

# Personnel Cost Estimation and Management

## Focus on Largest Expense Category

A typical government budget is comprised primarily of personnel-related costs, yet most governments dedicate relatively little effort to understanding the *longer-term impacts* of decisions involving compensation and benefits. When viewed from the perspective of a one-year comparison, it is difficult to see how a seemingly small increase in wage costs or a moderate increase in benefit costs could have a significant impact on the viability of an entire budget.

Often, employee compensation is thought of in separate categories: wages, healthcare benefits, retirement options, etc. Yet, when viewed as a comprehensive package of compensation, or when considered as a component of department costs, many employers and employees are surprised at the true cost of pay and benefits, and even more surprised how those costs increase over time.

## Strategy for Better Management

Municipalities tend to utilize multiple spreadsheets or programs to calculate wages and benefits for the upcoming fiscal year. Very few carry that analysis beyond the impending budget calculations to gain a deeper understanding of these significant costs.

Developing a fully integrated personnel cost forecasting tool can significantly reduce the time required to:

- Evaluate potential new benefit offerings

- Understand the cost implications of new pay schedules
- Quickly calculate the impact of proposed labor contract terms for the full contract period
- Determine the short-term and long-term impact of staff reductions or increases
- Better understand how employee costs might impact the overall budget several years into the future.

## Improving Employee Cost Analysis

Our personnel cost estimating process utilizes easy-to-update tables that allow for changes in wage schedules and benefit offerings. Municipal managers are able to calculate the impact on the budget of proposed changes to any component of compensation. Additionally, estimated future costs can be reported by employee group, budget department or other criteria.

Integrating a detailed five-year personnel cost projection into a budget forecasting model can provide an even more accurate and meaningful assessment of future financial conditions.

## Contact Us

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