comptroller's Office.



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## Summary

This audit report presents deficiencies in the management of salaries and employment in the civil service in several aspects: the strategic aspect – the government did not formulate or approve a government salary policy; The individual aspect of the salary components – the salary in the civil service includes hundreds of salary supplements and components that are no longer applied according to their original purpose and mechanisms to reward and motivate employees whose effectiveness is questionable; The equality between employees and between bodies – in the civil service, and at least in the national occupations in which the principle of paying similar salaries for work of similar value is not preserved, may harm the ability of ministries to improve the service they provide to the public due to the relatively low salaries. The report also presents salary linkages and wide-ranging consequences, especially defense system salaries, whose manner of application increased the disparity between the salaries of those serving in the IDF, the police, and the Prison Service and the salaries of civil servants; The financing aspect of the salary supplement – the government signed a framework agreement in April 2016 and allocated funds for its realization not according to the principle underlying the numerator, and as a result was forced to allocate hundreds of millions of additional NIS to finance the agreement.

The findings of the audit and the data underlying them emphasize the need for the government to establish a comprehensive policy on employment and salaries in the civil service system and implement it.