



# 10 Steps

## TO REDUCING PERSONNEL COSTS

When a local government is in financial distress, management will probably need to trim the personnel budget, as it typically represents a major share of the expenditure budget. The following ten steps are options to consider when looking to trim personnel costs. For more information, please visit GFOA's Fiscal First Aid Resource Center.

**1 Implement vacancy control.** Vacancy control is a system through which a personnel vacancy is reviewed before the decision is made to fill it. Once full-time employees are hired, costs can only be reduced by using layoffs, furloughs, or compensation reductions, so it's best to avoid hiring new employees for vacant positions unless the hiring is affordable and necessary. The goal of vacancy control is to develop a rough understanding of the cost and benefit of each position and to prioritize positions across the organization.

**2 Monitor and limit overtime use.** Given the staffing shortages plaguing some local governments, overtime costs can quickly spiral out of control. An important first step is to gain an understanding of what is driving the need for overtime. The reasons may vary widely from one department to another. With this information, you can determine if there is an opportunity to cut overtime costs.

**3 Address healthcare costs.** There are a number of actions you can take to generate healthcare savings, depending on your current plan. For example, look at how long it's been since you last rebid your existing coverage, and consider conducting

eligibility audits. Many other suggestions are detailed at [gfoa.org](http://gfoa.org).

**4 Review the use of consultants and temporary staff.** Often, consultants become quasi-permanent staff because they become integrated into the organization. Consider if the consultant is the best value for your needs.

**5 Freeze salaries and wages.** A freeze on salaries and wages does not cut current costs, but it will keep these costs from growing.

**6 Freeze hiring.** A hiring freeze is a blanket stop on all or almost all hiring. It will help control costs and can be used with an attrition strategy to cut the size of the workforce. But a hiring freeze is a blunt instrument. Set up policies governing it, especially exceptions, and adhere to the policies wherever possible to avoid a lack of trust and morale issues.

**7 Increase part-time labor.** This option could transform labor into a variable cost and reduce benefits costs. Part-timers can also cut overtime costs by allowing the organization to add staff at times of peak demand.

**8 Reduce hours worked and pay.** A furlough or a change in work schedule (for example, going from a 40-hour week to 35) can reduce personnel costs while providing employees with more personal time. This gives employees a reasonable trade-off—more personal time in exchange for reduced pay. This option will reduce the cost of fringe benefits that are based on salary but will not impact other benefits, like healthcare, that are provided equally, irrespective of salary.

**9 Increase employee contributions to pensions or OPEBs.** A short-term solution to growing liabilities for pension or other post-employment benefits (like healthcare) is increased employee contributions or retiree co-payments, deductibles, or premiums. Some jurisdictions may need to suspend retirement earnings credits during periods of distress (no pension benefits are accrued, so no liabilities are created and, therefore, no payments required).

**10 Lay off employees.** A layoff or reduction in force reduces the number of staff employed by the organization. Depending on how many employees are cut, a lay-off can generate significant ongoing personnel savings.



### LEARN MORE

Visit GFOA's **Fiscal First Aid Resource Center** for more information on how local governments can weather short-term and long-term financial challenges.

[gfoa.org/ffa](http://gfoa.org/ffa)